MEASURING PERFORMANCE. THE FINANCIAL PERSPECTIVE

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Accounting measures of performance have been the traditional mainstay of quantitative approaches to organizational performance measurement. The purpose of this paper is to review the roles and functions of financial measures of organizational performance. Fallowing Neeley (2004) it will be argued that there are three different – although overlapping to some extent - major functions for financial performance measures. We will also present EVA, the latest financial measure for the overall firm's performance.

Any organization, whether public or private, has to live within financial constraints and to deliver expected value for its investors. Financial management focuses on both the acquisition of financial resources as favorable as possible, and on the utilization of the assets that those financial resources have been used to purchase, and on the interaction between these two activities. The role of the finance function is to manage the financial resources of the organization, and to ensure that the financial constraints it faces are not breached. Failure to do this will lead to financial distress, and ultimately, for many organizations, to financial failure or bankruptcy. Thus, financial planning and control is an essential part of the overall management process. Establishment of precisely what the financial constraints are and how the proposed operating plans will impact upon them are a central part of the finance function. This is generally undertaken by the development of financial plans that outline the financial outcomes that are necessary for the organization to meet its commitments.

There are three main areas of focus for financial plans. Considering the extensive body of evidence that cash flow problems are main driver of bankruptcy among SMEs, planning is required to ensure that the cash is available to meet the financial obligations of the organization. Failure to manage cash flows will result in technical insolvency (the inability to meet payments when they are legally required to be made). The second area requiring attention is profitability, or the need to acquire resources at a greater rate than using them i.e. efficiently. The third area of interest in financial management is the provision of finance necessary to fund the acquisition of firms' assets.

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