

PERFORMANCE MEASUREMENT AND CONTROL

54 JUMP PERFORMANCE APPRAISAL (JUNE 10 EXAM)

(a) Bonus calculation:

	<i>Qtr to 30 June 2009</i>	<i>Qtr to 30 September 2009</i>	<i>Qtr to 31 December 2009</i>	<i>Qtr to 31 March 2010</i>	<i>Bonus; hits'</i>
Staff on time?					
On-time %	430/450 = 95.5%	452/480 = 94.2%	442/470 = 94.0%	460/480 = 95.8%	
Bonus earned?	Yes	No	No	Yes	2

Members visits

Target visits

	$60\% \times 3,000 \times 12 = 21,600$	$60\% \times 3,200 \times 12 = 23,040$	$60\% \times 3,300 \times 12 = 23,760$	$60\% \times 3,400 \times 12 = 24,480$	
Actual visits	20,000	24,000	26,000	24,000	
Bonus earned?	No	Yes	Yes	No	2

	<i>Qtr to 30 June 2009</i>	<i>Qtr to 30 September 2009</i>	<i>Qtr to 31 December 2009</i>	<i>Qtr to 31 March 2010</i>	<i>Bonus; hits'</i>
Personal training					
Target	$10\% \times 3,000 = 300$	$10\% \times 3,200 = 320$	$10\% \times 3,300 = 330$	$10\% \times 3,400 = 340$	
Actual sessions	310	325	310	339	
Bonus earned	Yes	Yes	No	No	2
Total					6

The bonus earned by the manager would be $6 \times \$400 = \$2,400$, which is 50% of the total bonus available.

(b) An important principle of any target based bonus system is that the targets must be based on controllable aspects of the manager's role.

Staff on time

The way in which a manager manages staff can have a big bearing on whether or not an individual staff member is keen to work and arrive on time. We are told that the local manager has the power to vary employment contracts so he should be able to agree acceptable shift patterns with staff and reward them for compliance. In this respect the lateness of staff is controllable by the manager.

On the other hand an individual staff member may be subject to home pressures or problems with public or other transport meaning that even they cannot control the time of arrival at work on some days. The manager cannot control these events either. If this problem became regular for a member of staff then the local manager could vary the contract of employment accordingly.

Overall, lateness to work is controllable by the local manager.

Member use of facilities

The local manager controls the staff and hence the level of customer service. Good quality customer services would probably encourage members to use the facilities more often. Equally, by maintaining the club to a high standard then the local manager can remove another potential reason for a member not to use the facilities regularly.

On the other hand customers are influenced by many factors outside of the club. Their state of health or their own work pressures can prevent members being able to come to the club.

Overall, the local manager can only partly control the number of member visits.

Personal training sessions

Again, the local manager controls the level of customer service and the standard of maintenance in the personal training department. He also has control over prices so, if the bookings fall, he is able to reduce price or make special offers to encourage use of the facilities.

On the other hand, personal training sessions may be seen as a luxury by customers and in times of financial difficulty they are expendable by them. Personal training sessions are often available from other sources and competition can force down the sales of the club. The manager can respond to that by improving services. He cannot, however, make significant investment in improving the facilities without board approval.

Overall, the local manager can only partly control the number of personal training sessions booked.

- (c) There are a variety of methods that the performance data can be manipulated:

Cut off

The unethical manager could record visits in a different period than was actually the case. For example in quarter three the target for personal training sessions was not met by 20 sessions. This was probably obvious to the manager in the last few days of that quarter. He could have therefore recorded some sessions as having taken place in the next quarter. Indeed, only one session would have to be moved in this way in order for the manager to meet the target in the final quarter and gain another \$400 of bonus.

Reduce prices to below economic levels to encourage use

The targets that the manager is subject to are mainly volume driven. A reduction in prices would harm profitability but would not damage the manager's bonus potential. More sessions are bound to follow if the price is set low enough.

(Other ideas would be acceptable including advising staff to take the day off if they were going to be late. This would damage service levels admittedly, but would potentially gain a bonus for lateness.)