

STRATEGIC PERFORMANCE MEASURES IN THE NON-FOR-PROFIT ORGANISATIONS



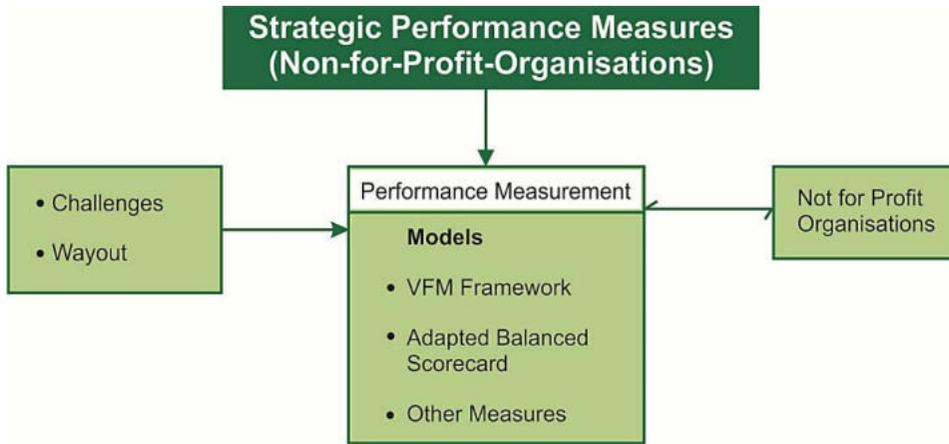
LEARNING OUTCOMES

After studying this chapter, you will be able to:

- ANALYZE and EVALUATE performance in the non-for-profit organisations.

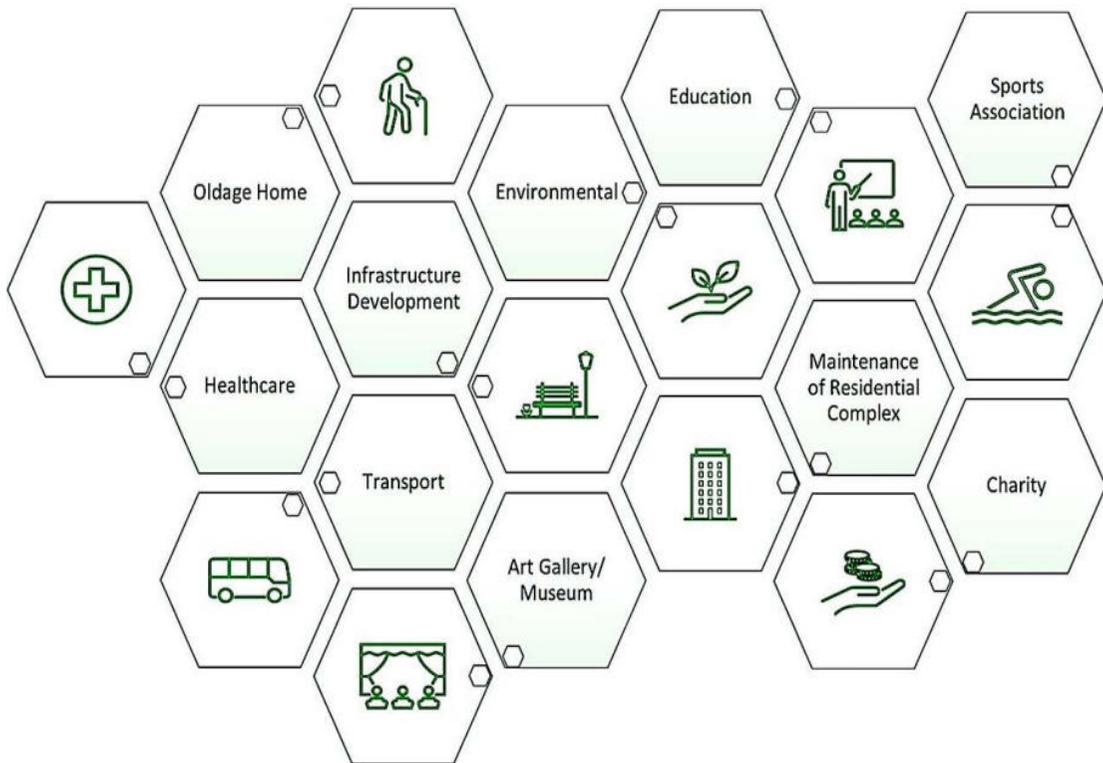


CHAPTER OVERVIEW



A. NOT-FOR-PROFIT ORGANISATIONS

It is important to understand the nature of not-for-profit organisations in order to appreciate the dynamics of performance evaluation in such organisations.



1. Key Characteristics

- These are established for the purpose of charitable, welfare, social, environmental, and mutual cooperation and *perform non-economic activities* largely as a principle operation.
- These organisations *also required the amount of funds* to arrange a set of resources necessary for the attainment of the above-stated purposes. Hence, they maintain the corpus, funded with contributions from either members or external contributors (depending on the purpose and form of the not-for-profit organisation).
- Since getting funds from members and/ or contributors rather than shareholders, *wealth creation for shareholders is not among the objectives*. It is important here to note that fiduciary (of trust) relation towards contributors (to ensure application of funds for stated purposes) still exists.
- Since the purpose of existence and operation is not to earn profit, hence *not expected/ allowed to distribute the surplus among the stakeholders* (as like distribution of the dividend among shareholders). The surplus will become part of the corpus.



B. PERFORMANCE MEASUREMENT

Despite the fact that the not-for-profit organisation does not need to earn a profit, it doesn't free them from fiduciary responsibility towards the contributor of funds. They are responsible to provide reasonable assurance to the contributor of fund that the fund is applied for the advancement of the stated purpose, and up to which scale such purpose is attained.

So, in order to establish a measurable link between resources spent and the purpose attained, the performance of a not-for-profit organisation (and the decision taken thereat) need to be measured. The next question which comes to mind is that 'what performance measures need to be used?'



Test Your Understanding

What kind of performance measures does a not-for-profit organisation need to employ?

Hint

It is equally important to include both financial and non-financial measures.

These organisations also required the necessary amount of funds to arrange the required resources to attain stated purposes. Hence, they maintained a corpus, to which either members or externals are contributors (depending upon purpose and form of not-for-profit organisation).

Despite being not-for-profit organisations, in order to ensure that the funds are deployed to attain the intended objectives, the financial measures are equally important as non-financial measures to measure their performance.

1. Challenges for Measuring Performance and Way-out

The performance measurement in not-for-profit organisations is subject to certain challenges. The key challenges are–

1.1 Difficult to quantify the cost and benefits

It is difficult to quantify the benefit derived from the activities of these organisations in terms of money, especially due to the nature and timing of the benefits. The *Nature of benefit can be behavioral*, which can only be measured in terms of utility or satisfaction initially; it can then be quantified after a lot of efforts. For example, if a not-for-profit organisation is formed for providing free education to poor students, then the benefits derived by the students cannot be easily quantified, and the benefits are *futuristic* too (that too for a longer period till the life of such pupil). There is also a *time gap* between the cost incurred and the benefit accrued, which makes the trade-off difficult and complex.

Similarly, all the costs can't be measured in monetary terms. Additional and auxiliary costs in the form of externalities can be there, which is difficult to quantify due to the involved complexities. For example, if some affordable housing scheme is approved, the cost will not only be limited to construction; it also involves the provisioning of roads, pollution in that area (due to vehicles running on such roads by potential residents), and social aspects due to parking issues. This is merely one aspect; hence, auxiliary costs are not easy to quantify.

Way-out → Despite it is being difficult, an attempt shall be made to *trade-off costs and benefits* based upon opportunity value and cost. Relative value can be used to assign value to costs incurred and benefits earned.

Note- *Mind it, the reliability of such values may not be there due to variation in time and level of relative transactions. Hence, it is difficult to evaluate the performance of not-for-profit organisations just using financial measures.*

1.2 Performance and Commitment of State (or Governments of State)

Not-for-profit organisations are largely engaged in functions that are of high public importance and value, such as food security, education, and health. But the same is the *primary responsibility of the state (or governments of state)*; hence, some of the state's bodies are also working in a not-for-profit set-up, which usually has a deficit budget. If a state, which normally has access to a large available fund and workforce, performs well through its own bodies and agencies, then there is only a little bit left for other not-for-profit organisations, which are NGOs. Secondly, *the state itself is the funding source* for both categories of not-for-profit organisations (full for their own bodies and, to some extent, for NGOs through their welfare schemes). Hence, after considering both of these factors, it can be concluded that the performance of not-for-profit organisations largely depends on performance and the commitment of the state.

Since its external factors are beyond control, hence no specific *way-out* apart from predicting or forecasting with *acute accuracy* as much as possible.

Multiple Objectives

A single not-for profit organisation may have *diverse stakeholders* to deal with, and each section of society or group of stakeholders has its own needs. This will *cause multiple objectives* to be achieved by such a not-for-profit organisation, and there may be potential conflict among them.

Way-out → Prioritisation among these objectives.

Note- *Mind it, prioritisation shall be based upon importance (utility) and urgency (time).*

1.3 Measuring the Utility of Funds

Not-for-profit organisations *don't earn to spend; they just budget to spend*. In some cases, it may be possible to spend more than required because of the availability of funds for disposal or because they are in the process of implementing some welfare scheme pronounced by the government, but in other situations, they may even not be able to fulfil the targets (objectives) due to a scarcity of funds; hence, the *utility of funds for a not-for-profit organisation is not always the same*. Spending excessively without purpose may not create utility. Hence, not-for-profit organisations find it difficult to measure the utility of funds expended.

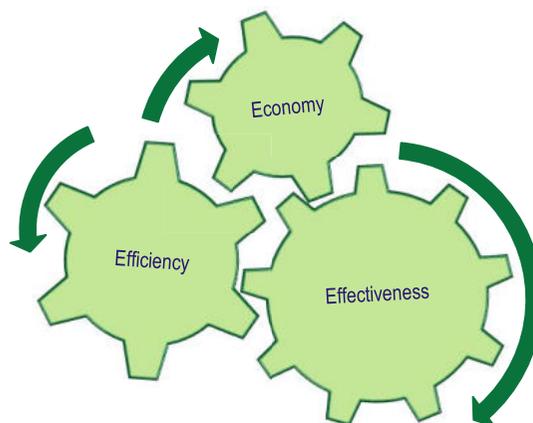
Way-out → Value for Money framework shall be used to measure the utility of funds spent.



C. MODELS FOR MEASURING THE PERFORMANCE

1. Value for Money (VFM) Framework

VFM framework can be used for measurement of performance in the not-for-profit sector because Not-for-profit organisations are expected to provide the *best possible value from available money (usually limited)*. VFM framework ensures–



1.1 Effectiveness (spend wisely) (an output measure, the goal approach) → whether the organisation has achieved its desired mission and objectives?

1.2 Efficiency (spend well) (a link between input and output factor, as a process approach) → Whether the resources and funds available to the organisation have been efficiently utilised i.e., maximum output has been obtained with minimum input?

1.3 Economy (spend less) (as an input measure, the resource approach) → Whether the appropriate quantity and quality of inputs are available at the lowest cost?

Note – Now two more Es have been added, i.e., *Equity (spend fairly) and Ethics (spend properly)*. It is worth to note that five elements (to ensure the value for money framework works properly) need to be taken care of: *Input, Process, Output, Outcome, and Impact*.

Example

Let's consider the case of a school that provides free education to children who come from BPL (below the property line) families. The school also provides free lunch to the students to encourage daily attendance.

A measure of **effectiveness** is whether the school has been able to provide quality education to the desired number of students. The performance of the school can be measured using the metrics of the number of students dropping out of school year-on-year. Another measure of performance could be the number of students who have successfully completed the 12th exams and joined college. It is important to note that the measures might not be wholly within the control of the school. A student might drop out even after the best efforts by the school. This makes performance measurement a challenging task.

A measure of **efficiency** could be the number of students trained per hour by teacher or the 'students to teacher' ratio. In the case of schooling, a low 'students to teacher' ratio is preferred.

A measure of an **economy** would be the amount spent on maintaining the school premises, the amount spent on remuneration for teachers, etc. The amount spent can be compared to the budgeted expenditure or sanction amount.

If performance is measured based on the cost incurred, the school might as well decide to cut necessary expenditure to meet the expenditure budget. For example, the school might not spend an adequate amount to upkeep the library or computer equipment. This can be detrimental in the long run. Hence, it is important to balance financial measures with non-financial measures.



Test Your Understanding

Can you identify any of the two financial objectives of a not-for-profit organisation?

Hint

- These organisations also require the necessary amount of funds, hence required to consider and maximise the net cash income (flow).
- Budget is an important tool to quantify, and it is equally important to keep spending within budget.

2. Adapted Balanced Scorecard by Kaplan

Robert S. Kaplan (one of the co-founders of Balanced Scorecards) wrote an article in 2001 titled 'Strategic Performance Measurement and Management in Nonprofit Organizations' with the theme of adaptation of balanced scorecard by nonprofit organisations with several examples of actual implementation. In this article, considering the increasing need for measuring and managing organizational performance in the case of not-for-profit organisations, Kaplan suggested 'Adapted Balanced Scorecard' for measuring performance at NGOs.

The four perspectives suggested by the adapted balanced scorecard are exactly the same as suggested in Balanced Scorecard earlier by Kaplan and Norton.

Then what makes Adapted Balanced Scorecard different from Balanced Scorecard → it is the assumption of the framework and the premises of each perspective. The main assumption is that the *mission statement is a central point to attain rather profit.*

Perspective	Focus
Customer Perspective	Satisfaction of beneficiary, market growth, and other stakeholder's interest
Financial Perspective	Fund raising, fund's growth, and fund's distribution
Internal Processes Perspective	Internal efficiency, volunteer development, information communication, and quality
Innovation and Learning Perspective	The capability of organisation to adjust to the changing environment and Innovative changes

Note- It is important to note that the positioning of the financial perspective and the customer perspective is switched. This is due to the fact that achieving financial success is not the primary objective for these organisations. Instead, nonprofit organisations should be primarily concerned with how efficiently and effectively they meet the needs of their beneficiaries and contributors/ members.

3. Other Performance Measures

- The quality of services provided by the organisations.
- The attainment of objectives and mission.
- The ability to raise funds to meet the objectives efficiently.
- Transparent and periodic reports to the stakeholders.
- The long- term impact (benefits) of the activities of not-for-profit organisations.



D. PERFORMANCE MEASUREMENT PROCESS

The performance measurement process typically starts with the identification of the overriding objectives and mission of the not-for-profit organisation. This includes evaluating the mission, vision, and strategy on a continuous basis. This stage typically defines the problem being solved and the stakeholder that would be addressed by the organisation. The various objectives and mission of the organisation are broken down and mapped with key strategies: Stakeholder (Customer), Financial, Internal Process and Learning & Growth. In other words, the objectives are mapped with various perspectives of the balanced scorecard. The performance measures/ key performance indicators of each of the perspectives are defined. The actual outcome is measured and evaluated against the performance measures defined. Any changes which are required to the performance measures are carried out after an analysis of the outcome on a periodic basis.



SUMMARY

□ Performance Measurement in NFPs–

- Value for money is interpreted as providing an economic, efficient and effective service (3Es).
- Multiple and diverse objectives – NFP organisations are unlikely to have an objective of maximisation of shareholder wealth. Instead they are seeking to satisfy the needs of their members or sections of society, which they have been set up to benefit.



TEST YOUR KNOWLEDGE- CASELET BASED MCQS

ABC Healthcare is a non-profit organization that provides medical services to the underprivileged population of a developing country. The organization was established 10 years ago and has been successful in providing quality healthcare services to thousands of people who cannot afford private healthcare. ABC Healthcare places great importance on value for money, which is reflected in the efficient use of resources and effective delivery of healthcare services. The organization implemented several measures to ensure that it is providing value for money, including:

- *ABC Healthcare implemented a cost-effective model for healthcare delivery, which allowed it to keep the costs of medical services low. In addition, ABC negotiated discounted rates with the suppliers for medical equipment and supplies, enabling it to reduce its operating costs.*
- *ABC Healthcare created a streamlined healthcare delivery process to reduce wait time and ensure that patients receive prompt and efficient medical attention. Further, ABC introduced a digital medical records system to reduce paperwork and administrative cost.*
- *ABC Healthcare appointed a team of highly qualified and experienced medical professionals, ensuring that patients receive quality medical care. Further, ABC was also engaged in various preventive healthcare programs to reduce the incidence of diseases.*

Recently, ABC has entered into various agreements with several international organizations, enabling it to provide specialized medical services to patients with complex medical conditions.

- *ABC Healthcare provided scholarships to 100 medical students in the past year, ensuring that there is a pipeline of highly qualified medical professionals to serve the population in the future. In the same year, ABC Healthcare served more than 50,000 patients.*
- *ABC Healthcare operates with the highest ethical standards, ensuring that patient privacy is protected and that medical procedures are conducted in a safe and responsible manner. For this, ABC Healthcare established a code of conduct for all employees, ensuring that they uphold ethical principles in all aspects of their work.*
- *ABC Healthcare provides medical services to all patients, regardless of their ability to pay, ensuring that everyone has access to quality healthcare services. In last year, ABC conducted several community outreach programs, to provide medical services to underserved populations in rural areas.*

Required

MCQ 1

What is an example of an “efficiency” measure in ABC Healthcare?

Options

- a. Streamlining healthcare delivery processes
- b. Hiring highly qualified medical professionals
- c. Establishing partnerships with international organizations
- d. Providing medical services to all patients, regardless of ability to pay

Key – a

Reason – Streamlining healthcare delivery processes relates to 'efficiency' measure. It relates to high productivity.

MCQ 2

What is an example of an 'economy and efficiency' measure in ABC Healthcare?

Options

- a. Specializing in complex medical conditions
- b. Hiring highly qualified medical professionals
- c. Implementing a digital medical records system
- d. Providing medical services to all patients, regardless of ability to pay

Key – c

Reason – Implementing the digital medical records system will not only reduce paperwork (i.e., increase in efficiency), but also administrative costs (i.e., bring economy).

MCQ 3

Which of the following is NOT related to 'effectiveness' measure in ABC Healthcare?

Options

- a. Programs to reduce the incidence of diseases
- b. Specializing in complex medical conditions
- c. Hiring highly qualified medical professionals
- d. Streamlining healthcare delivery processes

Key – d

Reason – Streamlining healthcare delivery processes relates to 'efficiency' measure. It relates to high productivity. All others relate to the valued outcomes.

MCQ 4

Which of the following measures has ABC Healthcare implemented to ensure 'economy'?

Options

- a. Established a team of highly qualified medical professionals
- b. Negotiated discounted rates with suppliers for medical equipment and supplies
- c. Conducted community outreach programs
- d. Implemented a code of conduct for employees

Key – b

Reason – Negotiated discounted rates with suppliers for medical equipment and supplies related to 'economy'. Economy refers to obtaining the appropriate quantity and quality of resources at the lowest cost possible.

MCQ 5

How has ABC Healthcare established 'ethics' in its operations?

- a. By providing medical services to underserved populations in rural areas
- b. By implementing community outreach programs
- c. By establishing a code of conduct for all employees
- d. By implementing preventive healthcare programs

Key – c

Reason – ABC Healthcare established a code of conduct for all employees, ensuring that they uphold ethical principles in all aspects of their work.

**TEST YOUR KNOWLEDGE****Performance Measurement in the Not-for-Profit Sector**

1. West Coast community operates Homelessness Services (HS) on a not-for-profit basis as a local solution to local housing needs. The primary objective is to meet the accommodation needs of persons within its locality targeting those living in the low/middle income groups and senior citizens. Accommodation is basically furnished; it consists of a small house, with kitchen, bathroom, bedroom/(s), and a sitting room. HS manages 450 such houses across various localities. Exclusive Services (ES) is a profit-seeking organisation which provides rented accommodation to the public. ES manages 200 such houses across localities similar to HS' operations.

Income and Expenditure accounts for the year ended 31st March 2021 were as follows:

	HS (₹)	ES (₹)
Rent Received	1,02,98,600	1,09,98,000
<i>Less:</i>		
Employee Costs	24,00,000	38,00,000
Planned Maintenance and Substantial Repairs	34,19,500	10,41,000
Running Repairs	23,91,600	6,38,000
Miscellaneous Operating Costs	15,27,500	11,75,000
Insurance, Property Taxes, and Interest etc.	13,15,500	18,75,000
Operating (Deficit)/ Surplus	(7,55,500)	24,69,000

Operating Information in respect of the year ended 31st March 2021 was as follows:

House and rental information:

Size of House	Number of Houses		Rent per Week (₹)	
	HS	ES	HS	ES
1 Bedroom +	40	20	400	750
2 Bedrooms +	80	40	450	800
3 Bedrooms +	250	140	500	1,175
4 Bedrooms +	80	Nil	700	N.A.

HS had certain houses that were unoccupied during part of the year. The rents lost as a consequence of unoccupied properties amounted to ₹18,17,400. ES did not have any unoccupied houses at any time during the year.

Employees were paid as follows:

Number of Staff		Salary per Staff Member (₹) per annum	
HS	ES	HS	ES
1	2	3,00,000	5,00,000
2	2	2,50,000	3,00,000
4	11	2,00,000	2,00,000
8	-	1,00,000	-

Planned maintenance and substantial repairs undertaken:

Nature of Work	Number of Houses		Cost per House (₹)	
	HS	ES	HS	ES
Miscellaneous Building Work	10	-	12,500	-
Sanitary Fittings (Kitchen + Bathroom) [all are the same size]	45	5	26,100	52,200
AC Upgrades/ Replacements	8	-	15,000	-
Replacement of Wooden Structure for 3-Bedroomed Houses	50	13	40,000	60,000

Running Repairs Information:

Classification of Repair	Number of Repair Undertaken		Total Cost (₹)
	HS	ES	HS
Emergency	480	160	6,72,000
Urgent	990	376	11,28,000
Non-urgent	560	102	5,91,600

Each repair undertaken by ES costs the same irrespective of the classification of repair.

Required

- (i) Critically EVALUATE how the management of Homelessness Services could measure the 'Value for Money' of its service provision during the year ended 31 March 2021.
- (ii) IDENTIFY, 2 performance measures in relation to Flexibility and Service Quality (dimensions of performance measurement).
- (iii) ANALYSE, 3 performance measures relating to 'Cost and Efficiency' that could be utilised by the management of Homelessness Services when comparing its operating performance against that achieved by Exclusive Services.

ANSWERS/ SOLUTIONS

1. (i) For commercial enterprises, generating profits is a very important objective. Likewise, not-for-profit enterprises have certain cultural, social or educational objectives for which they are created. Regardless of the type of organization, it is important to know whether the internal operations meet certain performance benchmarks, that will ensure that the organization achieves its objectives in a better manner. Moreover, even if the organization does not operate for profits, it is important for it to be "cost effective". Resources (including money) should be used optimally to achieve intended outcomes. For example, HS can use this benchmarking tool to look into the following questions:

- (a) Does the organization function in an efficient and cost-effective manner?
- (b) Does the estate management make best use of the buildings to achieve the objectives of the organization?
- (c) Does the estate management function manage upkeep of buildings in terms of repairs and improvements in an effective manner?
- (d) Are the tenants satisfied with the service provided by the estate management and the suitability of the accommodation for their needs?

“Value for Money (VFM)” is an assessment made based on the criteria of economy, efficiency and effectiveness.

Economy involves *minimising resource consumption while meeting specified requirements of quality and quantity*. Minimize the cost of resources / required inputs (implies to spend less) while ensuring that the desired quality of service is achieved. For HS, inputs could be purchases made for maintenance and repair work like sanitary fittings, AC, wooden structure for the houses etc., while resources could be the labour employed to carry out these services. HS should aim at purchasing required quality of inputs at the least possible price. Skilled labour needed for this job should be procured at the lowest pay scale possible. Procuring these at lower cost leads to savings for HS. At the same time, HS should ensure that cost cutting / saving does not come at the cost of quality. Lower quality implies inferior service levels, which ultimately will compromise HS' social commitment to provide quality housing to needy members of its community.

Efficiency involves *maximising the ratio between resources (input) and the output of goods, services or other results*.

The focus of efficiency is on the process of rendering service. The objective of efficient operations is to maximize output using minimum resources. Improved productivity means that resources procured are used in an optimal way (implies spending well).

In the case of HS, one of the resources is the labour employed for repair and maintenance work. Efficiency (productivity) measured would be the relationship between the employees available and the repair work performed by them. If the pool of employees does more repair work than the benchmark set, productivity is higher. This also closely ties up with economy (cost) of operations. If the given pool of employees (resources), who are paid optimum salary (cost), cater to more repair and maintenance work, economy of operations is achieved due to higher productivity of operations. In case these activities are outsourced, efficiency and economy can be achieved by calling for tenders. Select the tender that provides maximum work for least cost.

In addition, HS may explore options for efficiencies from business process improvements, shared services as well as further efficiencies within assets management.

Effectiveness involves *ensuring that the outcome achieves the desired policy aims and objectives*. Have the objectives been achieved, how does the impact of the actual output / service compare with its intended impact? (Implies to spend money wisely to achieve desired objectives). In the case of HS, effectiveness could be assessed based on the following questions.

- (a) Are the housing needs of the targeted community members met?
- (b) Are the tenants satisfied with the accommodation?
- (c) Given its social cause, are the staff friendly, courteous and hospitable to the customers?
- (d) Do the housing accommodations comply with safety standards and other legal requirements?

Each measure is inter linked with the other. For example, HS has replaced sanitary fittings in the kitchen and bathroom in 45 houses for ₹26,100 each, costing a total of ₹11,74,500. Compared to ES that has spent ₹52,200 on each house for sanitary fitting replacement. For the cost of ₹11,74,500 ES could have replaced fittings in only 22 houses (₹11,74,500 / 52,000) as compared to HS' ability to replace fittings in 45 houses. Therefore, HS' decision has been economical, getting more work done for same cost. At the same time, this does not indicate whether the fittings replaced by HS are of similar or better quality as compared to ES. ES could have used better quality fittings that last longer, enhance customer experience, safety etc. The spending by ES could have been more effective than HS because it helps achieve the desired objective of customer satisfaction, safety and less running cost for maintenance. Therefore, to achieve economy, HS may have compromised on effectiveness.

Benchmarking is a good method of measuring performance it enables a comparison of the process, costs etc. with those of a close competitor. Services will be expected to use benchmarking information to learn from best practice, change procedures and processes to achieve enhanced methods of working, and reduce unnecessary expenditure.

However, benchmarking of performance against ES is not ideal. The performance of HS can be better measured by adopting *benchmarking against similar charities* whose primary objective is the provision of accommodation to the communities in which they operate.

Thus, HS must have permanent membership of the House Benchmarking Organisations, which helps social housing property-owners to compare the costs of service delivery, resources, and key performance indicators across all areas of the business. For example, the management of HS can enquire about a norm in respect of the repair charges, sanitary charges or wood structure replacement charges etc. of similar non-profit seeking organisations.

Further, benchmarking should be conducted annually to analyse all areas of the business and is used to identify high performing, low cost services. Using the annual benchmarking exercise results, the HS can plan to target those areas that are low performing and high cost.

Overall, HS should have strong commitment to value for money, which needs to be reflected in the business plan and in service-delivery plans. By applying these principles HS would be able to achieve the optimum utilisation of resources, which will in turn lead to extra capacity and allow HS to provide better services.

- (ii) **The Building Block Model** proposed by Fitzgerald and Moon, gives six dimensions of performance measurement including service quality and flexibility.

Service Quality- Service quality is the measurement of how well a delivered service conforms to the customer's expectations. As a not for profit organization, HS provides housing services to cater to the needs of lower and middle income groups as well as senior citizens in the local community. Although service is provided at a concessional rate compared to its commercial peer ES, quality of HS' service needs to be judged based on certain parameters that were promised by the organization to its tenants. These could be used as parameters to assess service quality. Some of them could be:

- Behaviour, attitude, proactivity of staff employed by HS.
- Quality of basic amenities provided.
- Availability of on-site service for the residents
- Safety within and around the residential unit

Data for assessment of quality can be collected from feedback of tenants, analysing the number and nature of complaints made by tenants, tenant retention rate/loyalty etc. Feedback from tenants can be taken on specific issues or could be general in nature.

Flexibility- Flexibility is the ability of the organization to adapt to customers' requirements. This can be measured through service delivery time, promptness in responding to customer requests, ability of employees to perform different kinds of work etc. In the case of HS, the following performance measures can be used to assess the flexibility:

- The average waiting time for a tenant for a house to become available. Lower the wait time better the flexibility as it indicates that there are sufficient housing units available for rental accommodation.
- Following change in requirements, ability to meet the tenant's request for another house of a different size. This indicates whether the range of housing units offered is sufficient (flexible) to cater to the tenants' changing demand.
- Waiting time for undertaking repairs of an emergency nature, once notified by a tenant. Lower the waiting time during emergencies indicates the availability of appropriate personnel to carry of the repairs on short notice.



Students are only required to provide two *performance measures*. These others have been given for completeness.

(iii) The management of HS could use the following performance measures –

An organization should aim at achieving results with maximum efficiency at the least possible cost. Efficiency measures the relationship between the input resources utilized and the output service achieved. Few of the measures that HS could use to compare performance with ES are:

The Average Employee Cost per week per house

Here, the resource (input) are the employees, which is 15 in case of both HS and ES.

The employees at HS cater to 450 houses as compared to 200 houses catered by ES. Therefore, HS is more efficient as compared to ES.

Likewise, cost of resources to HS is the employee cost, for which the pay structure and remuneration policies are different in both the organizations. HS has the ability to hire most of its resources at an annual salary of ₹1,00,000, which is the least level in the pay structure. Comparatively, ES also hires cheaper labour but at a slightly higher pay level of ₹2,00,000 annual salary. Therefore, the total cost of labour is higher by ₹14,00,000 (58%) for ES as compared to HS.

To compare the figures on a common factor, the employee cost can be calculated per week per house.

	HS	ES
The Average Employee Cost <i>per week per house</i> [₹24,00,000 [^] / (450@ × 52)] and [₹38,00,000 [^] / (200@ × 52)] ^ Employee cost from the income and expenditure table @ Number of houses (given): HS = 450; ES = 200	₹102.56	₹365.38

The average employee cost per week per house of ES is ₹365.38 (2.46 times) more than of HS. It can be concluded that HS is both efficient, in terms of being able to cater more houses with same number of employees, as well as cost effective due to the use of cheaper labour.

The Average Day to Day Repair Cost *per week per house*

Here, the resource (input) is measured in terms of the cost spent on repairs to maintain the rental houses. Running repairs are generally do not add much value to the rental houses. Therefore, lesser the repairs, higher the efficiency. From the income and expenditure table, it can be seen that HS has spent ₹23,91,600 as running repair cost for 450 houses versus ES that has spent ₹6,38,000 for 200 houses. To compare them on a common factor, the average repair cost per week per house has been calculated.

	HS	ES
The Average Day-to-Day Repair Cost <i>per week per house</i> [₹23,91,600 [^] / (450@ × 52)] and [₹6,38,000 [^] / (200@ × 52)] ^ Running repair cost from the income and expenditure table @ Number of houses (given): HS = 450; ES = 200	₹102.21	₹61.35

The average day to day repair cost per week per house for ES is ₹40.86 less than that of HS (-40%). This may be due to the fewer repairs required and the fact that there is no extra cost required for emergency and urgent repairs. The cost of repairs whether emergency, urgent or non-urgent to ES is the same, ₹1,000 [₹6,38,000 / (160 + 376 + 102)] whereas the cost of emergency repairs to HS is ₹1,400 (₹6,72,000/480), urgent ₹1,139 (₹11,28,000/990) and for non-urgent repairs it is ₹1,056 (₹5,91,600/560).

ES's low cost of repairs (which is identical for all types of repairs – emergency, urgent and non-urgent) may have been achieved through entering into a *contractual agreement for repairs*. HS should also think of entering into such contracts in order to save money.

Percentage of Rent Lost

Occupancy of rental houses indicate whether the capacity (in terms of houses rented) is being optimally utilized. Lesser the vacancy better the efficiency in terms of capacity utilization. This represents opportunity cost of not letting out the property.

	HS	ES
Percentage of Rent Lost (= Rent Lost / Gross Rent) [(₹18,17,400/ ₹1,21,16,000)	15%	---
Gross Rent = Rent Earned + Rent Lost = ₹1,02,98,600 + ₹18,17,400 = ₹1,21,16,000		

ES did not have any unoccupied properties at any time during the year; it has 100% occupancy. This shows that ES's properties are in high demand. On the other hand, HS has lost rent worth ₹18,17,400 through unoccupied properties; this is about 15% of the gross rent receivable.

The management of HS should identify the reasons why the houses remained unoccupied when the occupancy rate is 100% for an organisation like ES, a peer organisation should be used to benchmark the performance.

