

M5 Part A: Role of Performance Management

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Performance

- Discrete event as in achieving certain level of profit / customer satisfaction
- May be considered:
 1. Quantitatively (numeric value)
 - Exp. Profit is \$10mil
 - 85% of customers r satisfied
 2. Qualitatively (more subjectively)
 - Exp. Quality of service / org's reputation
- There may be trade-off between quantitative & qualitative aspect of performance
- Exp. Between achieving certain level of profitability & org's reputation
- Exp. Trade-off between ST performance & longer term sustainable performance, whether that can be financial, social, environmental / reputational
- May be understood at either:
 1. Level of whole org
 2. Diff business units
 3. Diff products / services
 4. Geographic areas
 5. Distribution channel
 6. Customer segment within org
- At each level of analysis, performance can interpreted differently
- Exp. Aus airline Qantas achieve diff result between its domestic, international & low cost subsidiary (Jetstar) business segments
- Diff strategies & measure of performance apply across each of diff segment
- Diff stakeholders interpret performance in diff ways
- Exp. Qantas customer see Qantas's performance in terms of on time departures / comfort of cabin seating
- Investor: interest in fin performance
- Public living near airport: interest in airline's env performance

Performance measurement	Performance indicator
<ul style="list-style-type: none"> - Imply scientific technique involving comparison to specific area - Exp. Metre in length - Tonne of weight - One thousand dollar - Hence, performance measure is specific - Fin performance eg. Profit / return on investment can be readily measured as it is : 1. Specified in single unit <ul style="list-style-type: none"> - Exp. Dollar 2. Clearly defined 3. Based on clear application of rules <ul style="list-style-type: none"> - Exp. Accounting std / generally accepted accounting principles 	<ul style="list-style-type: none"> - Less specific - Presented as trend / in comparison to target as traffic lights - Green: acceptable; Red: unacceptable ; amber: borderline performance - It is signal indicating general direction / trend rather than exact comparison against scale - Exp. Customer satisfaction classified as indicator as: <ol style="list-style-type: none"> 1. It mean diff things to diff people 2. Can be judged in diff ways <ul style="list-style-type: none"> - Exp. Sales to returning customers - Survey of sample of customer

Other aspect of performance

2. Meeting need of today w/o compromising ability of future generation to meet own needs	<ul style="list-style-type: none"> - Longer term perspective - Exp. Avoid over-fishing - Deforestation - Global oil supplies pollution - Carbon emission - Waste disposal
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- Most co listed on ASX produce CSR / sustainability report in which they address issue, including:
 1. Sustainability & pollution reduction
 2. Performance measure of their effectiveness
- This can called triple bottom line reporting of eco, env, and social performance

Sustainability

- Diff from other element of fin reporting
- Addressed in supplementary statement, rather than being integrated with fin report / other element in annual report

Integrated reporting

- Aimed at providing wider range of stakeholders with report that integrate various dimension of performance, including financial & sustainability performance
- Some stakeholder, including ethical investor r interested in sustainability reporting, other hv little / no interest
- BOD see their responsibility as it is prescribed in the Corporations Act to company & shareholder, not to broader stakeholder grp
- Hence, ST financial motive drive out longer term aspiration for sustainability
- Problem:
 1. How to convert LT benefit of sustainability into current period measures of performance
 2. How to balance these LT needs with current financial need to satisfy shareholders
- Consequently, performance measure for fin issue & sustainability issue don't always gain same exposure & not always accorded similar importance in annual report
- However, reputational issue increase importance f:
 1. Reporting sustainability performance
 2. Actually engaging in sustainable practices
- Many org now see engaging in sustainable practice as necessary for LT shareholder value & sustainability reporting as means for enhancing reputation
- Some investor & customer expect business to be more socially & environmentally responsible
- Brand image can be tarnished by co. that use:
 1. Child labour in developing countries /
 2. Source product from factories that hv poor health & safety record for workers
- Some customer even willing to pay premium price for more ethically sourced product eg. Clothing & coffee

Exp. 5.6 Sustainability at Newcrest Mining

Circumstances in which member may create specific threat to compliance with fundamental principles

- Threat to compliance might be created by broad range of facts & circumstances
- Not possible to define every situation that create threat
- Nature of engagement & work assignment might differ & consequently, diff types of threats might be created

Threats to compliance fall into 1/ more of categories

1. Self-interest threat	- Threat that fin / other interest will inappropriately influence professional accountant's judgement / behaviour
2. Self-review threat	- Threat that professional accountant will not appropriately evaluate result of previous judgement made / - Activity performed by accountant / by other individual within accountant's firm / employing org on which accountant will rely when forming judgement as part of performing current activity
3. Advocacy threat	- Threat that professional accountant will promote client's / employing org's position to point that accountant's objectivity is compromised
4. Familiarity threat	- Threat that due to long / close relationship with client/ employing org, professional accountant will be too sympathetic to their interest / too accepting of their work
5. Intimidation threat	- Threat that pro accountant will be deterred from activity objectively because of actual / perceived pressures, including attempt to exercise undue influence over professional accountants

- When ethical conflict exist, CPA member should:

1. Determine appropriate course of action that is consistent with fundamental principles in the Code
 2. Should weigh consequences of each possible course of action
 3. If matter remain unresolved, CPA member should consult with other appropriate person within employing org, particularly the board for helping in obtaining resolution
 4. CPA member should consider obtaining legal advice to determine whether there is requirement to report matter to appropriate authority
 5. If after exhausting all feasible options, pro accountant determine that appropriate action has not been taken & there is reason to believe info is still misleading, they shall refuse to be / remain associated with info
- In such circumstances, it might be appropriate for pro accountant to resign from employing org
 - Ethics is related to those responsible for performance management, whether this is reporting performance in org in which accountant is employed / reporting performance to client
 - Accountant may feel under pressure to manipulate / report performance info as result of any of threats identified in the Code

Exp. 5.10 WorldCom, Enron & AA