# Performance Measurement

Accounting & Finance

Measuring divisional performance without distorting behaviour.

| Return on investment | Residual income |
|---|---|
| Profit ÷ capital employed, as a percentage | Profit minus a capital charge |
| Easy to compare across divisions | Absolute figure, not a ratio |
| Rejects projects below current ROI | Accepts any project above the charge |
| Can discourage good investment | Harder to compare across sizes |

**THE DIFFERENCE THAT MATTERS**

**A manager on ROI will reject a project earning above the cost of capital if it is below their current average. RI does not have that fault.**

**The balanced scorecard adds customer, process and learning measures, on the argument that financial results are lagging indicators.**