Abstract of the thesis

Use of Management Accounting Tools for the Measurement and Comparison of Performance of Organized Retailing Systems in India and at the Global Level

Retail is the largest private industry in the world. In India, the industry contributes over 10% to GDP and employs about 8 percent of the total workforce. In the Global Retail Development Index Report Published by renowned global consultancy firm A.T. Kearney, India was ranked as the first most attractive retail market for three consecutive years from 2005 to 2007. Retail sector in India has been growing very fast. Being the fourth largest economy in Purchasing Power Parity terms, second fastest growing economy worldwide and having favourable demographics, India has attracted the attention of global retailers. Most of the leading global retailers now source products from India; many are in talks with Indian companies for joint projects. Wal-Mart, Tesco, Marks and Spencer have already joined hands with Bharati, Tatas and Reliance respectively for entering the Indian market.

According to The Global Retail Development Report, the window of opportunity is closing very fast and the early entrants would get the first mover advantage. In the given scenario, the existing as well as the new retail players will have to compete with best players in the world. In order to enhance performance, it is necessary to first identify the factors that influence the overall performance of retailers with special reference to the Indian Market conditions. There is a need to look at the contemporary practices of Indian retailers with respect to Performance Measurement.
and compare those with the globally operational retailers. With this focus in mind, the following objectives were formulated.

**Research Objectives**

a) To enumerate the factors influencing the overall performance of a retailer in India and at the global level.

b) To study contemporary practices in Performance Measurement Systems among Indian Retailers.

c) To evaluate the effectiveness of the Performance measurement Systems used by Indian retailers.

d) To look at the obstacles, if any, in designing and implementing a Performance measurement System.

e) To compare the Performance measurement practices of Indian Retailers with globally operational retailers.

A detailed study of the related literature and discussion with retail experts, consultants and practitioners helped the Researcher to arrive at the following Hypotheses.

**Hypotheses**

1. Both Financial and Non-financial Measures are widely used for measuring performance of retail organisations.

2. Factors influencing performance of retail organisations would vary from market to market and from company to company.

3. Retail companies use more than one approach to measure their performance.

4. Information Technology plays an important role in designing and implementation of Performance Measurement Systems of retail organisations.

5. Performance Measurement systems of retail organisations are continuously being monitored and modified.
6. The Performance Measurement Systems used by Indian Retailers are at par with those used by global retailers.

Given the Objectives and hypotheses, the scope of the study was defined as follows:

**Scope of the Study**

**A. Target Population:** Target Population for the study was retail companies in India and at the global level. Indian companies fulfilling the following criteria as on 31\textsuperscript{st} March 2002 were selected:
- The company should follow store-based format of retailing
- The company should run a chain of stores i.e. multiple stores
- It should offer a fairly wide range of merchandise, and
- It should be listed on the Stock Exchange

Equal number of global retailers were selected from the Top 50 Retailers list such that the selected companies:
1. Reflected the entire spectrum of General Merchandise Retail at the global level.
2. Were comparable to the Indian companies with respect to the retail formats.
3. Taken together covered almost all continents of the world.

**B. Place of Study:** The research was mainly carried out from Pune and Mumbai. The researcher visited stores in number of cities in India, USA and South East Asia and recorded observations about the operational aspects. She also conducted informal interviews with the store staff wherever possible.

**C. Reference Period:** The reference period for the study was 2002 to 2008.

**D. Sources of Data:** A combination of Primary and Secondary sources was used. Secondary data was collected from Books and journals on
Retailing and Retail Management, Websites of the selected companies, E-journals, Annual Reports of the selected companies, Presentations made by company officials at various conferences, Reports and Publications by International Management and Retail Management Consultancy Firms like KPMG and AT Kearney, etc.

Primary data was collected from Top Management officials of Indian Retail companies, Middle level managers and store staff in India, employees of global retailers, independent retail consultants, ex-employees of global retailers, etc.

**Research Design**

**Final selection of units**: Two Indian retailers and two global retailers were selected for detailed analysis. The case study approach was chosen. Keeping in mind the sensitive and confidential nature of the data, the names of the four companies and respondents were not disclosed anywhere in the thesis.

**Data Collection**: In-depth interviews were conducted with Top Management officials like CEO, HR Head of the selected Indian companies. Independent International consultants and current and ex-employees of the selected global retailers were interviewed face to face or on phone or via internet. All the interviews were based on an interview schedule designed as part of the research. The data so obtained was supported by data collected from various secondary sources.

**Data Analysis**: Data collected was mainly qualitative in nature. Inter-company and inter-group comparisons were undertaken. Data was tabulated. Charts, graphs were used for comparative analysis. In addition to this, statistical tools like averages, rankings and Spearman’s Coefficient of Correlation were used.
**Hypothesis Testing:** The data was mostly qualitative in nature. The data was analysed and trends were recorded. With an emphasis on qualitative data, the hypotheses were tested for their strength and tendencies.

**Presentation of research:**
The presentation of research was based on the following scheme of chapterisation.

**Chapter 1**
*Introduction*
This chapter takes a review of retail sector in India and at the global level. The chapter looks at the key concepts like Management Accounting, Performance Measurement Systems, etc. It also outlines the need and utility of the study.

**Chapter 2**
*Review of Related Literature*
Books, reports, articles and research papers were reviewed with respect to the following topics
- Management Accounting tools for Performance Measurement
- Performance Measurement practices in Retail industry
- Factors affecting performance of retailers

**Chapter 3**
*Research Methodology*
The chapter included the following sub-sections.
- Problem formulation
- Scope of study
- Research Design
- Data Analysis and Presentation
Chapter 4
Profiles of Selected companies
The first part of this chapter includes profiles of three Indian retail companies and three global retailers. The second part deals with a comparative analysis of the units under study on the basis of certain performance measures.

Chapter 5
Performance Measurement Systems: Analysis of Substantive Factors
This chapter deals with hypothesis number one and two and covers the analysis of the substantive issues like

- What is Performance: Performance Measures used by the companies under study
- Factors affecting performance: perception of the respondents about the pattern of significance of factors affecting business performance
- Enablers of and obstacles in Business performance
- The Linkages between Factors and Measures

Chapter 6
Performance Measurement Systems: Analysis of Technical Factors
This chapter covers hypothesis number three, four, five and six. It looks at the technical aspects of the Performance Measurement Systems such as

- Selection of Performance Measurement System
- Designing of Performance Measurement System
- Revision of Performance Measurement System
- Operational Aspects of Performance Measurement Systems
- Impact of Performance Measurement System on the organisation
Chapter 7  
Summary of Findings, Conclusions and Recommendations  
This chapter brings together the highlights of chapter four to six and draws conclusions therefrom.

Main Findings of the study

1. There is a lot of enthusiasm about the Retail sector in India. Global consultants have also shown a lot of faith in the Indian Retail Sector. India was ranked first on the Global Retail Development Index for three consecutive years. But the sector is in a nascent stage and the organised sector is really small. A comparison of Pantaloon Retail and Wal-Mart demonstrated that there is no real comparison yet. Wal-Mart has 7.3 times more number of stores, 320 times turnover and more than 60 times the number of people as compared to Pantaloon. No Indian retailer is listed in the top 250 retailers in the world.

2. The data supported Hypothesis one - Both Financial and Non-financial Measures are widely used for measuring performance of retail organisations

   The related findings are as follows
   a. All companies use a combination of Financial and Non-financial Performance Measures but their relative emphasis varies from company to company
   b. The global companies have incorporated measures like energy efficiency, waste created, etc to cover the environmental aspects. Such non-financial measures indicate their commitment to Sustainable Development. The respondents from the Indian companies did not mention any such measures.
3. The data supported Hypothesis two – Factors influencing performance of retail organisations would vary from market to market and from company to company.

The respondents agreed on the overall list of determinants of performance. But when they were asked to rank those factors on the basis of significance, the rankings varied from company to company and market to market. The main findings in this regard are as follows

   a. Perception of Indian Retailers about the Indian market as against the developed market differed from company to company.

   b. Perception of the two Indian retailers about the Indian market was not the same. They have a different view of the pattern of significance of factors affecting performance.

4. The data supported Hypothesis three - Retail Companies use more than one approach to measure their performance.

The related findings are as follows

   a. Indian companies together use the Balance Score Card, Strategic Resource Management and Pentagon and Triangle model

   b. Global retailers have a more complex and comprehensive Performance Measurement Systems incorporating a number of frameworks like the Balanced Score Card, Benchmarking, Activity Based Costing, Six Sigma, Total Quality Management and many more. Different frameworks are used for different stakeholders under one fully integrated system. The data supported
5. Hypothesis four - Information Technology plays an important role in designing and implementation of Performance Measurement Systems of retail organisations
The related findings are as follows.
   a. Three out of four respondents strongly felt that IT plays a crucial role in the designing and implementation of Performance Measurement Systems and it would not be possible to have an effective PMS without good IT support
   b. Indian retailers have been using readily available packages like SAP, JDA so far, and the global retailers use tailor-made IT programmes and packages specially designed for them by leading IT companies.

7. The data supported Hypothesis five - Performance Measurement systems of retail organisations are continuously being monitored and modified.
   The related findings are as follows
   a. Performance Measurement Systems are monitored regularly by all companies
   b. Performance Measurement Systems are revised every year
   c. The companies under study do not change the overall PMS framework every year, but they modify and fine-tune it annually.

6. The data did not fully support Hypothesis six - The Performance Measurement Systems used by Indian Retailers are at par with those used by global retailers.
   The related findings are as follows
a. Performance Measurement Systems of Global retailers have evolved over a long period of time. They have invested heavily in technology. There is a high commitment to and focus on systematic Performance Measurement. Global retailers use a combination of many frameworks. There is complete integration of all business activities into the PMS

b. The Indian Retailers differ in their approach and commitment. Not all companies have shown the same kind of commitment towards systematic Performance Measurement. They have faced problems like incompatibility of technology at front and back end. One company followed the global model whereas the other is working on an India-specific model

c. The global retailers have reported very high performance ratios as compared to the Indian retailers. For example, for the year 2007-08 Wal-Mart reported an ROCE (Return on Capital Employed) of 19.5% against 5.48, 6.2 and 10.34% reported by Indian retailers. The other performance ratios like ROA and ROE are also exceedingly better than Indian companies.

**Conclusions**

1. All companies use a combination of financial and non-financial performance measures but the pattern and significance differs from company to company. The non-financial measures seem to get affected first and tend to give early indications of performance trends. The companies using more non-financial performance measures are likely to face the changing market and global situations more effectively.

2. There is a paradigm shift as far as the non-financial performance measures are concerned. Most of the leading retailers globally, including
one global unit under study, have incorporated environmental and social concerns in their performance measurement systems. The emphasis on Sustainable growth and development can be clearly seen from their non-financial performance measures like Energy efficiency, Waste sent to landfill, Operational CO2e emissions etc. The Indian companies under study did not reveal any such trend.

3. The global companies under study follow a more systematic approach to designing, implementation, monitoring and revision of their Performance Management System.

4. The relationship between retailers and suppliers is very crucial for the development of organized retail sector in India. The retail sector is growing very fast and the suppliers are finding it very difficult to cope with the speed.

5. As against the developed markets, the manufactures lobby in India is quite strong and it regulates not only the flow of goods but also the prices thereof. With the MRP (Maximum Retail Price) system, the retailers have a limited control over the pricing of the commodities.

6. The selection of right PMS is important from the point of view of enhancing business performance, but effective implementation is the key to success. What matters more is the commitment to the selected PMS and the sincerity with which it is implemented.

7. Any Performance Measurement System to be successful should have features like flexibility, convenience, compatibility with IT systems and comprehensiveness in terms of coverage.

8. Clear communication of the performance measures and necessary training to the concerned staff are essential for successful implementation of PMS.
9. It would take some time and really committed efforts for the Indian companies to be at par with the global companies with respect to Performance Measurement and Management Control Systems.

**Recommendations**

1. The Indian companies should think “Green” and incorporate environmental protection and sustainable growth as part of their objectives. This should also be supported by incorporating the relevant non-financial measures like energy efficiency into their set of performance measures.

2. The Indian companies need to work on certain aspect of Performance Measurement Systems
   
   a. **Focus**: pinpointing the exact cause of underperformance is possible only when the system can reach the micro level in the organization. Hence the Performance Measurement System should focus on significant micro details across the spectrum of all business activities.
   
   b. **Coverage and Integration**: The Performance Measurement System and the supporting technology should be such that all business activities are covered under the same net. This would enable the managers to take an overview of activities and that will facilitate better informed decisions. Integration of all retail processes and use of uniform technology is crucial for more effective decision making.
   
   c. **Participation**: There should be more involvement of all stakeholders in the process of development and implementation of PMS. It would involve the use of both the Top Down and Bottom