3.1 Introduction:
The concept of business is not new; as an entity business is one of the oldest institutions. It contributes to the socio-economic development of every society in multiple ways. It promotes employment, generates revenue, garners resources and helps in coordinating various segments of the society. The social development of a country is not possible without having a strong business institution.

Since the development of an agrarian society, business has played a crucial role; today, it plays a very important in modern economy. Modern economy is known for its strong institutions that are developed for economic, commercial and financial development. Banks, Insurance, Stock Market as well as other institutions contributing to economy cannot grow without social support; similarly, a society also cannot grow without these institutions. Therefore, there is a mutual and reciprocal relationship between business institutions and the society; both of them are inter-dependent. However, performance has gained recent importance.

In the pre-industrial society, business entity used to be of small size, which is because of a very direct and restricted relation between business and society. The role of business was restricted / limited due to its nature of being a sellers’ market. Similarly, the demand for commodities often matches with the supply because of small size of its market and a limited number of buyers and sellers. Therefore, the situation of glut-over supplier never arises. The concept of competition was also almost non-existence and hence the ideas like efficiency and productivity has played limited role; however, this static situation lasted only till the Industrial revolution.
After the Industrial Revolution in the 18th Century, society changed its dynamics significantly and with it, large scale productions, large number of producers and marketers became common features of an economy. In the pre-industrial economy, business was characterised with one peculiar feature i.e. owner and labourer were not separate. Similarly, owner and manager were not different; however, with the Industrial Revolution and advancement of business society, a new form of business entities has emerged. Since then, manufacturing activity has brought labourers away for the place of dwelling; centralized manufacturing system, specialized labourer class and skilled workers has became an important features of the new economy.

Corporate business soon came into existence when Joint Stock Company got recognition and legal sanctity. These companies were not owned by an individual and the concept of perpetual existence became a reality. Ownership was separated from the business. Owners had limited liability and were free to do their business, in spite of having purchase the share of the company. However, profit became the major motive of running the business and high earnings became the parameters for contribution in a particular business. Profits were distributed on the basis of earnings by a company in a particular year. Thus, profitability became a major norm to assess the performance.

Once business has accepted profitability as a basis to measure its performance naturally it became essential for every business to enhance its profit. The enhancement of profit depends on the manner in which a business performs its operational activities. In simple words, unless and until the turnover enhances, profit cannot improves. The term profitability has a direct bearing on turnover. Profitability improves when cycle of operation are more i.e. with higher rate of
turnover, profitability improves. Turnover is dependent on efficiency and productivity.

Today, the key indicators of business success are Profitability, Productivity and Efficiency. In a competitive business environment, survival, growth and development is not possible without these key indicators. Productivity helps the business to control cost in a competitive world. Efficiency improves performance, whereas profitability brings stability. The above discussion clearly explains that business success in modern economy can be explained only with the help of these three indicators. To measure business success, these three basic indicators play a key role.

3.2 Purpose of writing the chapter:
This chapter is caged with following purpose:

(i) To understand the concept of business and its role in modern economy.

(ii) To examine the relevance of the concept of business analysis

(iii) To establish a right set of business indicators to assess and measures business performance.

(iv) To justify the role of business performance in measuring business success.

(v) To illustrate how business performance is associated with business

(vi) To establish relationship among Business Analysis, Business Performance and Business Success.

3.3 Concept of Business:
The term business is coined with emergence of commerce and trading activities. Though now a specific and crystal clear meaning is attached with the terms trade, commerce, industry and business; there was a time that terms are inter-mingled and no specific distinction was in existence. However, with the advancement of industrialization, the size of the manufacturing unit has enhancement, specialization became the most essential features of industrial and manufacturing
activity. As a result, every activity was linked trait and trade. Establishment of Joint Stock Companies was the major invention of modern economies; it altered the whole concept of business. For the first time, ownership was separated from management function; owners were having control of management function; whereas, managers were having administrative function. Day-to-day operational activities were no longer in the preview of the owner.

As ownership was separated from business; similarly, a formal place of work separated the concept of workers and the owners, paid employees working for a specific job became a salient features of modern business organization. The owners were no longer essentially the workers and vice-versa. All these have changed the whole concept of business.

Business organization became a peculiar constituent of the society. It gained importance with advancement of Mercantilism. Industrial and business were considered as a major contributor to the economy; naturally the importance of business organization has enhanced. The concept of modern business has following salient features:

(i) Business organization included industrial, commercial and trading activities.

(ii) The purpose of business was to fetch revenue from either production and selling or manufacturing and selling activities.
(iii) Different forms of business organization have emerged with the advancement of business; initially business was a family venture and a sole trading entity; whereas, the advancement of business gave birth of partnership and Joint Stock Company.

(iv) Business as an organization control major economic and commercial resources; as such, it becomes an important organ of the society.

(v) As a part of the society, business started contributing to socio-economic upliftment though enhancing capital generation of more revenue and generation of employment. Similarly, business started utilizing under-utilized or untapped resources which improved the condition of the economy. Thus, business started playing a major role in the economy.

3.4 Concept of Business Performance Analysis:
When the economy was not a complex activity, the economy and marketing environment was simple; it was easy to understand and assess the contribution of business. The limited number of players, small size of market, limited demand for goods and services and lack of competition were the major hindrance in the growth of business. However, the market expanded, competition enhanced and the environment became complex. Automatically, the relationship between the seller and the buyer is no longer on the one-to-one basis. The relationship between sellers and the buyers turned complex, the number of seller is one rise; similarly, the number of buyers is also increasing. Competition takes a new form and from the perfect market condition, market
turned imperfect. The dominance of certain sellers over the other sellers increased. There is a continuous struggle to attract more market share and enhance profitability.

In these conditions, every business has to work hard to retain its market share, improve its profitability and retain the customers size. The owners are no longer interested in retaining the equity; similarly, a Banker or Creditor does not offer credit or finance for low rate of returns. This becomes a complex situation; every business tries to retain its share for which analysis of the prevailing situation in order to improve its performance. This is possible only when appropriate analysis of the business performance is rightly conducted; and hence, business analysis has become an essential business function.

The term Business Performance Analysis in a narrow sense is defined as:

1) It is an examination of various financial performance indicators (such as return on assets and return on equity) in comparison with results achieved by the competing firms of about the same size\(^2\).

2) The process of reviewing and evaluating a company’s financial statements (such as the balance sheet or profit and loss statement), thereby gaining an understanding of the financial health of the company and enabling more effective decision making\(^3\).

Whereas, the term Business Performance Analysis in a broader sense is defined as:

1) As a measure of Total Corporate effectiveness and efficiency, which analysis the components of total corporate performance and define the critical variables affecting each of them\(^4\).

2) It is a set of task and techniques used to work as a liaison among stakeholders in order to understand the structure, policies, and operations

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\(^2\) [http://www.businessdictionary.com/definition/performance-analysis.html#ixzz3kq1PRILmu](http://www.businessdictionary.com/definition/performance-analysis.html#ixzz3kq1PRILmu)


of an organization, and to recommend solutions that enable the organization to achieve its goals\(^5\).

The above definitions indicate certain salient features of Business Performance Analysis. These features are:

**Narrow sense:**

1) It looks the performance of an organization from financial aspect.

2) Business Performance Analysis is related to financial performance of the company/firm.

3) Financial statements are the basis of analysis.

4) It is mainly related with getting an insight into the financial health of an organization.

**Broader sense:**

1) It has a holistic view of looking at the performance of an organization.

2) It evaluates the effectiveness and efficiency of an organization in totality.

3) It not only evaluates the financial aspect, but also the operational and managerial aspects of an organization.

4) It involves evaluation of the structure, policies and operation of a business organization.

Today, Business Performance Analysis is the key for survival and success. No business organization can survive if analysis is not rightly and timely conducted, and therefore, business analysis has become not a post-performance evaluation function but a pre-performance, prediction and estimation function. Business Performance Analysis is required in both pre and post-performance situation.

\(^5\) [http://www.iiba.org/what-is-business-analysis.aspx](http://www.iiba.org/what-is-business-analysis.aspx)
3.5 Contribution of Business Performance Analysis:
Business analysis contributes in many ways in assessment of performance, improvement of business contribution and enhancement of business profitability. Today, every business organization whether small or large, makes an attempt to evaluate its performance. There are both formal and non-formal methods of business analysis. The formal method has a scientific basis and well defined approach. The techniques are rightly designed, purposive and objective oriented. Therefore, business analysis as a technique is useful for decision making, planning, controlling and even directing the business.

3.6 Establishing Business Performance Indicators:
Business analysis is not a single or unique technique, it is a set of different techniques used for a varied purposes. Every activity of the business can be analysed by using different technique of business analysis. The selection of different techniques of business analysis depends on different factors such as:

(i) Size of the business
(ii) Philosophy of the business
(iii) Scope and areas of activity
(iv) Nature of products and services.
(v) Types of activity and function performed
(vi) Specific purpose to be evaluated
(vii) Implication of business decision
(viii) Scope or coverage of business activity
(ix) Managerial relevance
(x) Selection of technique of business analysis

3.7 Selection of Technique of Business Analysis:
Which technique of business analysis should be selected by the manager or the owner depends on the various parameters. It is very difficult to select an
appropriate technique unless and until its purpose, relevance and utility is ensured. Following are the deciding parameters for selection of techniques:

(i) Nature of activity the business undertakes.
(ii) Purpose of evaluation of the activity.
(iii) Relevance of the activity with the total business process.
(iv) Qualitative/quantitative nature of the activity.
(v) Role of assessment in decision making.
(vi) Implication of a particular technique on inter-personal relationship.
(vii) Suitability of a technique in a given situation.
(viii) Cost associated with the implication of a technique.
(ix) Training to the staff.
(x) Infrastructural and other facilities required for implementation.
(xi) Support services required.
(xii) Information input necessary for implementation.

3.8 Role of the techniques of Business Performance Analysis in Measurement of Performance and Business Success:

Before we examine the role of business analysis in measurement of performance and success, it will be appropriate to define the term performance and success. Performance has many connotations; the dictionary meaning of performance is:

1) A display of exaggerated behaviours or a process involving a great deal of unnecessary time and effort; a fuss.

2) The action or process of performing a task or function

3) A task or operation seen in terms of how successful it is performed.

Whereas, in reality performance means achievement of a particular target by using a given set of resources in a particular period of time. Performance is a quantitative indicator; in business, emphasis is given on quantitative measurement of any activity. Therefore, performance has become a key indicator of every
business activity. The term business performance is defined as achieving a set of
target against a predetermined one by using resources and time. Sometime,
business performance is also defined as a quantitative expression of contribution
or achievement of a particular activity on a pre-determined scale.

Business performance has various features, such as:

(i) It is a quantitative expression.
(ii) It is an indicator of achievement.
(iii) It has a value dimension.
(iv) It is comparable.
(v) It is an indicator of positive or negative achievement.
(vi) It works as an input for decision making.
(vii) It provides a direction.

Business performance often is measured by using certain parameters. All these
parameters help a manager to assess the extent of success or achievement and
also tell about the reasons behind success or failure. A good businessman always
considers these parameters while assessing the performance.

The important parameters to measure business performance are:

(i) Standards regarding resources utilized.
(ii) Norms regarding physical performance measuring against a particular
time scale.
(iii) Efficiency of performance.
(iv) Contribution to productivity enhancement.
(v) Improvement of profitability.
(vi) Achieving a target.
(vii) Evaluation against benchmark performance.
When we compare business performance, we understand as to how an activity, department or person really works in a given situation. Performance measurement is a basic input for evaluation of every activity. Today, modern business pays highest attention to performance assessment and measurement.

The second important term is business success; the principal objective of business is to achieve desired level. The term success in business have different connotation. The concept of a business success differs from unit to unit, industry to industry and even from activity to activity. Success is thus a relative term. The term business success is defined as:

3.9 Contours of Business Success:

How business success is assessed is a very crucial matter; it is difficult to define business success in a universally acceptable manner. Different manager, businessman and entrepreneur may have different presumption regarding business success. Similarly, different stakeholders may expect different outcome in the form of business success; however, one can identify certain special features of the term business success, these are as follow:

(i) Business success is usually a measurable indicator.
(ii) It can be expressed in a quantitative form.
(iii) The term business success indicates how a business performed and achieved its target.
(iv) Benchmarking is a key element to measure business success.

Business success like performance is comparable; it is the result of evaluation in terms of cost, resources utilized, profit, turnover and achievement over a period. Successful units express their achievement in a positive manner which happens to be a key indicator.
3.10  **Relationship between Business Performance and Business Success:**
Though business performance and business success are commonly used term; however, they are not synonyms. Business performance has different meaning then business success. Business success may cover business performance in itself, but business performance cannot express in exact terms the concept of business success. Business performance is an indicator of what actually is achieved against a set target but it is not necessarily an expression of business success. Business performance gives only an account of what are the resources used and what is the actual outcome against these resources used. Hence, business performance gives a realistic picture of output of outcome of an activity.

Business success on the other had tells whether the activity is performed as desired or not, to what extent the expectation or target are actually achieved or fulfilled. Therefore, business success is more comprehensive term; it includes performance and its measurement against a set targets. Business performance tells only quantitative achievement of different business activity. Whereas, business success tells how these activities have contributed against the set targets. These contributions may be positive or negative, higher or lower. Thus business success is a measurement against a benchmark; whereas, business performance is an absolute measurement without using a benchmark.

3.11  **Methods of measurement of Business Performance:**
Business performance can be measured in different ways. There are different facets of measurement of business performance; these facets are:

A. **General Business Performance:**
This is an indicator that explains as to how business performance is measured on overall scale of performance; such as, the business has expanded at a rate of 7%, the overall growth is 18% etc.
B. Activity based business performance:
Activity based business performance is an indicator of performance of a particular business activity; such as, performance of Marketing Department or Sale Department. Example: The sales have improved by 18% over previous year

C. Functional performance:
This is an indicator of a particular business function, product or division; such as, territory X has performed better as compared to territory Y. Product A has better sale performance that product B.

D. Target based business performance:
When a particular set of target is established and performance is measured against these standards. It is called as Target based business performance. Example: The sales target for year X is 18% over the previous year whereas the actual sale is only 13% over the previous year.

E. Periodic based business performance:
Periodic based business performance is assessing performance for a particular time period or year. Example: The market share for the year 2002 is 13%; whereas, the market shares for the year 2003 is 15%.

3.12 Business Performance and Business Success:
Business success is very important indicator, as no business can work without estimating the quantum of its success. Success is often a quantitative term, it can be measured by using many suitable indicators. Whereas, performance measurement helps in assessing business success. The important indicators to assess business performance are:

(i) Improvement is proficiency

(ii) Improvement in productivity

(iii) Enhancement of market share
(iv) Enhancement of volume of sale
(v) Enhancement in product line or product range
(vi) Increase in customer based
(vii) Improvement in goodwill
(viii) Increase in customer loyalty
(ix) Increase in acceptance level

All these parameters can be measured by using suitable and appropriate technique. Today, business expert have developed many such technique of measurement of Business Performance, which throw light on the extent of the success of business.

3.13 Business Performance Analysis, Business Performance and Business Success:
As stated earlier, business performance is a basic indicator of business success; however, without analysis the performance of the business, one cannot estimate how the business has performed. Business analysis is a basic step towards analysing business performance. How one analyse the business depends on the purpose of analysis and the manner in which analysis should take place. Business analysis has many connotation; a few important aspects related with business performance should be considered here. These are: business analysis explains the situation in which the analysis is conducted. It also explains the purpose for which the analysis is conducted. It throws light on the system and the method of performance of the business. It explains how different functions of the business are performed. It throws light on inter-relationship between different functions and also provides basis of comparative analysis. Rightly conducted business analysis helps to assess effect of external variable on business success. It also explains the implication of different decision on business performance.
Business analysis is always the first step towards establishing premises of planning. Business analysis is a tool to evaluate relevant against benchmarked criteria. Thus, business analysis is the every important aspect of every business monitoring and control function. A rightly conducted business analysis is the pre-condition for success of every business. Whatever, is done through business analysis explains the performance of the business. If business analysis is a technique, then performance analysis is the outcome. Analysis provides the direction to measure the business success; whereas, performance analysis helps to express business success in quantitative form. Thus, business analysis and business performance analysis are inter-dependent.

Managers, Decision Makers, Analyst, Banker and other external stakeholders used Business Performance Analysis as a key decision input. Most of the decision regarding knowing about the direction of performance of the business can be understood by using the right technique of Business Performance Analysis.

Today, Business managers have developed various models and techniques of Business Performance Analysis. Some of the technique are highly specialized and function specific, whereas, some other techniques are generalist in nature. Certain models have econometric or mathematical basis; whereas, some other have statistical basis. Managers use all the techniques of Business Performance Analysis according to their requirement. Different decisions input well require different technique of analysis.

In a subsequent chapter, a detail note will be provided as to what the different techniques of Business Performance Analysis are, their application and limitation. Similarly, it will also help to know as to how various firms can be ranked on the parameters of the performance by using these techniques.
3.14 Conclusion:
In this chapter, the researcher has examined certain key concept associated with Business Analysis and Business Performance. Business Performance is known as a key concept in business decision making. Success of the business depends on sound decision making and the true test of decision is right data input process. Well-defined and appropriate data can be made available only by using suitable technique of Business Performance Analysis. Hence, Business performance Analysis should be considered as a major activity for every business unit.