EVALUAREA ASSESSMENT USING ECONOMIC PERFORMANCE BALANCE OF SCORES

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Abstract. *The notion of "scorecard" brings as an innovation besides the quantification of the performances viewed in financial terms, also the evolution of the efforts made by a company in order to obtain future performances by making use of the internal procedures and of the relations established with the clients and the suppliers. The key-element of this method's philosophy is that the employees of the organization have to focus on those elements that can be quantified because this reveals the affective implication of the employees and not only the result of some financial rewards. The implementation of this system offers to all managers the possibility to quantify the ways through which their business creates benefits for present and future clients. This also shows them how they can crate and obtain an internal infrastructure, investments into people, and also the necessary procedures in order to improve further performance.*

Keywords: performances, indicators, evaluation, control, information, strategy, management.

INTRODUCTION

The concept *Balanced Scorecard (BSC) method* appeared for the first time in 1992, its authors being Robert Kaplan and David Norton and besides the analysis of the current performances in financial terms and the assessment of the company's efforts to achieve future performance, the novelty about it included also other important aspects for the management. The authors defined the BSC as "*a set of measures that give top managers a fast but comprehensive view of business"*.

The term "Scorecard" implies analyzing the performances that can be quantified, and "Balanced" shows that the system must be equilibrated, taking into account the following: the objectives of the organization on long and medium term; financial and nonfinancial measures; a series of specific indicators (of performance); internal and external performances.

Professor Ioan Andone assimilates this translation with a "picture of a balanced development" or a "projection of a balanced development." In the work "Contabilitatea managerială aprofundată" (Colectia –biblioteca de contabilitate, 2008), the authors Diaconu P., Albu N., Albu C., submit this tool as a picture of the scores. Basically, two apparently simple ideas form the foundation of this method (Kaplan and Norton, 2001): in order for the organizations to be successful on long term, there should be satisfied the expectations of three main categories of stakeholders: shareholders, customers and employees. Even if the business is successful on short term, if the expectations of one of these categories are ignored, then the performances on long term will be affected; all three categories of stakeholders are independent.

The attitude and behavior of the employees have an impact upon the level of satisfaction of the customers and their maintenance. On their turn, the attitudes and behaviors of the consumers influence the satisfaction of shareholders and their maintenance. Finally, the satisfaction of the shareholders influences the satisfaction of the employees through rewards, incentives, or investments within their professional development.

MATERIAL AND METHOD

The assessment of economic performances is using the balance of scores. In specialized literature, the Balanced Scorecard method is defined as a list of indicators that highlight the key factors which have contributed to the success of the organization in terms of deployed operations (economic, financial), the human resources involved, suppliers and clients etc. Using this method, not only the future incomes are measured, but also the factors which influence the obtainment of those.

In practice, there are two types of balanced scorecard (Caraiani and Dumitrana, 2004):

a) *Balanced Scorecard for managerial control*. The purpose of this type of balance is to help managers monitor, control and supervise the various processes in order to achieve the desired performance. The set of indicators will be according to the four dimensions exposed above;

b) *Balanced Scorecard for the strategic control*. This type of balance helps the managers establish strategic goals and monitor the processes in order to fulfill the goals. The informational set warns the managers about the interventions that should be applied in order to ensure the fulfillment of the goals proposed.

This method of analyzing the performance has a more *complex view* upon the entity, which refers not only to the estimation of future revenues with the evaluation of the present situation, but also to future trends, in general. The Balanced Scorecard method allows: to measure the success registered at the entire level up to the department level; to balance short and long term actions; to balance the benefits of different measurement methods registered at the level of the entity from a financial approach, but also from the point of view of the relations with customers, internal operations and human resources and research- development processes; to transform the strategies in concrete actions.

The Balanced Scorecard method forms a management system which overlaps the strategic objectives of an entity on a performance measurement system, offering answers to four fundamental questions:

− How do consumers see us? *(consumers' perspectives;)*

− In what must we excel? *(internal perspectives);*

− Can we go on improving (ourselves) and creating value? *(research and development perspectives)*

− How valuable are we for shareholders? *(financial perspective)*

RESULTS AND DISCUSSION

Balanced Scorecard from Norton and Kaplan's point of view

Perspectives provide a relevant answer, for example, how well the strategic plans of the entity are executed so that certain adjustments can be made further.

Within each category of perspectives, the entity must define accurately the following elements (Table 1): *strategic objectives*; *measures,* how the progress will be compared to that particular objective; *the goals* or the expected values for each measure; *the initiatives*, what exactly shall be done in order to ease the fulfillment of the goals proposed.

Table 1

Elements of each category of perspectives

1. Financial perspective *-Objectives* *-Measures* *-Goals* *-Initiatives*	*2. Customers relations* *-Objectives* *-Measures* *-Goals* *-Initiatives*
3. The internal processes of the company *-Objectives* *-Measures* *-Goals* *-Initiatives*	*4. Research and development* *-Objectives* *-Measures* *-Goals* *-Initiatives*

Although it provides information to the managers from four different points of view, the method minimizes at the same time the level of the amount of information, setting a limit to the number of the measures of performances used.

a) The financial perspective focuses on the following: increasing the activity; increasing the rate of the operational profit (OP); respecting the rate of the recovery of invested capital; minimizing the financial expenses (FE); improving the operational performance; minimizing the indirect expenses.

In this respect it is required the monitoring of the following indicators: increasing the turnover (T); operational profit variation; the rate of recovering the invested capital; the variation of the turnover; resources/turnover through proper means; indirect expenses/net turnover.

Financial objectives usually consist of profitability indicators such as: operating revenues, profit/ capital employed, or economic value added, and the alternative financial objectives may represent increasing sales or generating additional cash/flows.

b) The customer's perspective has as a main objective the following: the development of the mass of clients; the loyalty of the customers; image development;

In this respect, the following indicators shall be prioritized: % of new customers; turnover from the new customers; customers lost; increasing the turnover from the loyalty of the customers; the results of the evaluations of customers.

The managers indentify the market segments in which the organization will enable the measures that should be taken and the target segments. The stability of the patronage, the attraction of new customers, the profitability of customers and the market share shall be observed. A lot of companies have today a mission focused on the consumer. *"To be number one in creating value for the customers"* represents a mission that is more and more often heard. BSC helps the managers transpose the mission into specific measures that could reflect the factors which are truly important for the consumers. The requirements of the consumers generally fall into the following categories: time, quality, performance/ service and cost. *Time* refers to the period of time required for the organization to satisfy the consumers' needs. For the existing products, it can be defined as the period of time between the moment in which the order is received and the moment when the product/ the service reaches the consumer/ (responsiviness / reactivitate). For the new products, this time can be defined as the time when the product reaches the market, meaning how much time the product needs in order to get from the defining stage towards the delivery stage. *The quality* may measure the level of the imperfections of products, just as they are perceived and measured by the consumer, but may also measure the time of deliveries or the accuracy of the forecasts of the sails of company. The measures referring to the technical performance of the product and service show the way in which they contribute at the creating of value of the consumers. The perspective of the patronage allows the managers to compose a unique strategy referring to clients and market in order to make extra revenues.

c) The perspective of processes refers to: the development of strategic segments; the development of innovating processes; quality; legislative compliance.

This fact is achieved through monitoring the following indicators: the turnover; the number of new products; the generated turnover; litigations (court proceedings); claims; delays; infractions.

In this case, the internal critical processes in which the organization must excel, shall be defined.

According to the opinions of the specialists, these are: *innovation:* first, new markets and new customers are identified, and after that new products and services that should correspond to the needs of customers are developed; *production:* this process may begin with receiving a new order from a client and it ends up with the delivery of the product or service to the client. Minimizing the cost within the process of production and delivery stand for the most important objectives of a manager. The management techniques may easily be applied in order to control and improve the receiving of orders from customers and the processing of the production and delivery. Towards the new directions of measuring time, quality and cost, the managers may measure also other additional characteristics of the processes through which products and services are made. Such measures may include measuring the flexibility and specific characteristics of products and services which create value for the consumers; *after-sales service*: these refer to the guarantee services, repairs, treatment of imperfections and denials, the processing and managing of payments, credit cards, and also programs of training for the employees of the customers.

d) The perspective of research and development refers to the infrastructure that the entity must build in order to create the growth and development on long term, in the following way: skills development; training the staff; updating the database of information;

Objectification has in view: covering the key positions; the number of high qualified staff; delays – missing information.

Research and development of the entities open towards three main sources: people, systems and proceedings of the entity. In this case, certain nonfinancial evaluation indicators of employees are used: pleasing the employees, the rate of the renewal of employees, the training of the employees and their practice. Due to the fact that BSC method is formed by a set of indicators (financial or non financial), which show how the performance of the entity is built through the balance and interaction of the four forces, the system remains open, meaning that the indicators used for the measuring of the performance shall be different from one entity to another. There are, however, certain models that have proven their feasibility, but they cannot be applied totally for they must be modified and according to case, filled out. The elaboration of a model of measuring performances according to Balanced Scorecard vision, supposes following the nine steps presented below:

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1. The analysis of the organization situation.
2. Defining strategies.
3. Perspectives and objectives for development.
4. Strategic Planning.
5. Measuring the performances.
6. Initiatives.
7. Informing and Communicating.
8. Cascade Application Model.
9. Evaluation and improvement

So, whenever the entity decides upon the implementation of the BSC method, it is likely for the model of the entity to be clearly defined and after that it should be established the essential measures based on the chosen model. These actions stimulate the level of the involvement of staff, they draw the approval of the leading organization and they increase the rhythm of change.

In order to define the model, the following *steps* (And one, 2006) must be taken: reviewing and clarifying the strategies of the organization, a thing which often leads to prolonged arguments and discussions that must be overcome and should have a constructing character for the organization; establishing the capacity needed for the fulfillment of the composed strategies; the actual creation of the model.

At this point it is necessary to develop a chart that reflects the way in which the certain business works. The steps presented above usually last for two days with meetings in which the designated team leaders must agree upon all goals, actions, values and proposed competitive situations. In the end, the team must build a map that will be used as a start point in defining the model. It is then proceeded at defining or selecting, as appropriate, the indicators that will be implemented in the final model.

From the BSC methodology tool it is easy to see that there are some questions for which we may find answers, if not laconic, at least difficult to be measured. At some questions such as: ”how can the level of satisfaction of employees be measured?” or „ who decides upon which aspects of the company should be measured/ analyzed” and ending up with “how do you know that you have created the correct model?”, in the context of the Romanian economy, it will be at least difficult, if not impossible to answer”.

Despite for and against arguments, over the past 12 years, the Balanced Scorecard method proved especially useful in everyday life of the U.S. economy, and European firms. That is way, the specialized literature says that: “BSC is the most wonderful management tool of performances, is considered one of the most revolutionary management concepts from the past 75 years”.

Here are some of the *advantages* of the BSC: the possibility to identify weak points and to improve them; identification of best practices and their dissemination; understanding of the functional model of the entities concerned; flexibility and learning.

However, the main advantage of the BSC method consists of bringing together and familiarizing the managers as well as all the departments, human resources, technological and financial, with the strategy of the organization. Because BSC is just a tool, it is submitted, by definition, to some limits for which, at the present moment, researches are undertaken in order to remove them.

CONCLUSIONS

The experience of the first companies that used BSC, proved that it satisfies few managerial important needs: *BSC brings together, in one report many seemingly disparate elements of the competitive plan of the organization*: customer orientation, reducing the answer time, promoting team work, less time to launch new products, management for long-term development, etc.; *BSC protects against sub-optimization.* Forcing the top managers to take into consideration simultaneously all the important operational measures, BSC enables them to see if the improvements in a particular area have not occurred at the expense of damaging other areas. Even the best objective can be done improperly.

Together with the implementation of BSC, managers can measure the ways in which their business creates value for present and future customers, how they can create and hold a national infrastructure and investments in people, systems and necessary procedures in order to improve future performance.

The picture of scores counts the essential activities of creating value executed by motivated and trained participants from an organization. The picture allows the financial and nonfinancial indicators to be part of the informational system of the employees at the level of the entity.

The picture of scores is used (must be used) as a communicating, informing and learning system and not as a control system. The strategy of an entity mostly depends on the environment in which the entity acts and not necessarily on the resources or internal capacities that must be adapted to the environment. In other words, the basic variable is the environment, the resources and capacities of the entity are adapted to it and finally, the strategy is defined as a set of activities or processes interconnected between them. Unlike the dashboard, BSC includes relevant operational indicators, which follow only the performing of the strategy entity, focusing on the strategy and not on the control. Balanced scorecard represents a complex measuring and managing tool of performance, ensuring the balance between: the short and long term (it identifies the short and long term and it leads to a decision on short term); the exterior and interior part of the entity (it takes into consideration the external objectives – the customers and the internal ones- the stuff who analyzes them during the internal processes); value and cost (it leads to managing costs from the perspective of generating value for customers), between the financial and nonfinancial aspect and the nonfinancial one of the performance.

Balanced Scorecard represents a *concept* which allows strategic objectivity, balanced across an entire organization. The strategic balance is obtained through strategic financial and nonfinancial objectivity, determined by internal and external factors, on short and long term and based on leading indicators and lagging ones. *Balanced Scorecard* is, at the same time, a methodology for implementing a cyclic system of defining strategic objectives based on the causal relationships between organizational processes, organizational alignment and cascading of goals up to the individual level, applying the strategy based on strategic initiatives.

Finally, the Balanced Scorecard is an optimizing management system of the execution of a strategy organization which allows to obtain an accelerated growth in operational performance and to achieve the defined strategic objectives. The execution of the BSC system requires consistent, collaborative, analytical and adaptive informatical tools, integrated with other systems of the organization.

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