

Considerations regarding the Instruments Used to Measure the Company's Performances

Carmen-Veronica Zefinescu

Petroleum-Gas University of Ploiești, Bd. București 39, Ploiești
e-mail:carmenzefinescu@yahoo.com

Abstract

The administration instruments are an important method for administrating the performance. The company has to bring value for a great number of partners, in other words a company has to be proficient. Assessing the company's performance has developed gradually in accordance with the changes within the socio-economic context. Starting from the classical instrument of budget control, used in company administration, other modern means of establishing the performance have been conceived: board table, reporting and balanced scorecard.

Key words: *the performance measurement, the board table, the reporting, the scorecard balance*

General Aspects

A company's administration becomes difficult on a very competitive market and within an environment in a continuous change. The company has to bring value for a great number of partners, in other words a company has to be *proficient*.

The administration instruments are an important method for administrating the performance.

Within an economic organization, the performances measurement is made in different ways, according to the responsibility level and the established objectives. The performance of a production section can be measured according to the level of indirect production expenses reduction, the raw materials consumption reduction, if these actions have been established as objectives of the responsibility centre. [4]

For the general manager, the performance measurement is made in terms of profitability and liquidity.

The development strategy has the most important role, through which there are defined the future evolution directions and the main objectives to be reached, based on these there are established all the managerial elements that have to sustain efficiently the predicted development.

The strategy, defined through the established objectives, has a direct impact over all the activities within that organization, influencing the conditions of achievement and determining the specific and evolution demands towards the managing personnel.

Regarded from the administration control point of view, the notion of performance represents the degree in which an employee achieves his objectives, duties.

The administration control uses a series of instruments in order to check the company's performances:

- the budgetary control;
- the board table;
- the reporting;
- the scorecard balance.

The Budgetary Control

The budgetary process includes all the levels of the management, the established objectives, as well as their achievement. The budgeting also requires that every manager assume his responsibilities, the approval of a budget allows the achievement of all the activities included in this one.

The budgeting is functioning within long term general objectives, having as purpose the development of some operational plans detailed on different sectors and organizational links inside the company.

The planning and the coordination are achieved under the form of the main budget (master) that includes all the secondary budgets; this fact determines the managers to take into account the relation between the budgets' functions and the company's different compartments and to analyze the way in which these contribute to the achievement of the established objectives. [5]

The budgetary control supposes a comparison between the obtained results and the predicted data, respectively with the economic organization objectives.

As an instrument of the economic – financial activity management, the budget has the following functions:

- the prevision function;
- the control function;
- the function of maintaining the economic – financial equilibrium.

The budget's control function is evidenced when the expenses are contracted and made, when there are obtained the revenues, when there are elaborated the necessary funds.

This function is also realized by following and analyzing the way this budget is executed, this way being able to ensure [5]:

- the knowledge of how the predicted actions are achieved;
- the accepted fluctuations;
- the cause of these fluctuations;
- the compartments that have to act in order to improve the activity, etc.

The budgetary control within a company is made by two persons [4]:

- the administration inspector who executes the budgetary control;
- the budget responsible (meaning the person that is controlled) that has to justify the fluctuations occurred compared to the budget's previsions.

In most of the cases, the budgetary control is made every month and must have two objectives:

1. the control of budgets' execution, identifying and analyzing the positive and negative fluctuations compared to the predicted budget;

2. to rectify the budget's provisions and to take the necessary corrective measures.

In order to achieve these objectives, at the level of each responsibility centre there must be organized an informational system that will supervise the budgetary execution. This can be organized in two ways: accounting and statistics.

In the case of budgeting control from the accounting point of view, the current accounting of each responsibility centre registers distinctively into accounts the values established through that budget, as well as their fluctuations.

The real value of a performance indicator, that shows the way that budget is carried out, is obtained on the basis of the data from the accounts as it follows:

$$\text{the budgeting value +/- fluctuations} = \text{real value}$$

In the case of budgeting control from the statistics point of view, in order to achieve the control of the budget, there are drawn out situations of budget carrying out, as for example:

Table 1. Indicators and values for budget control

Indicators	Budgeted	Realized	Fluctuation in absolute value	Fluctuation in relative value
Sales (1)	500.000	495.000	-5.000	-1%
Total expenses (2)	450.000	469.000	+19.000	+4,22%
From which accessories expenses	89.250	112.500	+23.250	+26,05%
Result (1-2)	50.000	26.000	-24.000	-48%

The techniques of the budget control are different, depending on the type of the supervised activity inside every company: commercial activities, production activities, functional activities.

The fluctuations occurred compared to the initial budgets have causes that can be controlled, influenced through the decisions of a responsible.

The administration activities must be guided towards these causes that can be controlled and that influence the achievement of the performance objectives established in a budget.

The fluctuations from the values established in a budget can be positive or negative. The positive fluctuations are determined by values achieved under the expectations of the budget (for example, a smaller consumption for the raw materials and manual labor than that specified in the budget), as well as by effective values superior to those predicted in the budget (for example, a bigger selling price than the budgeted one).

An example for a negative fluctuation could be an exceeded consumption of raw materials and direct manual labor.

Any fluctuation from the budgeted values is the result of two factors: the price and the quantity. For example, the fluctuation from the budgeted value of raw materials consumption is made from a variation of unit price and a variation from the different quantities.

Usually, the persons in charge with the administration have the tendency to carry out a more severe control for the quantitative fluctuations and a lighter control for the price fluctuations.

The analysis of these fluctuations must be connected with the company's management methods, as for example the management through exceptions (the managers have to handle the fluctuations that exceed a certain level) and the control through responsibilities (in this case, certain employees have to take the responsibility for those fluctuations).

The Board Table

The board table (BT) is an instrument to measure the performance, used especially in France and Europe even from the period between the two world wars; it came as a solution to the necessity to struggle against the accounting system lacks, insufficiencies and to correlate the other administration instruments (costs, budgets).

In time, this instrument registered an evolution and encountered a series of mutations as a consequence of the changes in administration concept, having many definitions, functions; today it gets closer as definition and content to balanced scorecard. [1]

It is made out of a series of indicators connected to the company and the business environment, presented in a synthetic manner, indicators that allow the managers to take quick decisions in case they have difficulties inside the company.

This term comes from the car and plane industry; it reflects better the responsibilities connected to the company's administration.

The board table has the following characteristics [4]:

- contains a small number of indicators (10, up to 25);
- the information are not strictly financial, there are also natural standard or quality indicators;
- it is made for every operational employee;
- it can be obtained very quickly;
- it can be easily interpreted, the indicators are presented within tables, graphs, in absolute values and installments.

Another characteristic of the board table are the non-financial indicators (for example, the quality of the raw materials, the installment of the products which have not been sold yet, etc.); this characteristic allows the employees responsible with the administration to have supplementary data, other than the financial – accounting information. Depending on the company's activities, there can be elaborated the strategy table board, the financial table board, the administration table board, the exploitation table board.

For a correct elaboration of a table board, at first a project must be drawn up to determine the organizational context and there is evaluated the utility of such a table for a specific responsible of an administration centre.

In order to complete table boards there are four phases to fulfill [2]:

- establishing the objectives system and the general budget of the company;
- completing and transmitting the necessary information for the managers on the inferior levels of the company;
- completing and transmitting the informational models for the managers of the intermediate levels of the company (operational and functional department managers);
- completing and transmitting the informational situations to the executive managers and to the general manager.

The performances control with the help of the table board is made depending on the achieved objectives, whose numerical expressions are the indicators.

The table board can be used inside the companies that don't have a budgetary system, but can also coexist with such a system in order to obtain a superior quality of the administration control.

The Reporting

The reporting is an instrument for evaluating and checking the performances, being used frequently inside the big companies. It helps to justify the level of the achieved objectives for every manager and it is used in order to transfer the information from the elementary units (sections, commercial centers, brands, etc.) to the top management of the company.

The reporting has two components [4]:

1. the accounting component which refers to the achievements compared to the previsions, in such a manner so that there can be easily detected any fluctuation;
2. the administration component which refers to the identification of the causes that generated those fluctuations and to the measures to be taken in order to correct the errors; this information will have to reach the top management of the company, along with other documents.

The reporting is part of the information system for the general management and has to contain all the necessary information that allows the managers to correctly analyze the objectives and measure the performances of every structure of the company.

It also represents an instrument used to report the performance, that is specific for the American companies, this kind of report is made based on a standard form, the information is gathered periodically.

The reporting regards only the financial indicators, being based on the budgetary control, the calculation and analysis of the fluctuations, this way being able to supply detailed information, sometimes too financial.

Balanced Scorecard

During the 90's, due to the limits of the reporting which because of the detailed information does not allow an evaluation of the global performance and a quick decision, there has been conceived another instrument to measure the company's performance – the balanced scorecard. In the French administration literature this term has been translated as „prospective table board”.

It is an instrument that offers financial and non financial information, an operational representation of the company's global performance. It was conceived in 1992 by Robert Kaplan and David Norton and was used for the first time inside the American companies, nowadays it is used in the whole world. The indicators are selected in such a manner to clearly represent the objectives and the performances in the most important sectors of the company.

The financial – accounting indicators are still maintained, but there are also used indicators regarding the clients, the quality, the company's internal efficiency and its capacity to extend and develop on long term.

This kind of information is presented to the general manager of a company or to the manager of a certain domain of strategic activity, giving emphasis to the relationship cause – effect which exists between the operational performances and the strategic achievements of the company.

Conclusions

The methods used to achieve a control of performances inside a company have always developed within different economic contexts.

The control through the budgets is a classic instrument inside the company's administration, used even from the beginning of the XXth century all over the world.

The table board was conceived in the period between the two world wars inside the French companies; the reporting was a result of the American companies' research that extended in all the multinational companies.

The managers consider the information from the reporting to be too detailed and too financial, situation that does not allow the top management to evaluate the global performance and to take quick decisions.

Because of the proved limits of the reporting, there has been conceived another method to analyze the performances, oriented towards action and anticipation – balanced scorecard.

The *balanced scorecard* is the most advanced and complete model due to its quality to be applicable in all types of companies, malleable and concise; the moment when it is conceived and implemented it can bring out what is really important for it (clients, employees, internal processes, etc.). The balanced scorecard was conceived due to the limitations of the reporting; it is another instrument to measure the performances, directed to the company's strategy and the measurement of global performance, oriented towards action and anticipation.

References

1. Albu, N., Albu, C. - *Soluții practice de eficientizare a activităților și de creștere a performanței organizaționale*, Editura CECCAR, București, 2005
2. Caraiani, C., Dumitrana, M., - *Contabilitate și control de gestiune*, Editura InfoMega, București, 2004
3. Epuran, M., Băbăiță, V., Grosu, C. - *Contabilitate și control de gestiune*, Editura Economică, București, 1999
4. Ionașcu, I., Filip, A.T., Mihai, S. - *Control de gestiune*, Editura Economică, București, 2003
5. Oprea, C. ș. a. - *Contabilitatea de gestiune*, Editura Tribuna Economică, București, 2001

Considerații privind instrumentele de măsurare a performanțelor întreprinderii

Rezumat

Instrumentele de gestiune reprezintă un mijloc important de gestionare a performanței. Firma trebuie să aducă valoare pentru un număr mare de parteneri, implicit să fie performantă. Mijloacele de realizare a controlului performanțelor unei întreprinderi s-au dezvoltat treptat conform cu schimbările apărute în contextul socio-economic. De la instrumentul clasic utilizat în gestiunea firmelor - controlul prin bugete - s-au conceput alte mijloace moderne de urmărire a performanțelor, cum ar fi: tabloul de bord, reporting-ul, balanța scorecard.