



## MEASUREMENT OF BUSINESS PERFORMANCE USING THE METHOD BALANCED SCORECARD

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**Abstract:**

*The article deals with the method of measuring business performance - Balanced ScoreCard that processes vision and strategic goals of the company to file understandable indicators, and in which the performance of the company assessed through four selected perspectives. BSC method was applied to assess the performance of a particular company, the article discusses the process of its application and the results achieved.*

**Key words:**

*Balanced ScoreCard, measuring business performance, analysis method*

## 1 INTRODUCTION

Currently, managers and owners of each company are forced to continual streamlining of logistics activities, which ultimately will ensure the maintenance and enforcement of the company on the Slovak and European market. The measurement and evaluation of logistics processes has recently become a strategic tool in the field of achieving competitiveness and attract customers. One of the methods used is the modern Balanced ScoreCard method. Contribution of the paper is to design the process of introducing the Balanced ScoreCard (BSC), the application of method providing enhanced logistics performance and on the principle of simultaneous decrease in the level of logistics services and simultaneously reducing overall logistics costs.

## 2 BALANCED SCORECARD METHOD

### 2.1 Characterization of method

In 1992 two Americans David Norton and Robert Kaplan introduced the BSC as a revolutionary performance measurement system. The idea is to turn strategic objectives into operational. BSC emphasis on achieving financial results and includes the moving forces that enable it to achieve these results. BSC is a modern method that processes vision and strategic goals of the company to file understandable indicators, where the company evaluates performance through four perspectives.

**Financial perspective** - for each strategy can be different financial goals. BSC development must start a dialogue between the head of the business unit and chief financial officer of the company about specific goals and financial categories.

**Customer perspective** – business have to identify customer and market segments. Managers must convert strategic mission to customer and market-oriented objectives. BSC method implements the strategy and mission into specific objectives related to customer and market segments that need to be communicated across the enterprise.

**The perspective of internal processes** - Managers characterize the processes that are to achieve the objectives (of shareholder and customer) the most important. BSC method reveals new processes based on the wishes of the shareholders and customers, in which the company should achieve excellent results.

**The perspective of learning and growth** - BSC method indicator and develops the objectives of promoting growth and learning company. The company must invest in people, future systems and procedures if it is to achieve long-term financial goals.

Prospects methods allow BSC to establish a balance between:

- Short-term and long-term objectives,
- required outputs and the movement of those outcomes,
- all indicators.

BSC monitors in addition to financial results and how businesses are able to obtain and provide long-term assets that are necessary for future growth. In the system development of the BSC has gradually become a key management system that serves as the basic organizational framework for important managerial processes as a tool for resource allocation, setting individual and team goals, planning and so on.

## **2.2 Implementation of method**

A necessary prerequisite for use of the BSC method is measurability of characteristics. Financial indicators are easily measurable (the necessary information can be obtained from the accounts). Measurement of indicators in perspective, internal processes and learning and growth are difficult to measure (not every company such data specifically collected and monitored). Therefore, in most companies inevitably form a way of monitoring and data collection. The company always base their BSC from his vision. Based on the vision set goals (for each perspective) and assign them gauges. It should never be forgotten on the logical relationship cause - effect. Subsequently, the company set targets for individual instruments and define action plans to achieve them. The result will show the company's strategy and organize a company in which all processes effectively towards meeting the strategic objectives and vision of the company.

A necessary prerequisite for the successful implementation of this method is:

- Adaptation of the company's activities to fit the new governance,
- active participation and full support of top management,
- involvement of all employees in the implementation of the new system,
- the company must clearly define the responsibilities for achieving gauges BSC and connect with it also a system of evaluation and remuneration of workers.

## **2.3 Measurement of performance by Balanced ScoreCard method**

BSC concept emphasizes the accurate measurement requirements of company performance, in all four perspectives. That means, each each BSC perspective must have:

- Precise objectives, it is best quantified,
- selected indicators in which these objectives are expressed and can be quantitatively controlled,
- induced and efficient use of own initiative of employees at all levels,
- developing a set of measures to achieve the targets, respectively intentions of the management.

## **3 PROCESS DESIGN OF INTRODUCING THE BALANCED SCORECARD METHOD IN COMPANY MAAG, S. R. O.**

The process of implementation of the BSC method was divided into five steps, which are individually described in the subsections below.

### **3.1 Assessment of readiness**

The first step in the process of introducing the BSC is to assess the readiness of the company. As mentioned above, the company is ready for the introduction of this method.

### **3.2 Ensuring organizational conditions**

The second step is to ensure organizational conditions. Generally, when introducing the BSC reported in the literature 3 roles research team - architect, winner of changes and broadcaster. Since the size of the company advising small companies, these three roles would be appropriate to concentrate in one person. In order not to burden the owner propose to hire a person who is familiar with the development and implementation of the method of experience. Such a person can cause among employees necessary interest. Based on meetings with company owners and executives will prepare a draft of changes that will be implemented.

### **3.3 The formulation of the strategy of the company**

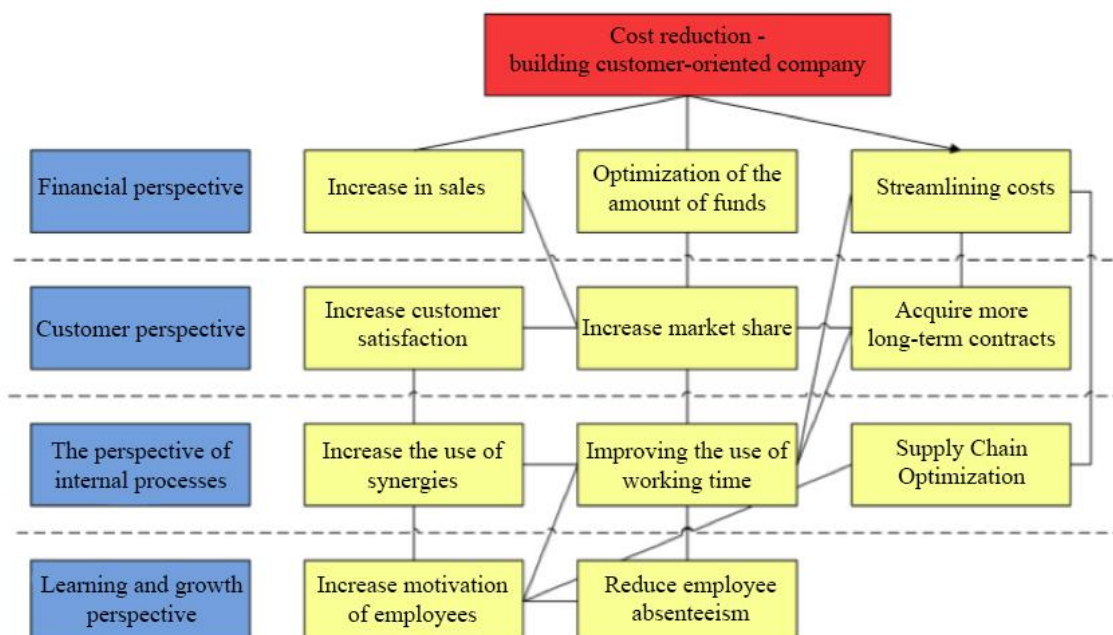
The third step is to define and formulate the right strategy. In this step, the company's owner set the following objectives:

- Increase sales,
- streamlining costs,
- optimize the amount of funds,
- getting several long-term contracts,
- increase customer satisfaction,
- increasing market share,
- improving the working hours,
- optimization of the supply chain,
- increased use of synergies,
- increase employee motivation,
- reduced absenteeism.

These targets will then be incorporated into the strategic map.

### **3.4 The creation of the BSC maps**

The fourth step is to create a map of the BSC, which represents financial and non-financial value of the analyzed company, and of course based on the defined corporate strategy. All shows goals lead to culminate general aim. The supreme goal of MAAG, s. r. o. it is to increase company value.



*Fig. 1 BSC map*

### 3.5 Determination of targets and indicators

In order fifth and the most important step is to set targets and indicators. For the purpose of monitoring the achievement of strategic objectives, these objectives must be converted into a measurable form. Based on the consultations the company owner and an economist were set targets which correspond to strategic objectives. To achieve these goals defined by the company's owner set time frame - two years.

#### 3.5.1 Financial perspective

In the field of finance have been established by owners and economists of MAAG, s. r. o. the following objectives, indicators, targets, and expression the present value (Tab. 1).

*Tab. 1 Financial perspective*

Strategic objective	Identificator	Unit	Currant value	Target value
Increase in sales	Sales	€	438 624	449 329
Streamlining costs	The proportion of operating expenses to sales	%	91,63	85
Optimization of the amount of funds	Payment term of claim	days	45	30

Increase in market share achieved a higher turnover, increased satisfaction of existing customers and attracting more long-term contracts. The biggest problem the company MAAG, s. r. o. are receivables. The owner could have imagined target of 30 days. Another objective in the above table is streamlining costs, mainly operating. The current value of this indicator is 91.63%. In the future, should be reduced to 85%. The biggest item of operating costs are personnel costs.

### 3.5.2 Customer perspective

In the customer perspective have been established by owners and economists of MAAG, s. r. o. the following objectives, indicator, target values and express the present value (Tab. 2).

*Tab. 2 Customer perspective*

Strategic objective	Identificator	Unit	Currant value	Target value
Increase customer satisfaction	Count complaint products	ks	47	40
Acquire more long-term contracts	The share of long-term contracts for all	%	25	30
Increase market share	The rate of new orders	%	9	15

The company wishes within the Customer perspective to meet the three objectives set out in the table above. To increase customer satisfaction by company MAAG, Ltd. would like to reduce the number of complaints of delivered products from 47 to 40 pieces. Reducing the number of complaints, it would be achieved by increasing checks on products at the storage facility before the actual expenditure. Another indicator is the proportion of long-term contracts to total contracts. This represents the 25% owner of the company is this value more or less satisfied, because 25% of long-term contracts is made up of large companies, which company offers the summaries in more profit than the large number of small contracts. The owner of MAAG, Ltd. future plans to participate in several national and international trade fairs, thereby company has gained new contacts and associated new customers.

### 3.5.3 The perspective of internal processes

In the perspective of internal processes they have also been set by owner and economist of MAAG, s. r. o. the following objectives, indicator, target values and express the present value (Tab. 3).

*Tab. 3 The perspective of internal processes*

Strategic objective	Identificator	Unit	Currant value	Target value
increasing the use of working time	Annual working time efficiency	%	76	85
Supply chain optimization	Part of resources to total activity	%	27	20
Increasing the use of synergies	Report on the effects of synergies	-	-	-

The company has set in the perspective of internal processes 3 goals. One of the aims is to improve the utilization of working time, the current value is 76%. The owner wishes to increase it to 85%. With regard to the optimization of the supply chain, owner does not want to commit funds in stocks and would reduce the value of the share from 27% to 20%. The principle of synergy can be expressed as a layman cooperation and interaction. At company it is perceived synergy between employees and reflected the trust and cooperation of staff, their experience, the willingness of older workers learn younger colleagues and warn them of frequently occurring errors. The result of this synergy is a positive effect on the overall climate of the company.

### 3.5.4 The perspective of learning and growth

Determining the growth perspective, it is focused on two strategic goals, satisfied and motivated employees. Every employee of company should be understood in an occupational activity which is carried out. Employees are in contact with customers help customers create the impression about the company. The company should elaborate system of education in improving the foreign language. Within the benefit could company offering cash reward for zero absence of a period of one year or quarter. Thus satisfied, motivated and trained staff should not need to leave the company. Employee satisfaction index has not yet been evaluated and the company. It recommended the establishment of employee satisfaction assessment questionnaire. The owner of the company would like to achieve in this indicator to 90% satisfaction (Tab. 4). The owner of the holding motto: "satisfied employees do more than three disgruntled employees".

*Tab. 4 The perspective of learning and growth*

Strategic objective	Identifier	Unit	Current value	Target value
Increase motivation of employees	The rate of leave of key staff	%	2	1
	Employee satisfaction index	%	-	90
Reduce employee absenteeism	Average monthly absence	%	7	2

## 6 CONCLUSIONS

Applying the method of BSC company, owner of the company get a better overview of strategic objectives achievement of the company, which will ultimately contribute to the achievement of the basic objective of which is to reduce overall logistics costs and customer-oriented company.

What the Balanced Scorecard brings?

- More effective use of tangible and intangible assets,
- enhance the competitiveness of the company,
- management of the company is to become more transparent for owners,
- it helps to align the goals and activities of individuals across teams and departments to the entire enterprise,
- eliminate waste and activities that are not necessary to achieve the objectives.

BSC method is an approach to integrate business know - how into a comprehensive management system. The method is important for company as a whole and also it can be used for management of individual organizational units. BSC is a modern method that allows you to show and track large amounts of data from different areas of business management. The reporting of financial and non-financial information provided to investors and markets more important information, which makes the company more transparent.

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