

## ASPECTS REGARDING THREE IMPORTANT METHODES FOR DETERMINE THE NON-FINANCIAL PERFORMANCE OF THE ENTREPRISES

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Abstract

The work paper aims to pointing out the advantages of three modern methods for determine the non-financial performance of the enterprises. Financial measures are now not the only instrument on the dashboard. These three approaches are the:

- *Balanced Scorecard* (Kaplan and Norton)
- *Performance Pyramid* (Lynch and Cross)
- *Stakeholder Model* (Curtis and Kastner)

These modern methods demands permitted the analysis of the aspects that the organization is achieving success in terms of people and customer satisfaction, its impact on society, and its business results. Measurements, targets, trends, comparisons and indications that results are caused by the effort put into enablers are looked for. Increasingly organizations are setting up coherent frameworks to define the measures that best allow them to judge overall performance and provide indicators as to how well direction and progress to future goals is being maintained.

### **SOME REQUIREMENTS FOR A SUCCESSFULLY METHODOLOGY'S APPLICATION**

Some important steps needed for establishing the metric frameworks are:

- Clarify the organization's strategic objectives
- Define success for each objective and determine measures needed
- Use frameworks to identify other relevant indicators and potential measures
- Refine to get the core set and establish targets
- Establish clear links from targets to rewards
- Share, communicate and train
- Monitor usefulness and success of the metrics and review for improvement
- Refine framework, metrics and metrication process
- Agree which measures and targets are needed at each level and through each process
- Metrics must be used by leaders to set expectations and drive actions.
- The organization's strategic objectives must be the start point for all performance measurement.
- Metrics need to be used as a major means of communication both internally and externally and as a means to align everyone's efforts.
- Performance measures must become key elements in making decisions, setting direction, and correcting course.
- Metrics have to be both an input and an output of each business process and measurement has to be part of each process.

Good metrics need to be:

- directional - to confirm that you are on track to reach the goals
- quantitative - to show what has been achieved and how much more is to be done
- worthwhile - adding more value to the business than they cost to collect and use

### **THE BALANCED SCORECARD METHOD**

The Balanced Scorecard deals with internal and external, current and future perspectives. It represents a way to transform a strategy into operational terms and results like: the way in which the customers appreciate the firm, the capacity of firm to improve and create value, the manner in which the firm looks the shareholders, what are the strengths and weaknesses of the firm, etc.

The elements of the Balanced Scorecard are:

- *Financial perspective*: Kaplan and Norton do not disregard the traditional need for financial data. With the implementation of a corporate database, it is happened that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the unbalanced situation with regard to other perspectives.

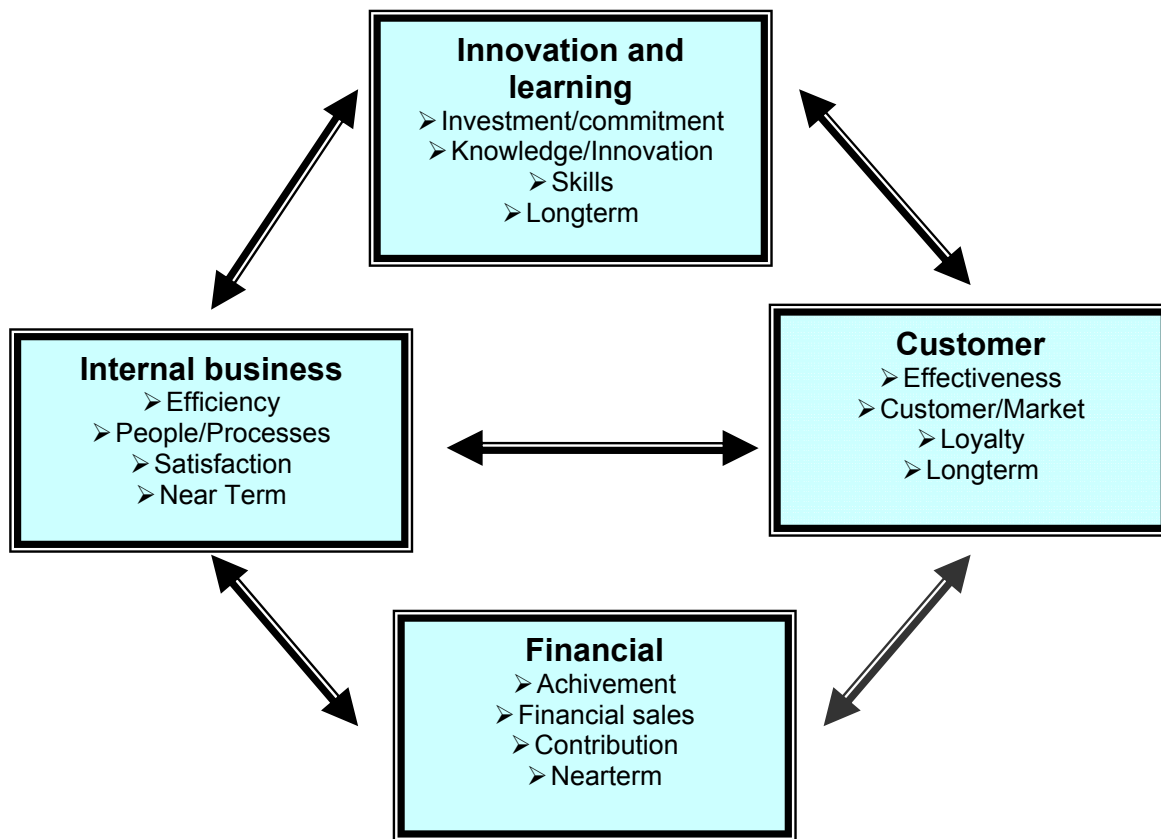
- *Customer perspective*: Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

- *Business Process perspective*: refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running and whether its products and services conform to customer requirements process (the mission). In addition to strategic management process, two kinds of business processes may be identified:

- a) mission oriented processes – are the special function of government office and many unique problems are encountered in these processes;
- b) support processes – are more repetitive in nature and hence easier to measure and benchmark using generic metrics.

- *Learning and Growth perspective* includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge worker organization, people are the main resources. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Government agencies often find themselves unable to hire new technical workers and at the same time is showing a decline in training of existing employees. Kaplan and Norton emphasize that “learning” is more than “training”. It also include things like mentors and tutors within the organization , as well as that ease the communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools such as an Intranet.

The integration of these four perspective into a graphical appealing picture have made the Balanced Scorecard method a very successful methodology within the Value Based Management



*Fig. no. 1: The Balanced Scorecard Principles*

### **THE PERFORMANCE PYRAMID METHOD**

The Performance Pyramid supplies an approach for understanding and defining objectives and metrics appropriate for each level of the business enterprise. It is a good communications tool for showing how the key elements of business success are linked and who in the organization is responsible for each element.

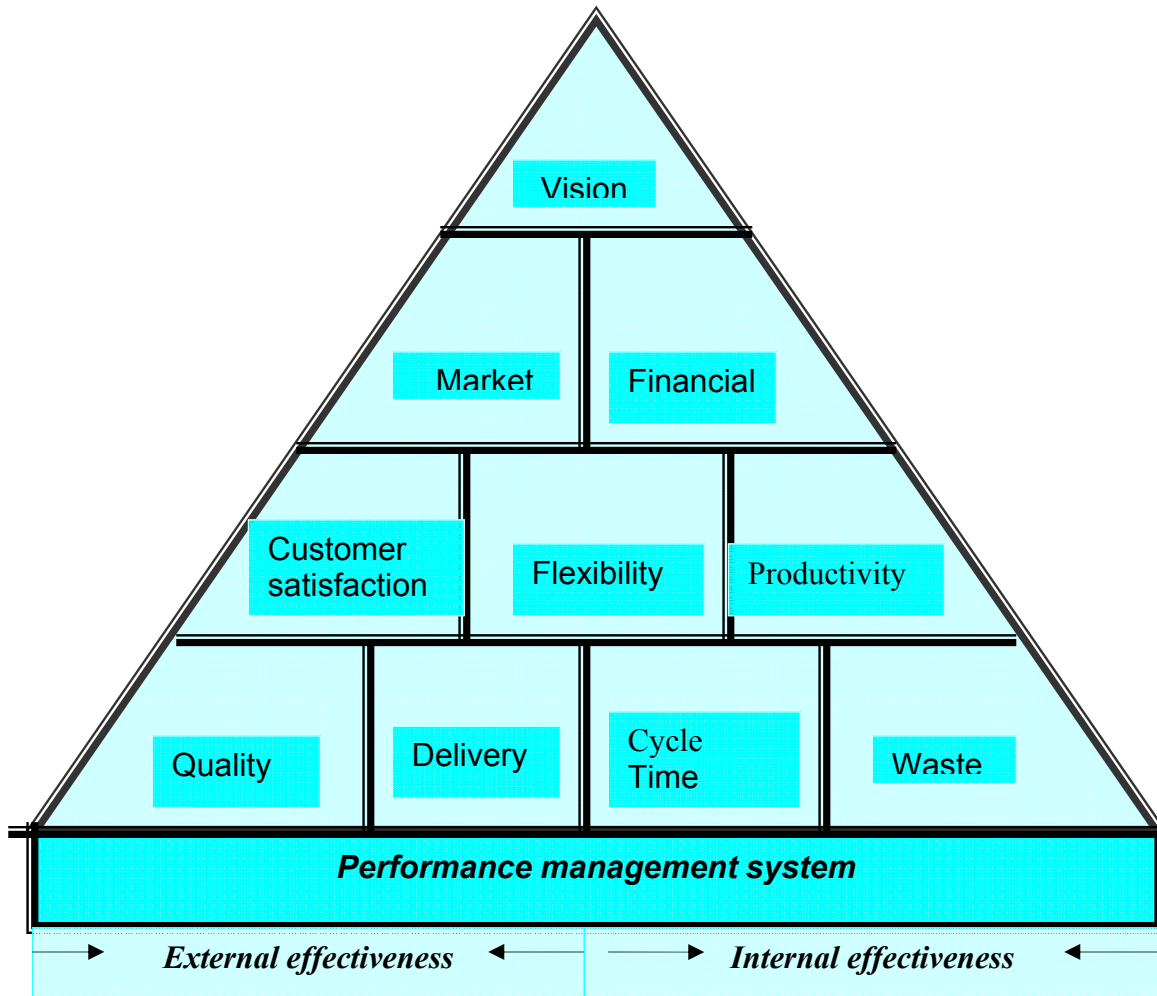
The Performance Pyramid Model has some key advantages over the Balanced Scorecard model. The latter, while it introduces sound concepts, is very broad and simplified to the point of making it awkward to interpret and apply universally throughout the business.

The pyramid framework has been well received by organizational leaders interested in guidance and insight for measurement design.

Clarifying Mission, Vision and Critical Success Factors sets the right context for then evaluating, designing and establishing metrics accountabilities and responsibilities throughout the business operations.

In essence what evolves, is a goal deployment system which ensures that adequate alignment and integrity exists between top management's stated strategies and objectives, (the top tier of the pyramid), and the accountabilities and understanding of what must happen at the frontlines within the organization - (the first tier of the pyramid model). This framework

can be cascaded down and across all organizational units and centralized functions within the business system.



*Fig .no. 2: Cross and Lynch's Performance Pyramid*

For example, for market and demand measurement, the indicators that will be used are:

- Market share (absolute)
- Market share (relative to selected competitors)
- Market share rank
- Cumulative average growth rate
- Share growth rate
- Relative price indices

- New product revenue as % of total revenue
- R&D spending
- Total number of customers served
- Number of new accounts developed
- Orderbook backlog

### **THE STAKEHOLDERS MODEL**

The Stakeholders Model seeks ways of adding value for each stakeholding group to ensure long term success. The interests of each group are identified and metrics defined that match those interests.

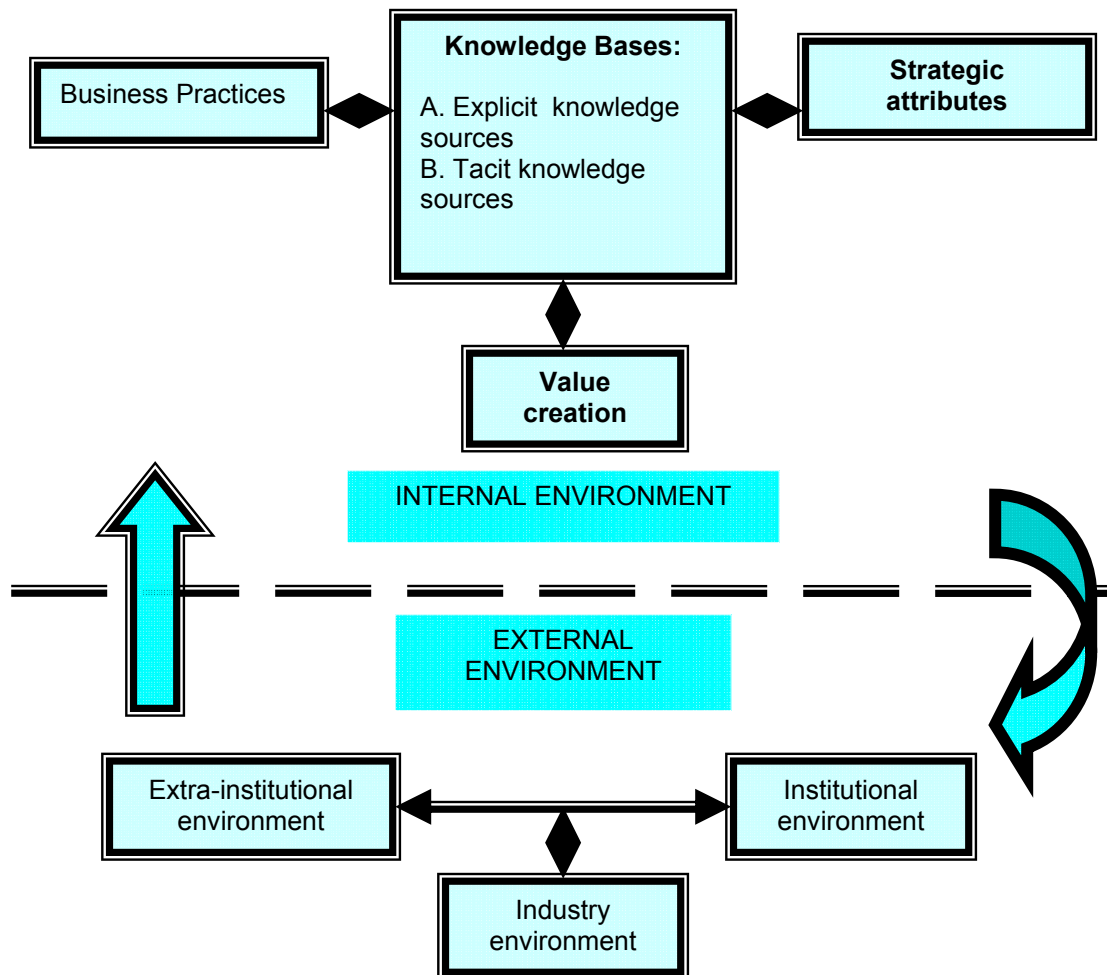
Stakeholders	Interests	Illustrative Metrics
<b>Shareholders</b>	Reward for investing	Return on assets
	Growth	Sales & earnings trends, market share trend
<b>Customers</b>	Quality	Defects or on time delivery
	Value	Customer evaluation vs. competitors
<b>Employees</b>	Standard of living	Wage scale vs. community
	Positive work environment	Survey trends

*Tabel.no.3: The elements of Stakeholders Model*

Stakeholder theory conceptualizes the firm as a series of groups with interlocking relationships. Stakeholders consist of internal and external members and the organization is viewed as a collection of cooperative and competitive interests each possessing intrinsic worth. It requires as its key attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders, in establishing procedures, goals, and in day-to-day decision-making.

Since the purpose of the stakeholder theory is to both explain and guide the structure and operations of the organization through which numerous and diverse participants accomplish multiple and not always congruent purposes, the theory can be integrated with the literature regarding BI. Effective BI will gather, analyze, and disseminate data and information on and to these stakeholders to minimize threats and maximize potential benefits.

For example, data collected through BI on the demographics and psychographics of the market may indicate a potential market. A supplier is approached about forming a cooperative alliance to enter this new market. By continuing to utilize BI that is linked between partners, the chances of a successful penetration of this new market can be improved.



*Figure no. 4 : The Stakeholders Model*

The framework presented in figure no.4 shows an external environment, divided into extra-institutional, institutional, and industry. These represent stakeholders which influence and are influenced by an organization at decreasing levels of impact. That is to say that an organization has less influence over extra-institutional forces than industry forces.

The internal organization is primarily a network, generating and using information capital, human capital, and social capital in knowledge creation, within the external environment, to create value.

The main emphasis of this paper is on the internal environment, specifying how business practices associated with the new-form organization both influence, and are influenced by knowledge bases

## **CONCLUSIONS**

An effective metrics framework in any organization rarely arises from slavish adherence to any single one of these well established methods. Each provides a viewpoint that is valuable, but it is also necessary to ensure that the overall framework is driven by strategy and covers all those vital topics set out in the Business Excellence Model.

The framework must also recognize the pragmatic reality of the organization and particularly its maturity in handling business metrics. Measures are only helpful when the organization has the capacity to respond to them.

Many companies are specialized in creating metrication frameworks that are precisely attuned to the current needs and capabilities of each organization.

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