CORPORATE PERFORMANCE MEASUREMENT: AN INTEGRATED APPROACH

Rita Csáki-Darabos
University of Debrecen, Károly Ihrig Doctoral School of Business and Management, Debrecen, Hungary
darabos.rita@gmail.com

Abstract: *The online retail market has achieved dynamic growth in recent years, making up 4% of the total retail sales. Not only the net sales in e-commerce have grown, but also its share of the whole trade has increased gradually. The number of enterprises engaged in electronic trading in Hungary is roughly 5,000-6,000, which is continuously increasing. Today, the possibilities provided by the Internet play an increasing role in every segment of the economy. In an increasing market competition it is no longer sufficient to provide services to the local population. The driving force behind online trading is market activity, and thus it is crucially important to measure their performance. Over the past year e-commerce has expanded three times faster than the whole Hungarian retail trade, but the borders and limits of this growth are already visible; therefore, this sector faces greater challenges and changes than ever before. It is increasingly important to measure performance accurately, and to support managerial decisions based on performance measurement. Excellent results and success basically and primarily depend on performances, in addition to luck. Performance is construed as measurable results or, in a broader sense, successful efforts made to achieve corporate goals. Performance measurement is the process of measuring the effectiveness and economic efficiency of an activity. It is aimed at supporting decisions and actions relating to the operation of the company. Performance measurement is not only a decision-support tool but also an influential element at all levels of the decision-making system, which has an impact on the actions taken by the persons concerned. Both its danger and importance is that its inappropriate functioning (using an inappropriate standard) may result in an operation which conflicts with corporate objectives. The growing interest in business performance measurement can be explained by the information demand from corporate decision-makers. Companies' approach to and toolkit of performance measurement have undergone radical change over the last 15-20 years. The international and Hungarian literature usually refer to performance evaluation, thereby also making it clear that quantitative features that can be measured directly and qualitative features that cannot be measured directly alike are crucial factors in performances. The performance indicators used can in fact play their role if they form a uniform system, which takes into account interactions whilst also being sensitive to the actual needs of the company. I intend to assess corporate performance measurement practices, and evaluate the relationship between financial and operational performances. In addition, I will give a theoretical overview of integrated performance measurement systems.*

Keywords: *corporate performance; performance measurement; integrated performance measurement systems; Balanced ScoreCard; performance prism; performance pyramid.*

JEL Classification: *M21.*

1. Introduction

It is a common phenomenon that financial indicators dominate corporate management, i.e. a large majority of companies only use financial indicators in corporate management. In her study entitled “A rendszerszintű teljesítménymérés és a teljesítménymérési rendszerek” [Systematic performance measurement and performance measurement systems], Ágnes Wimmer examines performance measurement systems from the perspective of supporting processes that provide added value. According to the author, performance measurement practices can support processes that provide added value if they “are orientated towards supporting decision-making; consider various aspects evenly to both content and the information used; and are consistent, i.e. they contain information supporting strategic goals that are important for the company (and useful to decision-makers)”.
Integrated performance measurement models offer practical guidelines to companies that intend to measure their individual, group-level or corporate performance in order to maintain and enhance their competitiveness, and wish to improve their operation relying on such results.

2. Performance and performance measurement

2.1. Definition of performance

The various literature sources put different interpretations on performance. There is an extra-long list of definitions of this concept, but they mostly focus on efficiency and effectiveness. Nonetheless, other popular expressions used to define performance are not defined with the same content everywhere: productivity, efficiency, economic efficiency, profitability and effectiveness. The most common definition of productivity has been provided by the OECD (Organisation for Economic Co-operation and Development), which says that productivity is the ratio of a volume measure of output to a volume measure of input use (Zsidó, 2015).
In the business world and public life people or institutions will generally be judged on the basis of performances. Excellent results and success basically and primarily depend on performances, in addition to luck. Performance is construed as measurable results or, in a broader sense, successful efforts made to achieve corporate goals. Accordingly, if a work does not help to achieve corporate objectives, it usually will not be considered to be performance even if it required considerable efforts. Measuring performances is a natural concomitant of individual and corporate life (Németh et al., 2016). This article only focuses on the problems of business organisations, where performance evaluation is the most advanced, but whose lessons even apply to organisations outside the business world, including public institutions, public administration, non-profit organisations and cases of individual evaluation. (Hollóné, 2009.)

2.2. Performance measurement and evaluation

Performance measurement is the process of measuring the effectiveness and economic efficiency of an activity (*Neely et al.* 1995). It is aimed at supporting decisions and actions relating to the operation of the company by collecting, processing, analysing and interpreting relevant data. On the one hand, it quantifies

the efficiency and effectiveness of past decisions. Effectiveness expresses the achievement of goals, whereas economic efficiency indicates in what quality resources are used in order to achieve goals (Wimmer, 2004.). On the other hand, it can also predict how the company will perform in the future, thereby supporting the corporate management in implementing their strategy as effectively as possible ((Fenyves – Dajnoki, 2015; Kalmár et al, 2015; Oláh – Popp, 2016, Veresné, 2013).
The growing interest in business performance measurement can be explained by the information demand from corporate decision-makers. The companies' approach and toolkit of performance measurement have undergone radical change over the past 15-20 years. Corporate performance measurement is one of the supporting pillars of corporate success. Besides traditional performance measurement indicators, it is more and more important to use indicators and methods relating to the new system of values in practice. A practical performance system provides feedback and information about what progress the company has made towards achieving the goals set.
The international and Hungarian literature usually refer to performance evaluation, thereby also making it clear that quantitative features that can be measured directly and qualitative features that cannot be measured directly alike are crucial factors in performances. If performances can be measured directly, measurement results will be considered defining. In many cases, however, performances cannot be measured directly, which may then entail performance estimation.
Performance evaluation is a basic managerial and organisational tool, which is used by almost every company. It mainly serves the purpose of making it clear to the management and the persons affected to what extent a certain activity has contributed to the achievement of corporate goals. Planned figures may also be a target, but usually strategic statements are made about what is considered important at the company.
The so-called hard goals, which can be quantified and measured directly and easily, include profit, revenue, costs and efficiency. The so-called soft goals, which cannot be quantified directly, may include reliability, customer satisfaction, innovation initiatives, and respect for the environment or top quality. Features that cannot be quantified directly are increasingly important in companies' life. Receiving favourable ratings is also the result of good performances.
It primarily depends on the companies' goals what method of performance measurement they opt for. The goal of an e-commerce company may be to increase shareholder value or a brand value, besides maximising profits.
Measuring performance includes the collection and appropriate classification of actual figures and comparing them to the desired target values. Evaluating performance entails deciding whether the relationship between actual figures and planned figures is appropriate, whether any interference is needed, and if so, in what direction. Potential changes of target values are also closely related to this.
Collecting and classifying planned figures besides actual figures and ensuring their comparability is not yet part of the evaluation. Evaluation is more than just defining the difference between target figures and planned figures, which is still part of the measurement. Evaluation takes place when we reveal the causes of differences, and interfere.

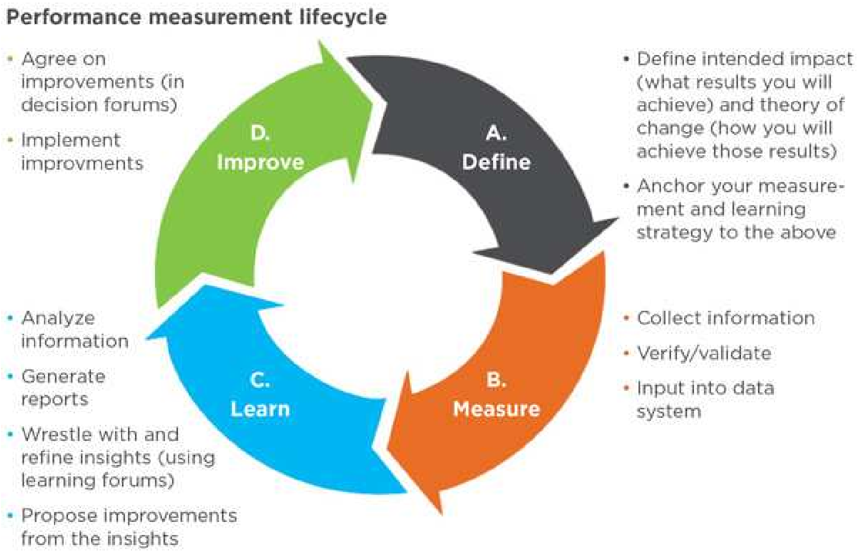

Figure 1. Organisational cycle of performance measurement and evaluation
Source: Ákos Székely: A teljesítménymérés és –értékelés magyarországi gyakorlata [Performance measurement and evaluation in Hungary] (2005.)

Performance evaluation is part of the measurement process, provided that it means the structuring of data. Yet in this case it refers to a structural process in which conclusions are also drawn. This management-oriented performance testing already belongs to performance evaluation. The key to the success in making performance measurement and evaluation function appropriately is that measurement and evaluation should be balanced. This is how the cycle can achieve its real goal to increase performance. Yet in fact, the fixed cycle of performance measurement and evaluation is very often ignored by companies. (Ákos Székely, 2005.)

3. Integrated performance measurement systems

Traditionally, financial indicators calculated from accounting data were used to measure performances. The argument long presented was that the various accounting and financial indicators are most suitable to the measurement and comparison of corporate performances. Recently – as early as the 1980s – those who used traditional indicators have faced more and more problems, and thus started to look for other performance measurement options. One of these options is the integrated performance measurement method presented in this section (Fenyves – Tarnóczi, 2014).
Integrated performance measurement systems provide companies with a certain framework for the development of the performance measurement system, but its actual elements must be tailored to the needs, strategic goals and characteristics of the company.

3.1. Balanced ScoreCard

The performance indicators used can play their role the best if they form a uniform system, which takes into account interactions whilst also being sensitive to the actual needs of the company. One of the most well-known performance measurement frameworks today is the **Balanced ScoreCard** (BSC) strategic management system.

Balanced Scorecard is a strategic management system (Kaplan-Norton, 1997) that makes it possible to communicate strategic goals as well as to connect them to operational indicators. The developers of this method recommend four question groups for setting corporate goals and related performance indicators. The traditional financial approach is supplemented with goals and indicators relating to *customers*, *operational processes*, *learning* and *development*. The name is a reference to the fact that the system tries to balance external and internal indicators, which relate to consumers and shareholders as well as business processes and learning and growth competence, respectively. It strives to maintain a balance between past profit/loss indicators and factors influencing future profit/loss, i.e. performance drivers. An important principle of the method is to start with strategic goals, and "translate" the strategy into comprehensible goals at different organisational levels.

Figure 2. Balanced Scorecard
Source: Kaplan-Norton, 1997.

If Balanced Scorecard is used in an appropriate environment effectively, it gives companies many advantages. These include, for example, the substantial reduction in complexity, since the company's performances (profit/loss and performance drivers) become transparent by classifying different indicators into four big groups and reducing their numbers to 4-5. Rendering the strategy into indicators means that incomprehensible future visions and strategies at corporate level are formed

into actual comprehensible corporate, group-level and individual objectives. Revealing a cause-and-effect relationship between indicators (and thus the individual corporate goals, fields and processes) and proving their effects on each other make it easier to understand the operation of the organisation, thereby facilitating maximum performance. Consequently, BSC is not only a performance evaluation system but also an integrated planning and management system. It must be used by companies to introduce a new planning and management system.
Based on practical experience, the four aspects proved to be sufficient in most cases, but this should not be viewed as exigency, but rather as framework. Some organisations used less than four dimensions, but these BSC aspects could even be further explored with one or two other points of view. In the BSC system profit/loss indicators and performance drivers should be indicated if they give a competitive advantage, and help to achieve corporate goals in an explicit way.
The literature refers to several other integrated performance measurement systems such as performance prism, performance pyramid, Tableau de Bord, Intangible Asset Monitor and "Wissensbilanz".

3.2. Performance prism

Performance prism is a performance measurement and management tool, which primarily relies on the mutual relationship among stakeholders. This is a framework with five facets, which is vividly illustrated by a prism with a triangular base and rectangular sides: the grounds are formed by stakeholder expectation (satisfaction) and stakeholder contribution, while the sides are formed by strategies, processes and capabilities. This analytical framework was developed by Andy Neely and his colleagues in the second half of the 1990s in a performance measurement research centre in Cambridge in collaboration with lecturers, researchers and Accenture (former Andersen Consulting) consultants (Chikán – Wimmer, 2003.).

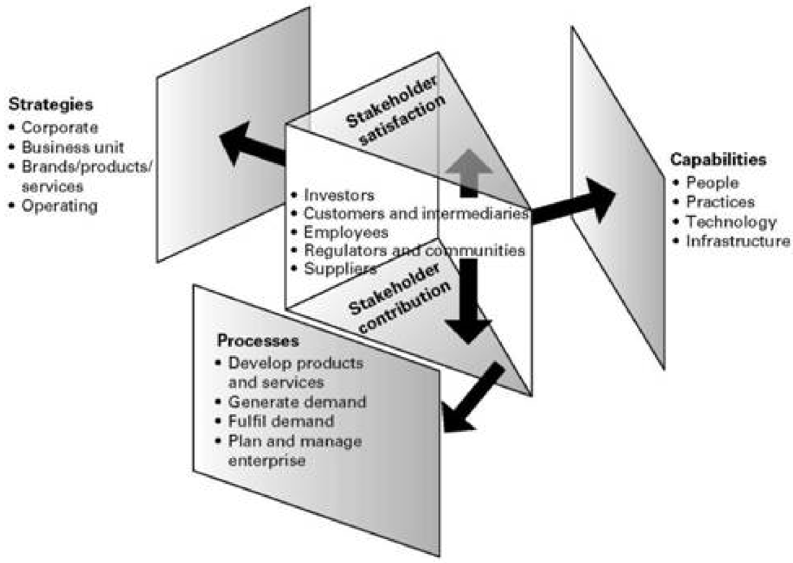

Figure 3. Performance prism
Source: Neely, 2004

The performance prism – as referred to by its developers – is the second generation of performance measurement and management systems. Similarly to the recommendations in the early 1990s, it also strives to examine performance from several points of view. What is new in it is that it takes into account the relationship with every stakeholder of the company. Over the past decades owners and customers have received close attention (just think, for example, of →the focus of attention on consumer satisfaction and →the preference for a shareholder value approach) (Chikán, 2003.).

3.3. Tableau de Bord

Tableau de Bord is another strategic system of indicators worthy of note. "Tableau de Bord" (TdB) is a French expression. Its essence is that it collects and presents key indicators from a management perspective to the corporate management. Managers must make quick decisions based on environmental factors and the company's situation whilst bearing the objectives in mind.
TdB is primarily known as a short-term information device, which summarises key indicators from the perspective of the given goal and decision-maker that are available in the short term. A good TdB system is characterised by the fact that it not only makes it possible to monitor performances quickly, but also bears in mind the long-term objectives of the company. Key indicators and the determination of their acceptable levels must be kept synchronised with the long-term (strategic) goals of the company (Kemény, 2010.).

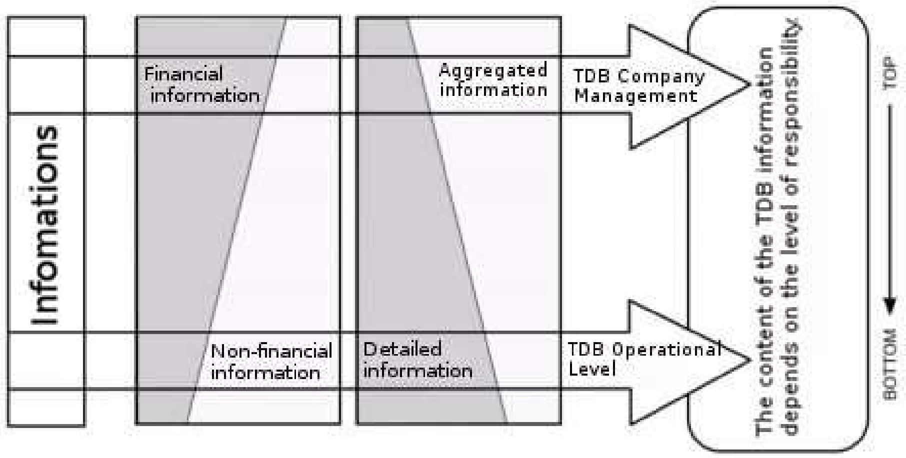

Figure 4. "Tableau de Bord" information system
Source: Kemény, 2010.

Relative performance evaluation or benchmarking is one of the tools used to compare corporate performances. Generally speaking, benchmarking is a tool for comparing production units (Fenyves et al., 2015). Production units include companies, organisations, business units, projects, decision-making units or private individuals. Benchmarking can be used in very different situations. Modern benchmarking analyses use the method of best practice or marginal analysis (DEA,

Data Envelopment Analysis) more and more, which has both methodological and practical advantages. From its most practical aspect, it makes a lot more sense to learn from the best than to emulate average performances (Fenyves, 2014).

4. Summary

Today, most companies cannot implement their strategies successfully because they usually use management processes focused on finance. Management systems that only rely on financial data fail to help to achieve goals because companies encounter obstacles during their application. Using BSC is more than just a solution to performance measurement problems, it also helps to implement new strategies efficiently and to build a strategy-centred organisation. Strategies always change due to the constant change in the competitive environment. Real demands generated by market conditions have encouraged the development of strategy-centred organisations. This is a kind of response to the challenges posed by the ever-changing business environment that companies always face if they want to remain competitive in the long term and operate successfully. Integrated performance measurement systems are a great help to them.

References

1. Chikán A. – Wimmer Á. (2003): Üzleti fogalomtár, Alinea Kiadó
2. Dajnoki K (2015): Ösztönzés és teljesítményértékelés gyakorlata fogyatékos, illetve megváltozott munkaképességű személyeket foglalkoztató észak-alföldi szervezeteknél. Taylor Gazdálkodás- és szervezéstudományi folyóirat A Virtuális Intézet Közép-Európa Kutatására Közleményei 2015/1-2. (VII. évfolyam 1-2. szám No. 18-19.), Szeged, 2015. pp. 219-227.
3. Damodaran A. (2007): Befektetések értékelés Panem Kiadó oldalszám ISBN 978-9-635454-55-6 p. 1065
4. Fenyves V. (2014): Vállalati teljesítményértékelés pénzügyi mutatók és a DEA felhasználásával, Acta Scientiarum Socialium (ISSN: 1418-7191) 40: pp. 133-146.
5. Fenyves V., Tarnóczi T. (2014): Teljesítményértékelés a DEA felhasználásával CONTROLLER INFO (ISSN: 2063-9309) 2: (1) p. 54.
6. Fenyves V., Dajnoki K. (2015): Controlling opportunities in area of the human resources management, Analele Universitatii Din Oradea Fasciola Management Si Inginerie Tehnologica / Annals Of The University Of Oradea Fascicle Of Management And Technological Engineering 24:(1) pp. 137-142. (2015)
7. Fenyves V. - Tarnóczi T. - Zsido K. (2015): Financial Performance Evaluation of agricultural enterprises with DEA Method, Procedia Economics And Finance (eISSN: 2212-5671) 32C: pp. 423-431.
8. Kalmár P. – Zéman Z. – Lukács J. (2015): Bankcontrolling marketing szemléletben: Alkalmazott statisztika a marketing szolgálatában Hitelintézeti Szemle 14 (4) pp. 108-123
9. Kemény G. (2010):, A Controlling eszköztára a humán erőforrás menedzsment szolgálatában – a Tableau de Bord, Humán Innovációs Szemle 1-2. SZÁM 73-82. pp.
10. Neely A., Adams C., Kennerley M. (2004): Teljesítményprizma, Alinea Kiadó. (Eredeti kiadás: The Performance Prism – The Scorecard for Measuring Business

Success. Pearson Education.) Neely, Andy – Adams, Chris (2001): Perspectives on Performance: The Performance Prism, Journal of Cost Management.
11. Németh Z., Dajnoki K., Sütő D., Fenyves V. (2016): Examination Of Performance Management Targets In Case Of An International Corporation's Eastern Hungarian Operating Unit Studia Universitatis Vasile Goldis-Seria Stiinte Economice (ISSN: 1584-2339) (eISSN: 2285-3065) 2016/2: (26) p. 23.
12. Oláh J., Popp J. (2016): Lean Management, Six Sigma and Lean Six Sigma: Possible Connections. Óbuda University E-Bulletin (ISSN: 2062-2872) 6: (2) pp. 25-31. http://www.uni-obuda.hu/e-bulletin/issue8.htm
13. Takács A. (2015): Vállalatértékelés magyar számviteli környezetben, Perfekt ide kell oldalszám is
14. Veresné S.M. (2013): Teljesítményalapú szervezetalakítás elmélete és módszertana Miskolci Egyetem GTK ISBN: 978-963-358-049-3 p. 92.
15. Zsidó K. (2015): Historical overview of the literature on business performance measurement from the beginning to the present Abstract - Applied Studies In Agribusiness And Commerce 2015/3:(9) pp. 39-46. (2015)
16. Székely Á (2005): A teljesítménymérés és –értékelés magyarországi gyakorlata, Ph.D. értekezés, Budapest, 2005., 57. oldal