

CONTROLLING AND IMPROVEMENT OF PERFORMANCE EFFICIENCY WITHIN INDUSTRIAL ORGANIZATIONS. THE COMPANY'S MARKET-BASED SCORECARD

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Abstract:

The end users of company's accounting should be able to compare the financial statement of a company in time, in order to identify the tendencies within the financial position and its performance. The users should be able to compare the subsidiary financial statement, in order to ascertain, at any time, the performance, and to assess the financial position and the performance. Thus, the assessment and illustration of the financial effect of the same transactions and activities is to be performed within an entity in a consistent manner and in time for that entity, and in a consistent manner, for different entities.

The market-based scorecard, as a management tool, demonstrates its usefulness, given that the top management uses it as a synthesizer of company's vital parameters, on one hand, and a support for taking decisions, on the other hand.

Key words: *market-based scorecard, performance, figures, comparability, budget, target*

JEL classification: *M4, M41*

The accuracy of the information contained in the scorecard is essential both from the decider's point of view in taking the right decision, and from the point of view of the internal controlling department of the company, in view of underlining the long-term decisions, which may involve an increased risk.

A basic consequence for comparing the information quality is that the users should be informed about the accounting policies used in order to elaborate the financial statement and about any modification of these policies, as well as about the effects of such modifications. The users must be aware of the differences between the accounting policies in case of transactions and other similar activities used by the same entity from a period to another, as well as the ones used by different entities. The compliance with the used methods and with the actual regulations, including the illustration of the accounting policies used by the entity, helps to achieve comparability.

The reporting comparability is essential and must not be confused to the simple uniformity, not being necessary to become an obstacle in introducing new accounting policies. It is recommended to apply the method change at the beginning of the reporting period, never within the period, due to the influence on comparability. When comparing turnovers from different fiscal years, it is mandatory to mention that there has been a method change in the calculation of the concerned parameter. It is not advisable for an entity to continue registering in the accounting records, in the same manner, any operation, of the adopted policy does not keep the qualitative features of relevance and reliability. Any flexible company should adjust its methods and modify them when other relevant and reliable alternatives exist.

It is also important that the financial statement illustrate information concerning the previous periods.

The economic and financial non-statutory reporting of the companies aims:

- -cost optimization
- -provision of data adapted, from the format and coverage points of view, to the request of the company's shareholders and creditors
- -optimization of the company's resources
- -use of information in order for the company's management and shareholders to take right decisions within the Shareholders' General Meeting

In comparison to the statutory reporting the main beneficiary of which is the state that is to be taxable, companies usually define the non-statutory reporting by financial manuals containing: the reporting/procedure type, the frequency, the elaboration method, concepts.

The non-statutory reporting concern different items, depending on the company field, and are not the same within any company, but their main purposes are the above-mentioned, their obtaining and application being either easier or more difficult, due to the IT platform and to the facility of the company database.

The elaboration of the group financial reporting takes into account the group financial manuals. Their purpose is to set a common basis for the financial accounting and for the reporting within the group.

The consolidated financial reporting is set accordingly to the International Financial Reporting Standards (IFRS). Besides the standard group financial reporting, other adjustments concerning the post-consolidation stage, required by the national legislation from the mother country, may appear. The quantification and measurement policies, as well as the general accounting conditions are set so that they guarantee an accurate accounting of each entity, as well as of the group, generally¹.

The group reporting is generally based on monthly reporting, consisting in the profit and loss account, as well as the trial balance, and other reporting, additionally. The reporting number depends on the period concerned, e.g. monthly, quarterly, or yearly. The reporting basis consists in the profit and loss account and the balances, both statutory as well as group-level reporting.

The general policy of the group reporting is a necessity in view of elaborating certain summaries in a clear manner and in accordance to the accounting policies generally accepted. The group reporting must also generate a correct image of the performance and of the company's financial position.

The group financial reporting takes into account the International Financial Reporting Standards that are also reconcilable to the EU standards.

In view of standardization and facilitation of a high standard, the group reporting, as well as the accounting principles, ought to be standardized.

Fundamental group accounting policies

The structure of the financial reporting is to consider the basic accounting policies. Certain exceptions to these policies, well motivated, may be accepted only in special cases. The exceptions must take into consideration certain principles, such as transparency, as the principle of the reality consideration, so that the reporting credibility should not be questioned or affected in any manner. In the same time, we need to quantify the influence in terms of the results and of the financial position of the company, in case the above-mentioned exceptions mentioned are accepted.

Approaches related to reporting:

Financial position: the items strictly related to the financial position assessment are the assets, the debts and the capital. The asset is a resource controlled by the

¹ www.ifrs.org

company because of certain past activities the future economical benefits of which are to be expected in the company earnings. The debt is an actual obligation of the company starting from past activities, which is consequently expected to generate a cash-in flow, generating also a negative result.

The company performance is primarily set as a profit, by the difference between the income and the expense. The performance of the processes and of the company departments is also measurable based on certain economical, financial or economical-financial figures and indices.

The group financial reporting contains the following sections:

- Managers 'Report
- Profit and loss account
- Balance
- Cash flow of the company^{2 3}
- Schedules (notes)

The profit and loss account contains a summary of the incomes and of the expenses during the financial year, and provides data about the way the profit was obtained; therefore, it will be:

- Operational profit or loss
- Financial profit or loss
- Profit and loss from extraordinary activities
- Income tax/ profit
- Net profit

In addition, the profit and loss account is structurally divided in:

- cost of goods sold
- cost of sales
- administrative expenses
- Research-development expenses

The trial balance should include a summary of all assets, capital and debts, such as:

- a. Assets – fixed assets: with duration of use more than one year. They are depreciated according to the group regulations (within the group accounting)
- b. Floating assets
- c. Capital and debts. The debt is an actual obligation of the company coming from a previous action. The debts are a special chapter and are strictly controlled from the point of view of their maturity date. For future debts, provisions may be set within certain limits, representing debts with an uncertain term of maturity date. In view of an operating accounting of the company's essential parameters, so that decisions based to synthetically and interpretable information may be taken, the companies set market-based scorecards, in the form of:
 - “Daily scorecards” allow the daily accounting of the manufacturing, quality, staff and logistics parameters. These “daily scorecards” may be consolidated as “weekly” or “monthly”, by using the same figures and indices.
 - “Management reporting packs” allow a monthly compared accounting of the company's performances, technical, volumetric and financial.

In order to obtain the figures of financial and economical performance, the companies use financial and volumetric/physical data.

² www.ifrs.org - IAS 7

³ US GAAP (FAS 95)

The figures of financial performance are the basis of the comparability of the entities performance, acting in the same business guidance within a group.

The most used figures for assessing the performance are:

1. EBITDA (Earn before interest and taxes. Depreciation and amortization)
2. EBITDA margin – which is calculated as a report between EBITDA/net sales)
3. EBIT – operational profit
4. Fixed asset
5. Invested capital
6. Gain/action
7. OCF – operational cash flow
8. Working capital (numeraire commodities)
9. Working capital (days)
10. Stock (days) ⁴
11. Added value
12. Sales/employees number
13. Labour productivity
14. Number of full-time employees
15. Staff cost/staff number

These indicators, calculated according to the financial regulations initially set, not only generate the intercomparability between the group entities, and guarantee the independent assessment of a entity based on figures, not comparing it to other entities.

Based on the financial and non-financial data, the complex economical-financial reporting may be generated, containing not only strictly financial figures. Based on such reporting, the top management may take important decisions for the company.

The scorecard is an instrument designed to synthesize the information necessary to the management. On its basis, defined and intense information of the deciders upon the developing way of the phenomena specific to the run activities is set.

According to Epstein M.J and Manzoni J.F and later according to Cobbold, I. and Lawrie, G.⁵ “In general Balanced Scorecard is viewed by academics as a favourable development: “Like all management tools, however, the Balanced Scorecard is not a sufficient condition for success; it cannot do everything! For example, it should not be a tool supporting attempts at management-by-exception and management-from-a-distance. Neither is it a substitute for sound strategy, clear focus and strong alignment of energies within the firm. On the other hand, developing and using a Balanced Scorecard-type of system can help develop these conditions by forcing top management to articulate a strategy and Key Success Factors, and focusing managers’ attention on the firm’s progress on these elements.” ⁶

The scorecard is a system of figures in relative and absolute size, used for the operating assessment, controlling and setting of the company’s activities. It selects, organises, consolidates and offers an overview of the main informational items necessary for a manager to ensure, in an operating manner, the evolution of the controlled object according to the path set by the activity program. The daily operating scorecard may contain, and it is recommended to contain, visual management items

⁴ www.iasb.org – IAS 2 - Inventories

⁵ Cobbold, I. and Lawrie, G. (2002a). "The Development of the Balanced Scorecard as a Strategic Management Tool"

⁶ Epstein M.J and Manzoni J.F. (1997). “The Balanced Scorecard & Tableau de Bord: A Global Perspective on Translating Strategy into Action”; INSEAD Working Paper, 97/63/AC/SM

(cells in red, yellow, respectively green, depending on the target level of accomplishment).

The company top management must set as well variable targets on figures/indices, so that there is a continuous improvement vision of the processes from each department.

By means of the scorecard, immediate objectives are set, and the provisions accomplishment is aimed and validated. The actions that may affect the accomplishment of the aimed objectives are also illustrated in an accurate and fast manner.

The scorecard is a system of figures that focuses the officials' attention to the key points that are to be followed in view of accomplishment of the set objectives. It helps the entity's management, allowing them to measure the covered path (and the uncovered one) in order to accomplish the objectives and to take the decisions, to apply the action plans and to take the corrective actions.

The scorecard offers the responsible deciders the possibility to communicate to the managed ones in order to obtain information related to the development of all company's activities, to draw the officials' attention on the key points of the management, in view of its improvement.

The use of the scorecard gives the company's management the possibility to focus their actions on certain fields of activity and to set, for these fields, objectives assigned to responsibility centres.

The scorecard is designed to underline the points of alert of the company, the sense of its evolution in relation to the objectives set, and, consequently, to improve its performance.

This scorecard is a working instrument essential to the operating management of the company, being designed as a summary of information illustrated in a systematic, synoptic form, concerning the condition and the evolution of the economical phenomena featuring its domains of activity. The scorecard is the instrument that offers the management the synthesis, necessary to ascertain and to elaborate, in a minimum period, an analysis as complete as possible on the actions development, where the assessment of the accomplished level is accurate, based on certain data, obtained systematically and timely.

In the experts' opinion, a scorecard contains information related to the results in the operating field, highlighted by:

- value tables, where there are inserted the objectives predicted level, the level of the results registered in the period when they refer to, the spread (positive or negative deviation determined as a difference between the result and the objective), the objective accomplishment figure and the reasons that generated positive or negative deviations;
- charts, where the evolution of certain figures or indices in a certain period is well illustrated ;
- Mixed forms, value tables-charts

The most important item of the scorecard is the figure, respectively the index. There are three aspects related to figures that interfere when conceiving the scorecard:

What is the figure, respectively the index from the conceptual point of view?

What is the set of figures and indices for each field controlled by means of the scorecard? Which is the significance equivalent of each figure, from the managerial point of view? Which is the tolerance?

First, the figure is a numerical expression of the quantitative side of the economical phenomena and processes, on real conditions of time and place.

The second aspect covers the systems of indicators that is to be chosen in order to define as correctly and as meaningfully as possible the objectives, the results and-

where necessary – the mission of the company or of its components on the level of which the scorecard is conceived.

In this domain, there are also more constructive variants of the figures system, still without being able to mention an available solution for any kind of company.

Below it is illustrated a scorecard of a company focused on both technological manufacturing, and a part of assembly activity:

Daily Scorecard								
Date								Full week
Day	Target	Monday	Tuesday	Wednesday	Thursday	Friday		-
VOLUME								
Worked days	Days	1	1	1	1	1		5
Proposed volume units	Pcs	2.750	2.622	2.600	2.600	2.562		13.134
Produced units	Pcs	2.811	2.567	2.544	2.601	2.613		13.136
Difference	Pcs	61	-55	-56	1	51		2
Cauză: 1. Supplying issue	Pcs							0
2. Technical issue	Pcs							0
3. Other issues	Pcs	61	-55	-56	1	51		2
Incompletes units	Pcs	0	0	0	60	0	161	221
Qualitative blocked units	Pcs	0	0	0	0	0	0	0
Reworked units	Pcs	90	90	88	95	0		363
Unrepaired units	Pcs	0	524	309	301	297	384	384
Refurbished units	Pcs	0	51	0	0	0		51
Delivered units (delivered between :0-24 ore)	Pcs	2.688	2.782	2.551	2.604	2.527		13152
Delivered units (delivered between 7h-7h)	Pcs	2.817	2.573	2.544	2.607	2.613		13154
Finish good	Pcs	21.000	33.711	34.064	33.662	30.330	30.548	32.463
Raw materiel in the Warehouse	kRON	14.483	14.243	13.631	12.946	12.578		
Raw material (dayss – deays)	days	17,4	17,1	16,3	15,5	15,1		
Work in progress	kRON	3.624	3.688	3.870	3.932	3.413		
Work in progr-Zilele de stoc	Days	4,3	4,4	4,6	4,7	4,1		
Auxiliatry materil (auxiliare, conform non, maint, ...)material	kRON	1.199,0	1.205,0	1.208,0	1.197,0	1.213,0		
Stocks days (inventory)	Days	1,4	1,4	1,4	1,4	1,5		
Total goods	kRON	19.306,0	19.136,0	18.709,0	18.075,0	17.204,0		
Total i goods – Days of stock	days	23,2	23,0	22,4	21,7	20,6		
Delivery Schedule Achievement	%	90%	95,5%	90,0%	81,9%	75,0%	80,6%	

According to the above-illustrated scorecard, there result indices, figures, targets, visual management items that are finally useful in talking essential decisions concerning the future of the company.

The illustration of the days in succession offers a weekly overview of the company activity.

The company top management must use this kind of non-statutory reporting in order to improve the company activity. The figures used are related to volumes, to quality and to the adjustment of the manufacturing itself to the company manufacturing plan (case of DSA figure -Delivery Schedule Achievement).

Taking as example the DSA-Delivery Schedule Achievement, this quality figure considers the frozen plan of the company. It is a figure used in companies where there is a complex assembly of products, a large number of finished product codes, and where it is essential to consider the frozen plan. Therefore, at the beginning of the week the sequence of industrial manufacture of finished product model is being set. The reference may be EoAL-End of Assembly Line or SoAL-Start of Assembly Line. The manufacture plan, once set and frozen at the beginning of the week, must be observed. If for any reason, concerning the following: the technology, the provision of subcomponents, the absence of the employed staff, the manufacture plan is not

considered, then the DSA figure will assess from 100%, the perfect case, to 0%, the most undesirable case.

The use of such figure, for example, offers an overview on the management level of the raw material warehouse that supply in view of assembly, on the technological status, on the human resources discipline, in case the reasons of the DSA involution are correctly monitored.

Consequently, the scorecard, the non statutory reporting with all the composing subcomponents illustrate essential, overall and detailed information, absolutely necessary in order to take operational, right and duly decisions.

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