

NEW PARADIGM OF BUSINESS PERFORMANCE MEASUREMENT IN CONTEMPORARY BUSINESS CONDITIONS

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Abstract. *New economy requires improving methods and instruments of business performance measurement, which has to be affirmed as a dominant control activity of enterprise identifying the key market and structural factors of its business success. Improving performance means redefining the traditional methods of their measurement. A way for that is to develop and affirm strategic approach to performance measurement, which, more or less, includes some different integral models. The models provide more efficient management, controlling managers, and better efficiency in business of modern enterprise.*

INTRODUCTION

The enterprise in market economy affirms frequent and numerous changes in almost each business area, which brings radical changes in internal and external business environment. The environmental changes require a turn in business management philosophy and corresponding changes in traditional instruments of management. In dynamic business environment, successful enterprises have to continually adapt their competitive strategy, which, among other things, means to develop such systems of controlling and performance evaluation that will enable faster and adequate insight into functioning and business success of enterprise.

Taking into consideration the changes in "new economy", requirements for improving methods and instruments of performance measurement have become more expressive. Namely, business performance measurement has been affirmed as a dominant control activity of enterprise which identifies the key market and structural factors of its business success. Adequate performance measurement has to satisfy different information requirements as well as to reflect success in using material and nonmaterial resources of enterprise. Improving performance means redefining the traditional methods of their measurement. A way for that is to develop and affirm strategic approach to performance measurement, which, more or less, includes some different integral models. The models pro-

vide more efficient management, controlling managers, and better efficiency in business of modern enterprise.

THE MAIN CHARACTERISTICS OF CONTEMPORARY BUSINESS CONDITIONS

Dynamics of modern business conditions is characterized by numerous and permanent changes which have a great impact on business activities and performance. The higher level of changes in almost all segments of global environment (economic, financial, political, juridical, technical, social, demographic, and other factors) as well as specific environment (customers, competitors, suppliers, creditors, syndicate, government, etc.) result in dynamic, interactive environment with many factors of risk. The basic form of changes manifestation is globalization. New information technologies, changes in using energy and new materials, achievements in biogenetics and biogenetical engineering, increasing international competitors, and other factors influence the stronger flows of globalization. The traditional differentiation on local, regional, and national markets has become less relevant, since the world has become a big global market. The philosophy of global enterprises includes flexibility, homogeneous supply, and faster market reaction. For enterprises to have better market position in the conditions of global and complex environment they have used new production and information technologies and created new organizational models, which would enable realization of setting objectives.

Consequently, the new business conditions, called the "new economy", determine the economic reality, which is characterized by processes of informatization (1), privatization (2), regulation and globalization (3) [1, p. 75]. When private property and profit are the most important motivate factors, both the "new economy" and the "old economy" have the key problem how to increase efficiency of invested factors (labor and capital, primarily), which depends on competitiveness, technology, government measures, and many others local and global circumstances. The frame of competitiveness in the "old economy" has mostly been limited by boundaries of national (local) market and in the "new economy" pressure on efficiency comes from the world (global) market environment. The main sources of competitiveness in the "old economy" have been found in cheaper labor force and technology of mechanization and, later, in automatization. On the other hand, the "new economy" is based on highly sophisticated technology, knowledge, innovations, new (global) networks and strategic alliances of giant developed enterprises. The innovation in producing, keeping, and transferring information has been given by the Internet, which became the standard instrument of ordinary living of both producer and consumer.

The summarized list of characteristics of the "new economy" includes the following determinants [2, pp. 10-12]:

- It is a high-growth economy,
- It becomes synonymous with the Internet economy,
- It requires a highly flexible labor force and labor market,
- It is a market economy, or, to be more precise, an economy based on competitive, private capital markets that are free of the state regulations,
- It requires a new model of corporate governance that gives the owners of capital, that is shareholders, the power to influence performance, organization and strategy, which is closely linked to the characteristic of deregulated financial markets.

The modern business conditions also require turnover in management philosophy towards completely understanding of new instruments in managing enterprise and new philosophy of production and management. Namely, by influence of changes, the focus of modern enterprises has been displaced from [3, p. 167]:

- Domestic towards international standards of success,
- Economy of scale towards possibility to serve several market segments, through modulator production, synergy in management, etc.,
- Individual business appearance towards collaboration with partners,
- Owner towards partnerships, license, business network, etc.
- Solution "produce" towards solution "buy"
- Fix costs towards variable costs,
- Entity towards internal configuration of enterprise,
- Functional and divisional organization towards process one and team working,
- Quantity towards quality of enterprises growth,
- Independence towards propulsive connection, which will affirm distinctive competence as the sources of competitive advantage.

In the "new economy" the basic manifestation of business success of enterprise is its efficiency. So, the modern, market-oriented enterprises have to pay significant attention to the problem of measuring their performance.

DESIGNING SYSTEM OF PERFORMANCE MEASUREMENT IN CONTEMPORARY BUSINESS CONDITIONS

Performance measurements have been valuable tools in achieving setting goals and implementing chosen strategy of enterprise. Like all tools, they need periodic review to eliminate some, update others, and add new ones in order to meet changing needs in changing business conditions. Traditional financial performance measurements concentrate on the following: sales and market share, return on investment and return on assets, net income, and earning per share [4, p. 509.]. These short-term measurements are the basis for manager rewards, according to their impact on performance improvement, which do not contribute to the long-term success of enterprise. Many surveys have indicated that managers were dissatisfied with their performance measurement system, since the performance measurements are: too financial, irrelevant, difficult and complex to understand, unclear as to linkage between activity measures and enterprise's strategic objectives, and not customer-driven [4, p. 505].

Enterprises, therefore, have developed more complex system of performance measurements, which include both financial and non-financial measures. The basic advantages of systematic approach to performance measurement are in integration of all performance components into universal measures, openness of measurement process, and focusing on basic goals of business activities and their realization. Simplicity has been one of core principle in designing the system of performance measurements. The following rules should help develop a viable system of performance measurements [4, pp. 507-508; 5]:

1. Performance measurements should be supportive of enterprise's goals and strategies. Enterprises must have clearly defined business strategy. The business strategy of an enterprise in modern business conditions focuses on issues like quality, reliability, flexibil-

ity, innovation, customer service, and environmental responsibility. There are three reasons for keeping performance measures in line with the business strategy:

- *The first reason* is obvious. An enterprise needs to know how well it is performing. It should choose a few measures the managers can use to assess progress.
- *The second reason* is that people focus on what is measured. The choice of performance measures can direct the management process in enterprise. The chosen measures show everyone the enterprise's priority.
- *The third reason* means that measures provide feedback to help people and teams to do their jobs and to improve performance.

2. Performance measurements should be quantifiable and appropriate for graphical or other visual display.

3. Performance measurements should be simple and easy to use. The person who performs or manages the activity should easily and quickly understand the measure and easily explain it to other people.

4. Performance measurements should induce beneficial behavior. Those who are being measured must have confidence in the accuracy and relevancy of the measure. Appropriately selected performance measurements give a clear signal to all employees about the priorities of the enterprise.

5. Performance measurements should focus on the positive aspects as well as the problems. As a rule, all performance measures should point out what has been done right, rather than emphasize the negative.

6. Performance measurements are intended to foster improvement rather than serve as monitors. In other words, they should show clearly where improvement has been made and where more improvement is possible.

7. The number of performance measurements should be reasonable. Namely, the efficiency of measures is lower if their number grows. Too many performance measures often can confuse employees.

8. Performance measurements should be non-financial. The financial measures show only actual situation in enterprise, without direction towards improving the results. The changed business conditions require not only financial measures, but also non-financial ones. Since management's goals are both financial and non-financial, performance measurements that reflect both of these goals need to be developed.

9. Performance measurements should provide fast feedback of information. Successful enterprises fix problems when they happen, not waiting for month-end or year-end. The performance measures must help improve performance and to do this the information is needed fast. Fast feedback can be gained by continuous measurement.

These principles or rules have general character and an enterprise could not regard them completely and consequently. They, therefore, serve as some kind of standards the enterprises apply depending on their individual needs and internal business environment.

PERFORMANCE MEASUREMENTS AND STRATEGIC CONTROL SYSTEMS

Strategic control systems are the critical linkage between strategy realization and strategy adjustment [6, p. 38]. Business managers must monitor customer needs and preferences, competitor's actions, technology development, and the performance of internal

processes, as well as the overall financial condition of the business. Therefore, the purpose of performance measurement is to determine needs and possibilities for shifting business behavior. A multidimensional performance measurement and analysis system is the basis of an effective strategic control system. It provides the basis for organizational learning from an analysis of the result of business activities and processes. The multidimensional approach to measurement arises from multidimensional business and management processes and it implies a set of relevant indicators focused on process performances, as the expression of their contributions to business goals accomplishment. The integrated model of performance measurements has found its basis in *the concept of Balanced Scorecard*, which in a specific way balances internal and external relationships and processes as drivers of financial and non-financial results of enterprise [7].

The balanced scorecard recognized that the balance of performances could be seen from four perspectives: financial, customer, internal business, and innovation and learning [8]. Enterprises using the balanced scorecard method were asked to develop statements of goals for each perspective and then to create one or more measures (mostly the traditional accounting ones) supporting goal realization. The measures were balanced along several dimensions, including: financial and non-financial, short- and long-term drivers and outcomes, strategic and operational viewpoints. At first, little emphasis was placed on linkages among measures and their balance was a key characteristic of the concept. However, over time, the balanced scorecard approach has evolved into *strategic map* [9]. The strategy map shows how an enterprise plans to convert its various assets into desired outcomes. It shows the cause-effect links by which specific improvements create desired outcomes. Enterprises can use the template to develop their own strategy maps, which are based on the balanced scorecard and its perspectives. A strategy map enables an enterprise to describe and illustrate, clearly and generally, its goals, initiatives, and targets; the measures used to assess its performance; and the linkages that are the foundation for strategic direction [9, p. 170].

The balanced scorecard meets some of the requirements of an ideal system of performance measurements, since it encourages the use of both financial and non-financial measures from different perspectives; describes the current business position through relatively few measures for each business unit and for the enterprise as a whole; and focuses management attention on the factors that are crucial to the accomplishment of the business strategy. In addition, the balanced scorecard offers a similar measurement structure for use at all levels of the organization, while encouraging linked measures from different strategic maps (at the unit level, for instance). Such balanced scorecard is the frame for performance measurements, which could direct planning and controlling business activities and processes of enterprise. Namely, each enterprise could develop its own unique balanced scorecard by selecting key qualitative and quantitative performance measures, starting from its competitive position, strategic goals and possibilities, and adjusting the perspectives to the concrete conditions.

The balanced scorecard approach has many problems associated with its use, however. Namely, although balance among measures is encouraged, an appropriate balance is undefined. Selecting measures on the basis of linkages to key success factors does not ensure completeness and is likely to result in a scorecard that rearranges the existing set of performance measures. Finally, the linkages among measures - especially those associated with different perspectives - are not explicit, so users are not encouraged to examine the relative significance of measures for achieving the desired results. Some further im-

provement requires a new and more rigorous approach. The model of strategic performance measurement offers such a possibility.

THE DETERMINANTS OF STRATEGIC PERFORMANCE MEASUREMENT SYSTEM

If business activities of an enterprise are considered through a prism of numerous and different arranged relationships among different stakeholders, the classification of objectives on primary and secondary ones has a special importance for business efficiency [10, p. 28]. *The primary objectives* are defined by the owners and include specifying what each stakeholder group must contribute to the enterprise to help it achieve its primary objective - growth and development and, consequently, enhancing its business efficiency. What the enterprise expects from and gives to each stakeholder group to achieve its primary objectives are its *secondary objectives*, which drive or cause performance on the primary objectives.

Success in achieving and adjusting the primary and secondary objectives of enterprise suppose an adequate measurement of performance in its strategic activities, which is based on developing a set of relevant financial and non-financial indicators, focused on process performances. The business processes are valued by their proved contribution in secondary objectives accomplishment.

These premises are the basis of developing an *integral system of strategic performance measurements* with the elements of strategic planning, which introduces some strategic aspects into measuring business performance. Strategic performance measurement system must do the following things: evaluate value that the enterprise expects from its stakeholders and value that each group of stakeholders expect from the enterprise (1), monitor process efficiency (2), define the standards of minimal level of performance and level of target performance (3), focus on performance drivers and the factors of current profitability (4), and suggest measures for improving financial performance (5).

The main attributes of strategic performance measurement system require to define the primary measures focused on results and the secondary measures directed towards primary result drivers. The set of primary and selected secondary measures for each stakeholder group is shown at the Table 1.

Table 1. Primary and Selected Secondary Measures for Stakeholder Groups
[according to: 10, p. 35]

Stakeholder Group	Primary Measures	Secondary Measures
1. Shareholders	Return on shareholders' investment	<ul style="list-style-type: none"> • Revenue and expense growth • Productivity • Liquidity ratios
2. Customers	Customer satisfaction and quality of service	<ul style="list-style-type: none"> • Customer surveys for different market/product requests
3. Employees	Employee commitment Employee competence Employee productivity	<ul style="list-style-type: none"> • Analysis of employee opinions and competences • Financial ratios of employee costs and revenues
4. Suppliers	Continuity of orders and payments	<ul style="list-style-type: none"> • Analysis of supplier requests
5. Community	Public image	<ul style="list-style-type: none"> • Level of public needs satisfaction

The managers must develop a rational process for selecting the key performance measures. The elements of systems analysis provide such a rational process. The process includes identification of business strategy, developing a relatively broad set of performance indicators that offer the promise for guiding strategic change (7-12 key performance indicators), constructing trend lines of performance changes over a relatively short period, as well as using either statistical techniques or qualitative analysis for evaluating relationships among the performance indicators [6, p.43.]. It is essential to involve the accounting and information systems, as well as market research, in constructing the strategic performance measurement system so that up-to-date measures can be developed.

The strategic performance measurement system, as the integral, overall, and consistent method for performance measurements defines a frame for each element of strategic performance and enables their incorporation into strategic performance system of enterprise. It supports the development of organizational knowledge and leads to more systematic, effective decision-making.

THE MODEL OF PERFORMANCE MEASURES NETWORK

The strategic performance measurement system includes too many and different performance measures which could result in their inadequate structuring, deficiency of logic criteria when they are selected or weak functioning of the system. These shortcomings could be surpassed efficiently by developing *the model of Measure Network* as a complete, highly systematic, and easy-to-use performance measurement system that redefines the performance measurement thinking [12].

The structure of the Measure Network is relatively complex and includes: the structure of stakeholder value that describes the character of goods and services expected by the various stakeholders (1), the structure of primary and support business processes that describe the character of business activities that enable fulfillment of the stakeholder requirements (2), the management processes that give direction, incentive, and assurance to the business processes and the relationships between the enterprise and its stakeholders through strategy formulation and implementation (3), and the measures of the attributes of the various facets of corporate success, which derive logically from the structure and serve as the linkages among the parts to ensure a coordinated and disciplined approach to business activities and results (4) [12, p. 10].

A distinguishing feature of the Measure Network is a strong focus on value creation through measuring its elements important for stakeholders. For investors (owners), value is created when the enterprise is able to provide market-based return on investment that outpaces alternative investment in the same risk class. For customers, the enterprise creates value when it provides products or services that offer more net benefit than competitors. For employees, the enterprise creates value when it provides employment that offers greater net benefit than competing opportunities for the employees' time, education, working conditions. The manager's task is to maximize the long-term net benefit for investors (owners). Since the price of a share of common stock is determined by the current value of the expected net benefits to owners, managers can simply focus on doing the things that increase the stock price.

Value creation is a complex process that occurs over time, during the interaction of the various transactions between the enterprise and its stakeholders. The transactions may include money, goods and services, time, knowledge, reputation, and similar benefits and costs. Employee provides the enterprise with time, knowledge, and skill. The enterprise gives them money, training, and future growth opportunities. Customers pay money for the goods and services provided by the enterprise. Communities offer land, infrastructure improvements, and tax relief. In the Measure Network structure, the capabilities of enterprise to create value for its stakeholders are viewed as the objectives of the enterprise, whereas the capabilities of stakeholders to create value for the enterprise are part of the business processes helping in achieving the objectives.

To facilitate the creation of Measure Network, all business activities are classified into three main types of processes: (1) *primary business processes*, as the series of activities that enable delivery of goods and services to customers (for instance, marketing activities), (2) *support business processes*, provide performing primary business and management processes more efficient and comprise at functional level (for instance, information system development process), and (3) *management processes*, as the set of management activities, common to all parts of the enterprise, that managers engage to understand, guide, integrate, coordinate, and control the business processes that create value for customers and owners (strategy formulation, measuring performance, etc.). All these different types of processes are interlinked.

The important characteristic of the Measure Network is grouping of measures applicable to an organizational level (enterprise, business unit, function), named *the measure set*, that selects measures from the measure network that meets the needs of managers. The measure set then forms so-called *the value path*, which is a linking of critical process activity to stakeholder requirements [10, p. 13]. Measure sets and value paths are refinements of the measure network. They help reduce the number of key measures for each stakeholder, focus attention on critical aspects of performance, and connect the units of the enterprise to their key stakeholders.

In many ways, the measure network fulfills the requirements of an ideal measurement system. The model is a systematic group of relationships between the enterprise's business and management processes and the objectives of the stakeholders. The relationships among measures are not described by equations, but there is a strong directional influence. The measures support and link to the enterprise's business strategy because the strategic management process is an integral part of the Measure Network structure. The Measure Network offers highly customized measures for various parts of the business, pays attention to linkages among the measures used in different parts of the enterprise, and connects the summarized corporate measures to the related measures in the business processes. It supports management's efforts to meet the needs of the enterprise's stakeholders.

CONCLUSION

In the contemporary business conditions, the purpose of market-oriented enterprise is value creation and its distribution among different stakeholders. Developing systematic and strategic approach to performance measurement is just directed towards the process

of value creation for enterprise and its stakeholders. The strategic approach through appropriate models includes the interest of all stakeholders, elements of long-term and short-term business processes and business results at all organizational levels. The logic and transparency of the models should help encourage a positive measurement culture in an enterprise. Flexibility of measures in the models enables them to adjust to dynamics of requirements and needs of managers in modern enterprise.

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NOVA PARADIGMA U MERENJU PERFORMANSI PREDUZEĆA U SAVREMENIM USLOVIMA POSLOVANJA

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Poslovanje preduzeća u "novoj ekonomiji" zahteva unapredjenje metoda i instrumenata procesa merenja poslovnih performansi kao dominantnu kontrolnu aktivnost preduzeća koja mu omogućava da identifikuje ključne tržišne i strukturne faktore svog poslovnog uspeha. Unapredjenje performansi podrazumeva redefinisavanje tradicionalnih metoda njihovog merenja. To se može postići primenom strategijskog pristupa merenju performansi koji, u većoj ili manjoj meri, uključuje razvijanje različitih integralnih modela. Svojom primenom modeli omogućavaju efikasniji menadžment preduzeća, uspešniju kontrolu menadžera i, generalno, efikasnije poslovanje preduzeća u savremenim uslovima.