

## MODIFICATION OF PERFORMANCE MEASUREMENT SYSTEM IN THE INTENTIONS OF GLOBALIZATION TRENDS

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**Abstract:** Business ethics is a determinant of company competitiveness. Obeying ethical principles is elementary for positive company culture and company identity creation. It influences implementation of changes in an organization and achieving strategic goals. The Balanced Scorecard system is considered to be an essential element of the management system implementation strategy, where effectiveness of BSC is being able to clearly describe the strategy and linking it with the steering system. The utility of Balanced Scorecard in different types of organizations confirms its wide adaptability concept. The paper analyses the relationship between the strategic managerial system Balanced Scorecard and business ethics. The aim of this paper is the analysis the relationship between ethical orientation and the performance organization, and subsequently the systematization of the conditions for the introduction of moral values in BSC strategic map. This paper is a follow-up to a research realized in a period of 2009-2012 in Slovak organizations providing services in the area of Balanced Scorecard system implementation and it compares its results with the expected theoretical solutions.

**Key words:** performance measurement, Balanced Scorecard, business ethics, moral profile, strategic map, strategic performance of organization.

### Introduction

Business or company is a highly organized, complex system. The instability of some of its component is resulting in for example lower quality of production, environmental issues, the issues of work safety, and so on. These negative phenomena have to be minimized in the business environment and that primarily by implementing the most effective systems of management. Their development constantly continues, the management system constantly improves with the goal of ensuring organization, orderliness, efficiency, and stability (Brzeziński, 2008; Bačík and Fedorko, 2013; Buleca, 2013). Using complex and integrated approach of company management is possible to positively influence many assets in forms of for example better business decision making, increasing efficiency, improvement of product quality, improvement of communication, and so on. The competitive systems of company management have radically changed in past years (Šoltés and Milkovičová, 2014; Ślusarczyk and Kot, 2012; Štefko et al., 2013). Conditions of Slovak business practice are just at the beginning in use of new systems of management. Excellent companies pay close attention not only to the social responsibility but also to the environmental sustainability (Man et al., 2011; Szabo et al., 2013). The important documents which became the platform for achieving the principles of sustainable development are for example Agenda 2 (program for

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the 21st Century), The 6th Active Program of Environmental Protection and The Strategy of Sustainable Development (adopted by the European union in 2001), The Kyoto Protocol (signed in 1997, valid since 2005), and so on. Nowadays the state authorities and the organizations all around the world are on the global level engaged with these issues. BSC system is considered as a strategic measurement and management system performance and used successfully in all types of organizations worldwide. In this paper, we have focused on its modification to reflect the requirements of a demanding competitive environment and simultaneously to play an active role of managing and measuring system in the organization. The aim of this paper is to analyze the relationship between business ethics and performance of organization and on this basis to formulate conditions for the introduction of moral values through the incorporation of moral profile to the BSC strategic map. In the article, two areas are interconnected: management (performance measurement system BSC) and business ethics (factor affecting the performance of the organization).

### **The strategic system Balanced Scorecard**

System BSC is enabling to manage effectively and strategically and in the same time it is marked as a system with the best approach to transformation of a company vision into concrete measurable activities. With this approach it reacts to the present day requirements and helps the companies to integrate the strategy into business plan (Kuvíková, 2003) and every day decision making process of their employees. The start of the BSC dates back to 1990s, since then the system has gone through dramatic development and noticeable improvement. Its task has overcome the measurement of the integrated performance for which it was originally made for, and currently it has reached the level of management system for the strategy implementation (Kaplan and Norton, 1992, 1993, 1996). BSC introduces a simplified model of the strategy filling process via three elements: goals, metrics, and causalities. The goals as strategic elements are defined balanced between selected perspectives and are quantified by corresponding metrics. The mechanism which connects the performing parameters with the resulting ones, the operational with the strategic ones, the short-term with the long-term ones and the non-financial with the financial ones are strategic trajectories - cause-effect relationships. The indubitably high elasticity of the BSC system, its structure and application, as well as the wide range of possibilities of its use in variety of business fields predetermines its use in many businesses in future (Mura and Buleca, 2012).

### **The implementation of BSC - research in Slovak business practice**

A question of the way of the measurement and control performance in Slovak companies is the subject of constant discussions of professionals, who search for a solution how to measure a performance while not improving only one part of

a company. The target of the research realized in the Slovak companies between 2008 and 2010 was to systematize, examine, and evaluate the chosen attributes of the BSC system application within the implementation strategy in the research organizations, identification of the troubled areas when introducing the BSC and suggestion for their solutions (Gavurová, 2010). Information was obtained via the companies' websites implementing the BSC in Slovakia. The companies implementing the BSC systems in Slovakia were found by searching the most visited servers by the number of so called unique visitors and by the key words related to the specific matters. Based on this there were found 40 companies which mentioned the implementation of the BSC to their customers but only 20 of them implemented BSC for real. Afterwards these companies were addressed. Only 16 respondents were interested in the research. In this research there was a combined method of communication used, the written one, the electronic one, and the personal one. The part of the research was also to gain information - the references about the BSC users from the companies implementing the BSC. We gained the second research sample of the companies with the implemented BSC (16 companies). The first sample was made up from the consulting service companies as well as the companies implementing the BSC system (hereinafter referred to as the BSC implementers). In that sample there are companies represented with the history between 3 to 19 years but mostly the companies which were established 12 years ago (37.5%). The sample is made of the companies which have been established in business field for a relatively long time. The micro-companies are largely represented 62.5%, in significantly lesser extent are small companies 25%, and medium sized companies 12.5%. The second sample (hereinafter referred to as the BSC users) is represented by the companies which have been on the market between 8 to 14 years but mostly the ones that have been established in business field for 10 years (37.5%) now. The number of the employees in the company shows the representation of the middle and bigger size companies.

### **The results of the research**

From the results of our own research oriented on the implementation of the BSC systems in the Slovak companies we present some of the partial outputs.

- 1) The most common reasons of the BSC system dysfunction were related to:
  - cascading of the BSC system to lower organizational levels,
  - synchronization of lower organizational levels with the organizational strategy,
  - interconnection of the BSC system to the human resource management system and the remuneration system,
  - the balance of BSC.
- 2) The most troubled phase of the BSC introduction is the phase of metrics defining which is the identification and construction of the Key Performance Indicators - KPI and Critical Success Factors – CSF. The companies do not

have the exact defined method of determination the critical success factors and the key performance indicators.

- 3) The QPR products are the most common used support software, whether it is the procedural management or directly the conception QPR Scorecard. The system is phased in with the support of the secondary tools such as CRM, ABC, and so on. Most supporting tools are used in the phase of the KPI and CSF creation and connection to the motivational system.
- 4) The most common mistakes with the BSC implementation are these two areas: the KPI and CSF settings and their connection to the motivational system.
- 5) The implementation of the BSC system strongly complicate the resistance to the change of motivational system, (in the moment of setting the final KPI values and assigning the responsibility for it, the employees will finally take the BSC project seriously), the extra time expenditure of the proposal and the installation of reliable measurement, the absence of leadership, motivation, as well as the sources necessary for realization of the needed activities. The respondents determined that the most risky and most difficult part of the BSC implementation was the choice of the right strategy character measurements which are too demanding on the project management and the effective communication within the company.

According to the results of our own research, BSC system is little known and desired in Slovakia. Principles of BSC penetrate into practice very slowly. The introduction of the BSC assumes the implementation of a functioning system of strategic management, and our businesses are missing these assumptions. Managers in the organization have to cope not only with the technical aspects of strategic management, as well as with the management of change corporate culture, evaluation systems, etc. Although performance measurement in organizations is currently experiencing fast growth in the form of the emergence of new concepts, our managers are still facing problems in their implementation and further use. Unfavourable situation occurs in those organizations, in which there is a tendency of persistence of traditional performance measurement systems, which are insufficiently effective and not supporting continuous improvement. Our aim in this paper is to show the possibility of modification of BSC system by implementation of major components – business ethics and moral profile as a significant component in the process of increasing the efficiency of business activities and the achievement of strategic objectives.

### **The meaning of the business ethics in the company management system**

The business ethics is the determinant of competitive successful business subjects. The adherence of ethical principles is elementary for creating a positive business culture, as well as a business identity (Rampersad, 2003). Therefore it influences the enforcement of changes in the organization and achievement of strategic goals. Recently the task of the business morals and ethics as a part of the organizational culture strongly increases. The business ethics and morals slowly create and define

themselves based on what the entrepreneurs and other every day economic life participants consider being beneficial and possible. The non-payment of debts, the disregard of obligations and contracts, purposely concealing of the defects, supplying of the low quality products, intentionally damaging of business partners, and any other relationships and behaviours of the cultivated market economy which are not considered to be normal and belong to the common unsatisfactory state. From the above mentioned reasons, the aim of this paper is to check the existence of relationship between the BSC system or in other words the productivity of the organization and the business ethics. Based on that, firstly, we formulate the definition and creation of the moral profile, secondly its position within the strategic trajectory, and finally its place on the strategic maps BSC.

### Defining and building up the company moral profile

The moral profile can be defined as an analysis, quantitative appraisal and graphic illustration of company moral characteristics. Similarly as the strategic profile (Drucker, 1999) as well as the moral company profile should compare the strong and weak points of the company in the case of the declared moral values. The moral profile (the subject of the evaluation) should also contain the individual principles of the ethical code. The evaluation of strong/weak point is based on the satisfaction, comparison with the competition, the sociological surveys, and so on.

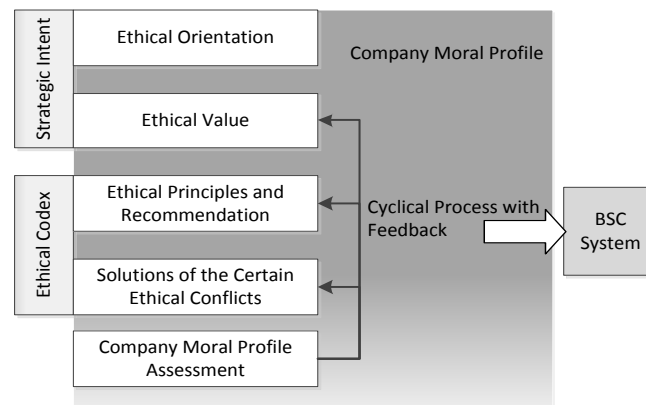


Figure 1. The cycle of building up the company moral profile

It is completely necessary that the strategic support have to exist in order to build up the moral profile. Figure 1 shows the owners and the company management have to formulate the ethical orientation within the strategic intent. Business ethical values within the strategic intent declare the character of a certain orientation, stimulate the personal involvement of the employees, and remain unchanging and independent from company short term goals. Building up the company moral profile is a cyclical process with feedback which after the analysis can contribute to the revision of the company declared ethical values (specification, addition, and

reformulation of the content) while the ethical orientation stays untouched. By that there are the characteristics of the strategic intent completed - unchanging basic orientation with the possibility of adaptability to changed requirements (Jasovská and Gavurová, 2008). It is a way of introducing business ethics and adherence in daily practice.

### **The ethics as a part of the strategic trajectory**

Kaplan and Norton (1996) in their book about the arrangement and the mutual relations of measure mention: „Besides the clear arrangement of measures which helps the complex intent to make decisions, their mutual interest was also enabling to figure out the cause connection. These connections characterized the strategic trajectory - the way how to invest into the employees retraining, into the information technologies, and how innovative products and services can highly increase the future financial performance.”

The rules of the business ethics are the implicit part of the strategy and the moral profile (as their explicit representation) is the motive power (cause) influencing the future business success. In connection with the strategic trajectory, moral values and rules in the company can be clarified by following steps:

- 1) According to the Herzberg (1959) two-factors theory, the moral profile with the association with other factors help to achieve full satisfaction. The space of the positive working atmosphere and the incentives company culture are important in the case of implementing changes and fulfilling the business strategy. The Maslow theory (1943) introduces the hierarchy of the human needs, including the physiological needs, the safety needs, the needs for love and togetherness, the need for respect, and need for self-realization and self-actualization.
- 2) According to the Burns transformational management theory (1978), the moral behaviour of transformational leader satisfies the needs of certainty and respect of its followers what helps to achieve a high level of responsibility and loyalty.
- 3) Based on the Hosmer approach (1994), the moral behaviour generates the confidence between the business and its interest groups which motivates and supports the innovative behaviour, creativity and possibility of improvisations and these are the requirements for the competitiveness by which it influences the long term successfulness of the company. Building up the moral profile has its cause-effect influence in the internal as well as in the external company environment (Jasovská and Gavurová, 2008).

### **The position of ethics on the strategic map**

The position of ethics in the strategic map is everywhere where is the position of human resources. The ethics bearer is a person and the morals is created in the relations between people. The position of ethics is also everywhere where the company comes into the contact with the interest groups (stakeholders) who influence the decision making process. Two possibilities of strategic map outlining

need to be taken into the consideration: the BSC extension of additional perspective and the ethics integration into the existing BSC perspectives (Jasovská and Gavurová, 2008). The following BSC maps contain only the strategic trajectory related to the ethics, measures are being created depending on certain situation (for example the goals which are based on the ethical code).

### **The ethics within the BSC independent perspective**

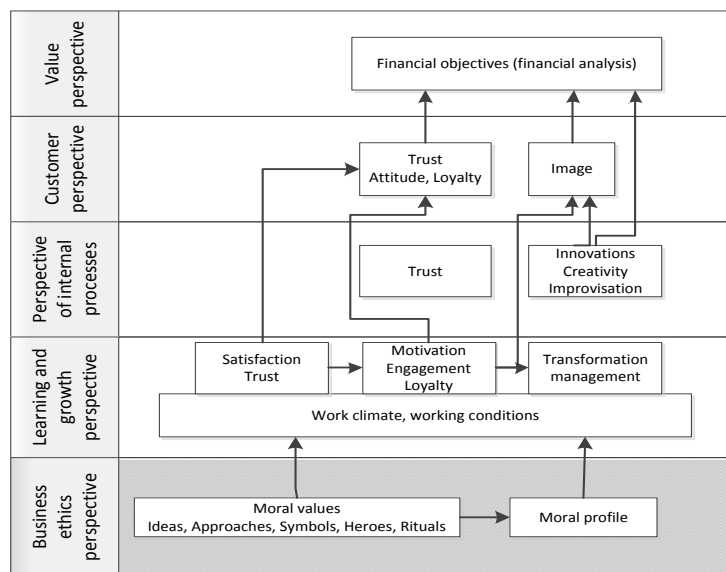
The ethics outlined within the new independent perspective creates the base into which the goals and measures characterizing the business ethics transform. Kotter and Heskett (1992) state three elements: ideas, approaches, and values. It is up to a company to identify the elements of its culture which will fully characterize it and in the same time will significantly affect the other components of the strategic trajectory. The business culture as a term in the professional literature is defined by various ways; one of the most relevant definitions is stated by Kotter and Heskett (1992).

The organizational culture is a complex of traditions, values, tactics, beliefs, and attitudes which create a context of everything what we do and what we want to do in the company. The morals and culture is the base of human behaviour which influences all others perspectives and contributes to answering the question of how the company gained what it gained. This way of outlining the strategic map shows strong company orientation for building the motivational work atmosphere. This conception can be recommended to the companies in which trust followed by motivation, innovation, and creativity are substantial for their activities and their primary orientation is not a financial one (Jasovská and Gavurová, 2008).

These organizations are for example research and development institutes, the educational organizations, the interest associations but also the state-funded institutions in which the financial values do not represent the main goal but lack of resources can lead these organizations to commercialization of some of their activities. Because the primary motive of these institutions is creation of non-financial values (such as education), the financial measures are part of the value perspective on the strategic map which the main goal is the creation of given values. In case of non-business subjects, it is necessary to keep the results of their financial-economic analysis because it reflects the business efficiency of particular organization (Gavurová, 2010; Jasovská and Gavurová, 2008), (Figure 2).

### **The ethics as a part of the existing BSC perspectives**

This variant primarily represents the ethics as a part of the perspective of learning and growth and the customer perspective. It applies mostly on two groups of stakeholders - the customers and the employees. The moral principles become within these perspectives the motive powers which influence their goals and measures. In case of the perspectives of learning and growth the main focus of the moral profile is on the measurement of the internal state of organization.



**Figure 2. Ethics as a part of new BSC perspective**

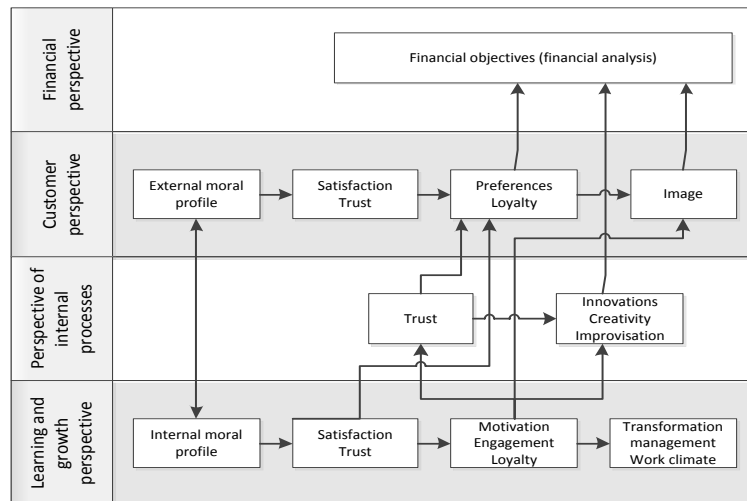
In case of the customer perspective the main focus is on the external moral profile which measures the moral behaviour of the organization towards its environment. Of course between the internal and external profile the mutual connection exists: the way how the employees act between each other reflects on the way how they act towards the customers and the way how the company acts towards the customers will reflect on the moral climate between the employees. The strategic map with the ethics composed into the chosen BSC perspectives is the model suitable for the subjects oriented primarily on the financial goals, and so for all of the business subjects realizing the influence of ethics on the business success (Figure 3) (Gavurová, 2010; Jasovská and Gavurová, 2008).

However the most accurate example of strong ethical oriented subjects from this group is the attorney's houses, the auditing offices, the private clinics, and so on. Although these subjects do business based on special regulations, the moral profile highly influences their reputation.

### Conclusions

Organizations in today's highly competitive market must struggle to respond flexibly to changing conditions and regularly monitor and evaluate the level of organizational performance. Managers solve problems how to measure the performance to prevent the improvement of one part of the business at the expense of another, and to make the system of performance measurement a management tool that supports continuous improvement.





**Figure 3. Ethic as a part of original BSC perspectives in an organization**

Proper using of the system of performance measurement allows to link strategic objectives to operational objectives and facilitates the integration of continuous improvement and everyday activities. Although, in recent years there has been created many new tools to measure and manage performance, not all represent a new approach - often they are only specialized in one element of an existing instrument, or they are a combination of several elements. There has been long term absence of the components in the performance measurement systems, such as moral profile and business ethics which would be explicit and measurable part of the measurement systems and also part of the strategic objectives of the organization. For this reason, in this paper we analysed the relationship between ethics orientation and performance of organization. We based on the assumption that business ethics has an impact on organizational performance. We formulated conditions for the introduction of moral values through the incorporation of moral profile to the strategic map. We proposed two methods of implantation of moral profile to the BSC strategic map while maintaining causality, which were made on the basis of selected motivational theories. Strategic support leads to the specification of values and principles which should be an expression of the ethical orientation of the organization, thereby defining the exact meaning of the term "business ethics" in terms of a particular organization. Constructed moral profile of the organization is a driving force for instruments and objectives which influence the achieved and potential performance of organization and this relationship can be expressed by causal-consequent dependence in the form of strategic trajectory. Measurability of achievement "ethical objectives" can be provided indirectly through expression of satisfaction with moral profile. Such modified system BSC may perform functions not only as a measurement system, as well as management of efficiency and effectiveness. Important will be also its implementation, as

evidenced by the results of such research in Slovakia, implementation of the system only through the software solutions can lead to a false understanding of the meaning of BSC by managers, which is also a common reason for failure to implementation of this system.

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## MODYFIKACJA SYSTEMU POMIARU WYNIKÓW W INTENCJI TRENDÓW GLOBALIZACJI

**Streszczenie:** Etyka biznesu jest wyznacznikiem konkurencyjności firmy. Przestrzeganie zasad etycznych jest elementarne dla pozytywnej kultury firmy i tworzenia tożsamości firmy. Ma to wpływ na wdrażanie zmian w organizacji i realizację celów strategicznych. System Zrównoważonej Strategicznej Karty Wyników uznawany jest za istotny element strategii wdrażania systemu zarządzania, w którym efektywność BSC jest w stanie wyraźnie opisać strategię i powiązanie jej z systemem kierowania. Użyteczność Zrównoważonej Strategicznej Karty Wyników w różnych typach organizacji potwierdza szeroką koncepcję zdolności adaptacyjnych. W niniejszym artykule dokonano analizy zależności między strategicznym systemem kierowania Zrównoważonej Strategicznej Karty Wyników a etyką biznesu. Celem artykułu jest analiza relacji między orientacją etyczną a wydajną organizacją, a następnie systematyzacja warunków wprowadzenia wartości moralnych w mapie strategicznej BSC. Niniejszy artykuł jest kontynuacją badań realizowanych w okresie 2009-2012 w słowackich organizacjach świadczących usługi w zakresie wdrażania systemu Zrównoważonej Strategicznej Karty Wyników i porównuje swoje wyniki z oczekiwanymi rozwiązaniami teoretycznymi.

**Słowa kluczowe:** pomiar wydajności, Zrównoważona Strategiczna Karta Wyników, etyka biznesu, profil moralny, mapa strategiczna, strategiczne działanie organizacji.

### 業績評價指標體系的全球化趨勢的意圖改性

**摘要：**企業倫理是企業競爭力的決定因素。遵守道德原則為基礎的積極向上的公司文化和公司的身份創作。它會影響實施的變化在一個組織中，並實現戰略目標。平衡計分卡系統被認為是管理系統的實施策略，在BSC的效果是能夠清楚地描述戰略，並與轉向系統連接它的一個基本要素。平衡計分卡在不同類型的組織工具確認其適應性廣的概念。本文分析了戰略管理系統平衡計分卡和商業道德之間的關係。本文的目的是分析的倫理導向和績效的組織，並隨後對在BSC的戰略地圖引入道德價值的條件系統化的關係。本文是後續實現在斯洛伐克組織的平衡計分卡系統實施方面提供服務，為期2009-2012研究，並比較其結果與預期理論的解決方案。

**關鍵詞：**績效評估，平衡計分卡，企業倫理，道德輪廓，戰略地圖，組織的戰略績效