

‘House’ Model: System for Business Performance Measurement

‘House’ Model: Systém měření výkonnosti podniku

Marie Mikušová¹

Abstract

This paper is focused on performance measurement in business. A proposal of new performance measurement system called House Model is presented. After a short evaluation of satisfaction with the performance measurement systems the issues of model creation process are formulated. In a proposal of the House Model the relationship between a stakeholder and the business are emphasized as well as the interconnection of strategies, processes and resources. House Model is also graphically depicted.

Key words

House, measurement, model, performance, system

JEL Classification: M21

1. Introduction

The object of this paper is performance measurement and its application in business. The performance issue is examined in various academic fields; experts in the field of accounting, finance, economics, human resources, marketing, operation management, psychology and sociology, these all examine independently the ways of business performance measurement. However, no significant conformity exists in what are the most important themes and theories regarding the performance measurement.

A former focus to performance in the financial field is based on an external view of the performance, often directly related to the importance of an enterprise share price. It may also reflect a situation when markets were quite calm at least by the half of the seventies of the last century. Therefore, there was no need to acquire extended knowledge of how a profit was generated, and managers were satisfied with a limited analytic model provided by financial statements (Vozňáková, Janovská, 2009). Now, the situation is different. Most markets in advanced economies are saturated and global competitors govern requiring thorough knowledge of how a profit and cash flow are obtained (and, more generally, how the performance is “created” no matter how it is defined), and thus to gain the ability to forecast the events to come and to react to them quickly. Considerable research indicates that, since enterprises are forced to immediate reactions, managers are frequently unsatisfied with the traditional tools of evaluation. They frequently feel to be overloaded by information, but not by relevant performance data (Vokounová, Vilčková, 2010).

¹ Ing. Marie Mikušová, Ph.D., Technical University of Ostrava, Faculty of Economics, Management Department, marie.mikusova@vsb.cz

The goal of this paper is presentation of new performance measurement model called “House” model. The model is simple and understandable, to be applicable in terms of small business because small businesses often do not have a highly professional staff for complex performance monitoring and evaluating.

Author systemized current theories, models, approaches, trends and empirical principals of the performance measurement models, so that she could use this knowledge for her own interpretation of the performance measurement model and its verification in the small business.

Methods used in the course of the research individual stages are not clearly determined. All parts used analytic methods, synthetic methods, comparative methods and creative thinking methods, however in different extend. Classification analysis was used for the differentiation between individual definitions and concepts of performance and performance systems. On the level of mutual relations it is possible to disclose more complex dependences between the performance elements and factors influencing the performance and its measurement namely functional dependences. Synthesis of knowledge is a condition for the formulation of conclusion. The author assessed properties of examined phenomena using comparative methods. Apparent similarities observed by the method of comparing of similarities were the inspiration for seeking effective features of examined subjects (performance measurement systems). During verification of the proposed model the author obtained more information in the form of interviews.

2. Satisfaction with the Performance Measurement Systems

Despite the enhanced interest of practitioners in Balanced Score Card implementation, there is a lack of broad empiric data. A research concentrated on the balanced scorecard implementation and application in the Czech business environment found that more than a half of addressed companies were satisfied with the current system of indicators (Výzkum BSC v českém prostředí, cit. 2010). A reason for satisfaction were the systems used such as Total Quality Management (24% of respondents), management by objectives (MBO) (22%), activity based management (ABM) (15%), customer relationship management (CRM) (15%), shareholder value (10%), and, particularly, ISO (73%).

The highest importance in monitoring of performance of Czech firms is given, as expected, to finance. Also information from the field of marketing and personnel sector has appeared to be of great importance. The most neglected field in measurement of performance is that of information technologies. Thus, by not managing firm information systems, Czech firms are subjected to a risk of absence of sound quality and real-time available information. A study output is a heartwarming finding that a term BSC is not a strange word for managers even though only 26% of respondents have implemented or try to apply the BSC system. The most frequent reason of a lack of interest in BSC was the satisfaction with the current system of indicators (51%) followed by the lack of resources, bad registration ability of other than financial indicators, and their unacceptability by executives. Comparing the acquired values to the research in Austrian enterprises (stated in the same study) or research in German firms (Weber, Sandt, Schaeffer, cit. 2010), a percent statement of reasons for resistance to BSC does not differ too much.

3. Research Issues of Model Creation Process

There are many models, constructions and frameworks for the business performance measurement (Keclíková, Briš, 2011). Nevertheless, a question emerges whether they have

any justification, how they may exist and whether they actually represent a contribution for corporate practice. It can be said that each of them has its role as each of them brings a new view of performance and its measurement.

Development of a particular proposal requires that the author would deal with two principal research issues:

- What are the properties of a useful business performance measurement system?

An answer supposes a research of requirements and suppositions in a process of development of a system for measurement of performance, the system itself and in a process of specification of the indicators and its attributes.

- Can it be supposed that standards to evaluate performance applicable for any business can be developed?

An answers suppose a research of attributes of available business performance evaluation and their comparison.

A verification of the usability of a proposed model supposes the applications of its relationships in a chosen business unit.

There are a large number of approaches, models, constructions or frames of measurement systems. Some of them are quite similar some of them are considerably different. However, each of them brings some value. A large-scale research part presents some already existing models of systems of measurement of performance (such as EFQM, ISO, Baldrige Model, Six Sigma, Skandia Value Scheme, IC - Index Approach, Skandia Navigator, BSC, Intangible Assets Monitor, Knowledge Assets Map, etc.).

The chosen models were compared, their essential features were determined, their benefits and weaknesses were identified. It can be stated that, together with changes in the business environment, also performance measurement systems will be continuously developed.

4. A Proposal of the ‘House Model’

4.1 Relationship between a stakeholder and the business

The business (enterprise) is not only the instrument for increasing the value of capital or the means of economic values creating. It presupposes a coalition of stakeholders and it works thanks to the balance of their interests. If this balance is disturbed and the interests of some of the stakeholders are not met then there is a danger of coalition disintegration and the dissolution of business (Horváthová, 2010).

Having studied the mentioned models, or because of a scope not specified here, it was decided that *stakeholders* will be an essential component for developing a model. Most models deal with key stakeholders even though they concentrate on customers and employees only.

All stakeholders feel very strongly about a long-term existence of the business and its good condition, but each of them follows his/her interest (Neely, Adams, Crowe, 2002). Employees struggle for maximum wages, suppliers for maximum prices, customers require minimum prices and the state wants taxes and etc. As regards individual stakeholders, it is obvious that the value of the business is different for them. Each of them judges the value of the business according to what he/she has invested in it in comparison with alternative opportunities. Businesses performing in the environment with limited sources and striving for optimizing the process of economic values creation necessarily require a sensible choice in allocating the funds with the aim to meet stakeholders' demands. That is why the determination of key stakeholders is the first step in the development of the model of performance measurement system in every business.

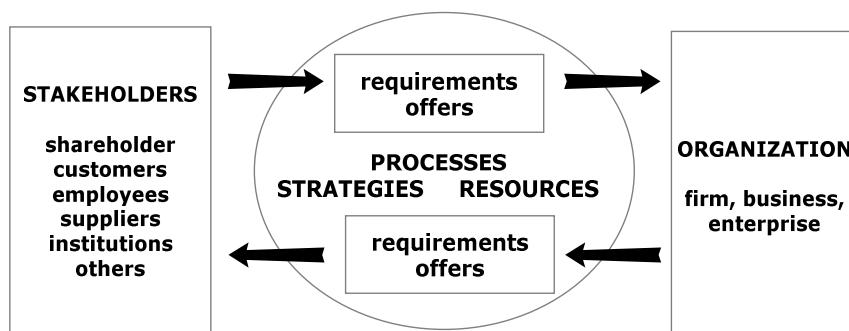
Furthermore, a conception of theory of stakeholders and theories of shareholders was considered. The conclusion is that, despite a great number of critics, a position of *shareholders* will be preferred, since they bear the biggest risk, while their remuneration is not frequently adequate. Other groups of stakeholders will be considered: as *employees* (identified with resources), *customers*, and the last large group summarily called as the *surrounding*. A *supplier* takes a specific position in this big group.

Through the model it is possible to find a way of how to mutually satisfy both contrary streams of requirements (Figure 1).

The business has to have a clear idea of who the key stakeholders are and what they want. But this is not sufficient. If the stakeholders are to meet their requirements and needs then the business has to get vice versa something from them. It is usually capital from investors, profit from customers, employees' skills, goods from suppliers and the like. It is also necessary to define which strategies should be employed in order to satisfy both the stakeholders and the very business.

To be able to introduce the strategy the business has to understand which processes will be required and it has to ensure their purposefulness and efficiency. Processes can be implemented only on condition the business have got the appropriate resources - physical infrastructure, tangible and financial means, skillful staff, advanced technologies and etc.

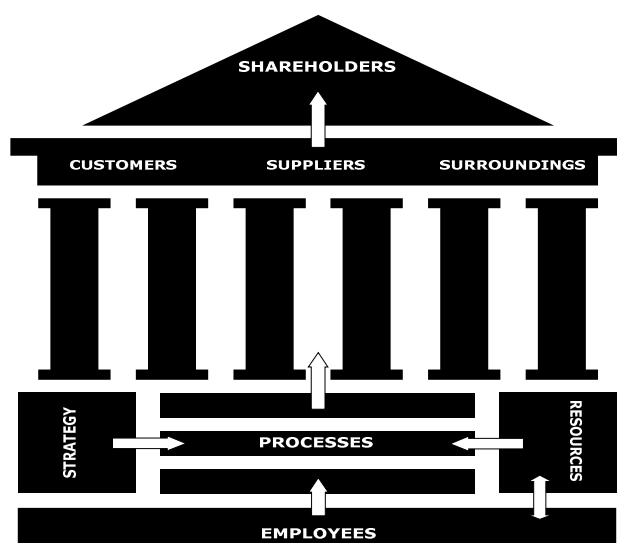
Figure 1: Relationship between stakeholders and the business



Source: Author

Following numerous variants, for a graphic representation of a model and in order to indicate mutual relationships such a form of a house has been chosen that, in author's opinion, precisely presents an idea of the model: employees as a base of the business, processes forming creative, efficient component of a particular business, protected by walls, pillars of the business represented by strategies and resources in processes being converted. Process results and outputs are intended to stakeholders, from which the most important – shareholder – creates a roof of the house (business) (Mikušová, 2011). A business performance measurement system proposal is presented in the Figure 2 and the Appendix 1.

Figure 2: House Model



Source: Author

A position of a *shareholder* on the top of the model is not accidental. He is eminently interested in excellent performance of the business, particularly in output based on a chosen financial indicator. Two groups in the model were considered: an owner, the holder of a part, it is a typical shareholder. The other group consists of other capital providers although they are not real shareholders.

Other stakeholders contribute to shareholders to be satisfied: satisfied customers, employees, surrounding, i.e. suppliers, public, government institutions, and so on. Due to their satisfaction, the results required by shareholders are achieved. Moreover, a business expects to receive something from those stakeholders. For the customers, suppliers and governmental institutions to be satisfied, processes should take place in the business. Processes fulfill a chosen strategy and require resources of the business. Strategies and resources serve as pillars vital for processes to be implemented.

On the model base another stakeholder - *employee* – was placed. Also his position is not accidental. While shareholders are considered to be an element that covers the model the employees including their knowledge and skills serve as a base for business functioning. It was considered not only a physical number with some qualification structure but also employees as an intellectual capital. At this point, overlapping of employees as stakeholders and also employees as one of the business resources occurs. Processes can produce quality outcomes to satisfy both customers and other stakeholders on condition the employees are satisfied (requiring wages adequate to work environment, opportunities for self-improvement and the like). The business then expects from its staff a contribution to its activities (e.g. pursuing quality work, new ideas and etc.).

4.2 Interconnection of strategies, processes and resources

A precondition of the model's functionality is ensuring and accepting of mutual relationships among three mentioned aspects: strategies, processes and resources. Only then it is possible to understand how the needs of the business can be met as well as the needs of stakeholders.

Strategies create a framework for considering how to ensure meeting of both parties needs. The purpose is not accurately to define in which way the business will reach its goals.

Unfortunately, it can happen that there are a number of partial goals that are not compatible and may lead to conflicts. A submitted model is focused on the following levels: Strategy at the top level. In this respect every business unit should be clear in its mind about how it will contribute to the top strategy fulfillment. It is obvious that in the process of strategy formulating it is not possible to omit functional strategies (e.g. marketing, human resources and product strategies).

There are various types of *processes* in the business among which it is necessary to identify those having a key significance. For measuring the performance of processes it is necessary to weigh parts of the individual process itself.

Resources in the mentioned model are understood as a combination of human potential (the basic businesses' immovable assets), methods and technologies, technical equipment (the basic tangible potential) and infrastructure that altogether represent the ability of the business to create by means of processes the value for stakeholders. Each process requires various sources in a various volume. Acquiring sufficient and quality sources from every component for every key process is an initial precondition of business's successful existence.

5. Conclusion

The emerging competitive environment creates a press to reevaluate a nature of business reporting and execute changes in performance systems measurement. The performance and its monitoring has become not only a tool of competitiveness but also business existence precondition. A measurement of performance of a business is an integral component of a way how to find a condition the business is situated in, and what will lead it to act in a way which will help it to survive and benefit. It is natural that businesses will be more interested in the performance measurement particularly supported by the new information technologies.

The mentioned research joined the proposal to already existing number of models and approaches. It will reflect the effort of small business to provide reproduction of firm processes, first of all in order to survive.

The presented model of performance measurement is indented above all for a small business. Its advantage is its simplicity as it does *not have to be applied in its whole scope*. Its bonds can be used quite independently for the evaluation of business's performance with the *focus on a chosen stakeholder only*. The model emphasizes the effort of small business to measure how the parts of value chain mesh together and create a competitive advantage instead of relying on particular processes indicators.

Acknowledgment

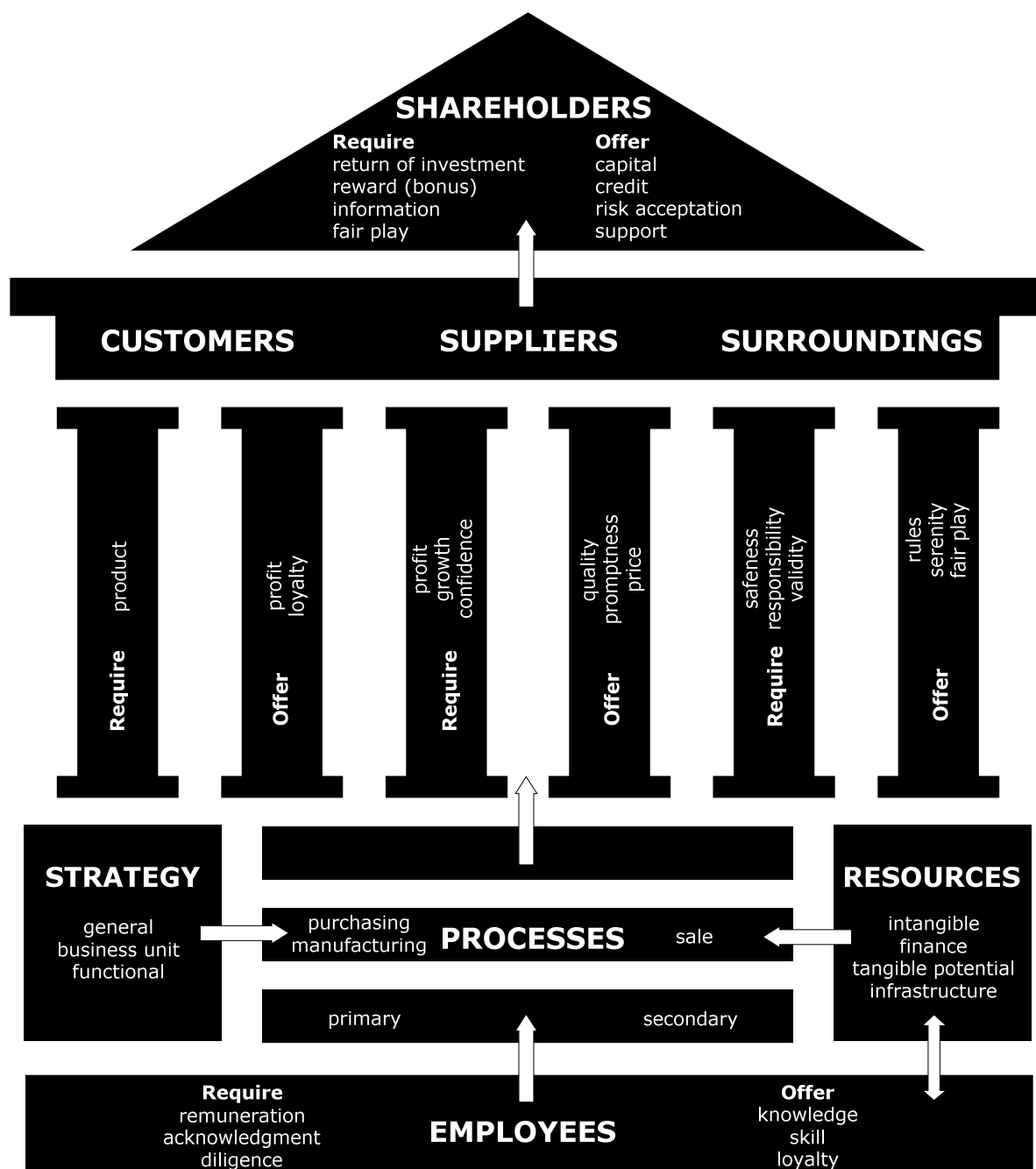
This article was created with financial support from the Student Grant Competition of Economics Faculty, Technical University of Ostrava, Project SP2011/51 Interdisciplinary approach to crisis and crisis management.

References

- [1] HORVÁTHOVÁ, P., 2010. *Essentials of Management*. Ostrava: VŠB-TU Ostrava.
- [2] KECLÍKOVÁ, K., BRIŠ, P., 2011. Risk Management and Internal Audit in Integrated Process Management of Hospitals. *E+M Ekonomie a Management*, 14 (3), pp. 137-149.
- [3] MIKUŠOVÁ, M., 2011. Performance measurement: House Model. *WASET*, in print.

-
- [4] NEELY, A., ADAMS, C., CROWE, P., 2002. The Performance Prism in Practice. *Measuring Business Excellence*, 5 (2), pp. 6-12.
 - [5] VOKOUNOVÁ, D., VILČEKOVÁ, D., 2010. Možnosti marketingového prieskumu a oblasti jeho využitia. *Aktuálne výzvy marketingu a ich uplatnenie v praxi*, pp. 75-84.
 - [6] VOZŇÁKOVÁ, I., JANOVSÁ, K., 2009. Co nám říkají účetní informace. *MM Průmyslové spektrum*, 4, p.74.
 - [7] Výzkum BSC v českém prostředí. [online] [cit. 2007-01-12]. <http://www.balancedscorecard.cz//>.
 - [8] WEBER, J., SANDT J., SCHAEFFER, U. *Balanced PMS and Manager Satisfaction – Empirical Evidence from a German Study*. [online] [cit. 2010-09-12]. <http://www.whu.edu/control//>.

Appendix I: House Model



Summary

Příspěvek se zaměřuje na měření výkonnosti v podnicích. Prezentuje návrh nového systému měření výkonnosti, který byl nazván House Model. Po krátkém zhodnocení spokojenosti se systémy měření výkonnosti jsou zformulovány zásadní body procesu tvorby nového modelu. V představovaném systému měření výkonnosti – House Modelu, jsou zdůrazněny vztahy mezi stakeholdery a podnikem a zároveň propojenost mezi strategiemi, procesy a zdroji. Navrhovaný model je zároveň graficky znázorněn.