INTRODUCTION

Successful development of the company in today's dynamic and variable world is conditioned by flexible reaction on different requirements. It has become necessary to evaluate business performance and try to increase it.

Indicators and criteria for measuring and evaluating business performance have passed through progressive development. Traditional indicators of business performance meet with criticism, which should be taken into consideration. In contrast to them modern indicators of business performance were created which focus on managing the company’s value. When evaluating business performance the character of the company should be taken into account and be chosen indicators which lead to fill company´s mission.

1 BUSINESS PERFORMANCE

Companies have many possibilities for evaluating business performance. The first and also the simplest method is to evaluate the performance by one selected indicator, which is based on the company’s goal. This method has pros and cons and because of them it is used by small and medium companies. Simplicity and intelligibility of this system are the main advantages, so far the disadvantage is orientation on achievement one goal while other goals stay behind. For example if the goal is to maximize the profit, the criteria for evaluating business performance is the profit achieved. (Lesáková, 2003)

The second option is a situation, when company is trying to achieve more goals. Company´s goals can form hierarchic system or can be equal. In this case it is necessary for evaluating performance to choose a set of indicators, which are based on financial analysis and can evaluate various company´s activities expressed by the different financial indicators. The advantage of this method is the complex look on business performance, but the disadvantage is difficult evaluation of conflicting signals.

The last method is a combination of the previous. The idea is to find single indicator, which in its complexion monitors accomplishment of all goals. These indicators include averages, summarizing indices, coefficients of discriminant analysis etc. The advantage is easy expression of the result while we can evaluate several goals at the same time. Application of the method is limited and reduces versatility of use.

2 MEASURING BUSINESS PERFORMANCE

Finding ideal concept for managing and measuring business performance is a complex problem and also experts represented by consulting firms, business managers or academics has been leading various discussions about it. There is a conflict between the use of traditional indicators for measuring performance and modern indicators, based on value – management.

Traditional approaches for measuring performance are mostly based on the primary company’s goal, which is considered as profit maximization and for its expression large number of indicators is used, but they are not always compatible with each other. Traditional financial indicators can show just overall results, but they don’t indicate in what area company should be better to accomplish its strategic goals. (Fibírová et.al., 2005)

Modern approaches to value – based management of the company are trying to connect all company’s activities together with people, who are involved in business process, using one criterion that resulted in the increased value of the invested capitals by company’s owners. Category of the economic profit is inserted into indicators, which takes into account also alternative costs of the capital. Alternative costs represent income from missed opportunity for business owners, from opportunity, which has been sacrificed and has the same risk as the studied company.

The concept of value – based management represents system, strategies, processes, analytic technic and also company’s culture goals. Value management connects with effort to maximize the
value that means trying to achieve maximum benefit for company’s owners in the form of sharing the profit.

The basic criterion for evaluating the investment in the company and its effectiveness is NET PRESENT VALUE. The result expresses how the decision influences owners of the capital.

For NET PRESENT VALUE is equation (1):

\[ NPV = -I + PV \]  

(1)

Where:

- \( NPV \) = Net Present Value in units
- \( PV \) = Present Value of future benefits from investment in units
- \( I \) = Invested capital by owners to company in units.

For investor Net Present Value should be higher than zero and then the investment is profitable. From the perspective of the owner it is the way how to maximize business performance maximizing net present value. It’s necessary to determine the net present value of future benefits from investment, the net present value of the future cash flows that can be expected from company’s activities. We talk about discounting cash flows, which takes into account consideration about risk taken by owner and the time value of money.

For PRESENT VALUE of future benefits from investment is equation (2):

\[ PV = \sum_{t=1}^{n} \frac{P_t}{(1+i)^t} \]  

(2)

Where:

- \( P_t \) = cash flow in each year in units
- \( t \) = each year
- \( n \) = total number of years
- \( i \) = rate of interest (alternative cost of own capital)

Value-based management represents application of the criteria net present value in company’s management for acceptance of any evaluation.

2.1 TRADITIONAL INDICATORS

Traditional indicators for business performance include indicators of the absolute value of earnings, indicators of cash flow and profitability indicators. Indicators of earnings are the most common, they can be expressed by net income, earnings before taxes, earnings before interest and taxes and earnings before interests, taxes and depreciation. Indicators of cash flow give us information about cash income and expenses. For example total cash flow, operating cash flow or free cash flow. The last group of indicators is profitability indicators that show profit and include return on sales, assets, invested capital, earnings per share. (Fibírová et. al., 2005)

Traditional indicators have also their disadvantages which are given by that they are based on accounting data and especially on earnings. Inflation, risk, the time value of money and alternative cost are not taken into account. Critical findings are not only about earnings but also about problems with capital structure. The value of the profitability indicators should be compared with opportunity costs to be relevant.

Financial analysis is an inseparable part of the company financial management. It evaluates the past and present economic development from different angles and creates condition for future decisions and plans. Results of the financial analysis provide valuable information not only for internal users, but also for external users. Financial analysis is based on analysis of the financial statements, which are balance sheet, income statement and cash flow statement. All areas of business performance are being evaluated and we talk about debt analysis, analysis liquidity, profitability, activity and market value.

2.2 MODERN INDICATORS

Criticism of traditional indicators for business performance led to production of modern indicators. This criticism is based on different valuation of the company by market and performance measure by accounting data. Modern indicators are based on acceptance of the value for capital owners as the highest company’s goal. Requirements and criteria for measuring performance led to the creation and use of different indicators and concepts for performance management. The most important indicators include: discounted cash flow, market value added, excess return, total shareholder return, economic value added, shareholder value added, cash flow return of investment (CFROI) and others. (Maříková et.al., 2001)
3 KEY FACTORS INFLUENCING BUSINESS PERFORMANCE

On the growth of business performance top management of the company is mainly involved. They affect managers at lower levels and those are interested in changes, which they are able to manage from their position and that can lead to increasing value. It is important to know factors, which can affect business performance. Identifying factors and its impact on the value of performance is an important tool of the management oriented on the growth of company value. The main factors affecting the business performance are generators of the value, pyramid system of indicators, earnings, costs and profit, strategic long-lasting investment decision making, management of net working capital, costs of the capital, financial and capital structure of the company. (Pavelková et.al., 2005)

3.1 GENERATORS OF THE VALUE

Generators of the value are factors, which mainly affect the final business performance. These factors enter into indicators for measuring the performance and for each method of measurement they are different. Resulted value of the performance depends on the right determination of these factors.

3.2 PYRAMID SYSTEMS OF INDICATORS

In managing business performance we need a tool, which can capture the line between that, what is happening in the company. This tool can be systems of indicators, which are connected together by logical construction. The most effective is to use pyramids systems of indicators for identification factors, which are affecting business performance. The basis of pyramid systems is decomposition of the top indicators of the performance on partial indicators, which are connected. For managing the value is then possibility to quantify the degree of influence from partial indicators and useful is also sensitivity analysis of the value change that depends on change of the one chosen generator of the value.

3.3 EARNINGS, COSTS AND PROFIT

Earnings, costs and profit play an important role in the growth of business performance. Growth will be achieved in case of increasing earnings or decreasing costs. Financial accountings distinguish company’s earnings as earnings from operating activities, financial and extraordinary activities. However, information from financial accounting are not sufficient for managing earnings and costs of the company, so it is necessary to obtain information that helps manager make decisions, which lead to effective company activities. We can acquire this information from manager accounting, which rules are not strict, but are created for need of the company.

3.4 STRATEGIC LONG-LASTING INVESTMENT DECISION MAKING

Into the most important activities in the company we include strategic investment decision making, because these decisions have immediate influence on the company’s future, its prosperity and also on the possibility how to increase business performance. On the other side bad decisions can significantly endanger stability and business performance in the future. Investment decision-making is influenced by the fact that decisions are with long-lasting horizon impact on company’s activities. Those are investment of the huge amount of money with higher risk and necessity to coordinate more activities.

3.5 MANAGEMENT OF NET WORKING CAPITAL

The concept of net working capital has been often mistaken for working capital. We talk about working capital in relation to current assets. Net working capital is the part of working capital, which is financed by long-term capital. Parts of the working capital are inventories, receivables and current financial assets, which if we reduce by short-term foreign capital, we will get net working capital. Managing net working capital means managing of all its parts.

3.6 COSTS OF THE CAPITAL

Gaining capital and its investment is connected with cost, which height is in some cases hard to determine, but in other cases it is easy. From an economic point of view we are interested in the
different types of capital and costs connected with them. We are also interested in the average costs of capital, which significantly affect company’s investment and financial decisions.

3.7 FINANCIAL AND CAPITAL STRUCTURE OF THE COMPANY

Financial and capital structure of the company informs about capital’s structure, by which company’s property is financed. Financial structure involves capital’s division on own capital and long-term and short-term foreign capital. Capital structure divides long-term company’s capital on the own and foreign one. Both terms are used in some literature sources also as synonyms. Structure of capital must involve also information about interest or no interest of foreign capital.

4 USERS OF THE RESULTS OF MEASURING BUSINESS PERFORMANCE

Measuring and evaluating business performance connects with the answer on the question for who we really measure the performance or who are users of the information about business performance. Mostly we face with idea that they are all subjects, which have a need to know something about the course, conditions and results of the studied activity and this knowledge use for their behavior.

One option how to divide users of the results of business performance is from the relation to company on internal and external users. Between external users we can put these groups of subjects (Wagner, 2009):

- Owners of the capital
- Other providers of the financial sources
- Suppliers of the other sources, except capital and work
- Customers
- Competitions
- Other subjects...

Reasons, why external users are interested in information about business performance are different. For example: recovery of their rights from the company, influence direction and development of the company, comparison of the business performance with other subjects. Fundamental group of internal user of information about business performance is group of managers.

CONCLUSION

Contribution shows traditional, but also modern methods of measurement business performance, users of these information and key factors influencing business performance. Currently there is a transition from traditional indicators of business performance to modern indicators. Evaluating business performance and its processes provides evidence not only for comparing results with plans, but also company’s make plans for future periods, which respect current situation and expected changes in the future from these results.

LITERATURA


Adresa autora:
Mária, Mišanková Ing., Žilinská univerzita v Žiline, Fakulta PEDAS, Katedra Ekonomiky, maria.misankova@fpedas.uniza.sk
BUSINESS PERFORMANCE, MEASURING AND EVALUATING

Abstract
The paper deals with the business performance, which is in today's competition world necessity not only to measure but also to evaluate and trying to increase it. For evaluating business performance is the best way to use system of indicators, which allows fast and easy look on company's situation, but we need to respect specific conditions of the company. System of indicators should contain traditional indicators, which are used in practice for many years, but also modern indicators.

Key words
Performance, evaluation, measurement,

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