How do Albanian companies measure performance – A case from Footwear Production Industry

Prof.Asoc.Dr. Manjola NACO, PhD Candidate Rezart Demiraj
Department of Accounting
Faculty of Economy, University of Tirana
manjola_naco@yahoo.com; rezartdemiraj@yahoo.com

Abstract

In the Albanian environment, both academic and professional, there is an increased attention towards the establishment of systems, or rather the assessment of appropriate systems for measuring performance, and in this context, how will these systems contribute to the management of organizational performance. In this paper, the concept of the performance management is based on the premise that the way how performance should be considered and measured depends on the organization's goals and purposes.

As we know, the purpose of a performance measurement system is to provide the data that will be gathered, analyzed, processed, reported and, finally, used by the management to help them make good business decisions. In our context performance management is "a comprehensive management process framing the continuous improvement journey, by ensuring that everyone understands where the organization is and where it needs to go to meet stakeholder needs" (Statement on Management Accounting). So the ultimate goal of performance management is to achieve sustainable organizational performance.

Performance measures can be grouped into two basic types: those that focus on the results (outputs or outcomes, such as competitiveness, financial performance, etc) and those that focus on the determinants of these results (such as quality, flexibility, resource utilization, and innovation).

The purpose of this paper is to shed light on how do the Albanian manufacturing companies measure their performance, focusing only on the footwear manufacturing industry, and if there is an appropriate approach towards more sophisticated systems of performance measurement, seeking a the right balance between the use of financial and nonfinancial measures.

Keywords: performance measurement, performance indicators, balanced scorecard

Introduction

For many years, organizations have been relying heavily on financial performance measurements for their decision making process, but literature and research in fields such as accounting and management control shows that non-financial performance measurements should influence managers and their day-to-day decisions to a higher extent (Chapman 2005, Kaplan and Norton 2001, Collier 2006, Merchant & Stede 2007).

The financial measures alone in performance measurement and control systems are not sufficient for strategic decision-making as they are unable to ensure full convergence between management decisions and actions (Parker, 1979; Maciariello and Kirby, 1994).

During the last decade there has been an increase in published research concerning the balance between financial and non-financial performance measurements. Some authors have argued that financial performance measurements within companies usually focus on short-sighted solutions, while the opposite logic would be that non-financial performance measurements can be seen as more strategic on the long run.

Kaplan and Norton (1992) developed an innovative multi-dimensional corporate performance scorecard known as the Balanced Scorecard. It provides a framework for using multiple key performance indicators that are intended to supplement traditional financial measures with operational measures such as customer satisfaction, internal business processes, and learning and growth activities.

Balanced scorecard is a step towards bridging the 'short-term operational controls' to the 'long-term vision and strategy' of companies. The implementation of the Balanced Scorecard is a process whereby the organization's strategy is translated into a set of key performance indicators (Kaplan and Norton, 1996).

The purpose of this paper is to look at the performance measurement indicators from a practical perspective, trying to make a connection with Balanced Scorecard technique, and all this in the Albanian context.

Research question/Problem statement

Recent academic literature suggests that organizations should give more priority to non-financial measures in their performance measurement systems that they should use new performance measurement approaches such as the balanced scorecard, and that measures should be in harmony with other factors such as, strategy, organizational structure, etc. Professional literature suggests that managers should design performance measurement systems that include financial and non-financial indicators.

In our paper we test if the performance measurement systems used in Albania are in line with relevant literature. To achieve that, we have examined which are the measures used by the Albanian manufacturing

companies[1], classified these measures into categories, and assessed the extent to which these companies use performance innovations such as balance scorecard. We have taken an exploratory approach in order to gain deeper knowledge about what the problem really consists of, and to further understand the phenomenon. Our questions include "what", "how" and "why" which means that they are both descriptive and explanatory in their nature.

How do Albanian companies measure performance today? Are they more inclined to use financial measures or non-financial ones?

What are the new performance measurement approaches used by Albanian manufacturers?

For our research we have selected the footwear manufacturing industry. We selected this industry because it is one of the main exporting industries in the country, contributing to 30.6% of total national exports. Characteristics of footwear manufacturers are similar to those of clothing and textiles industry: stable macroeconomic indicators, proximity to European markets, rapid response to the orders of buyers and a competitive workforce. Another reason for this choice is that in the Albanian economic reality they are the most vulnerable and the most threatened because of competition which is not the case with companies operating in other sectors of the economy.

A sample of 5 big Albanian manufacturing companies from the footwear industry was used to determine the current state of performance measurement systems in this sector. A protocol of questions was directed to the influential persons in the management of companies that make up the sample in this paper. More specifically, manufacturers were asked to what extent they use various performance measures, whether they have a performance measurement system in place and if so, what type of system, and whether or not they had an enterprise planning system or any information system to support their PMS.

To achieve a significant result the selection of the subjects taken into consideration was made based on the following criteria. The study is focused on the largest footwear companies which realize 50% of the product of this industry in Albania, with which we have personal professional connections, an important factor to achieve a good communication with our subjects. These connections "opened doors" and offered the opportunity to interview people within the companies which work closely with performance measurement on a daily basis and that is a major reason for utilizing these contacts.

Research methodology
In our research we have taken a qualitative approach. With the selected companies that agreed to take part in the study, qualitative in-depth interviews were conducted to find out how those companies handle performance measurement and the reasons for handling it the way they do.

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[1] The footwear manufacturing industry

Each company's situation is likely to be unique. Even though these companies operate in the same economic sector, they offer different products and operate in different markets. This is the reason why they could handle performance measurement differently, and there are surely differences in how successful they are. Because of these differences a qualitative approach seems suitable in order to achieve our purpose. Choosing a qualitative approach has also given us the opportunity to be flexible (Jacobsen, 2002), enabling us to handle new aspects of the problem we wanted to address.

Interviews of the persons in each company were conducted based on a structured protocol of questions, in order that the process of data collection could be interactive.

The protocol of questions was divided into four sections. Section A solicited information on the background and size of the respondent's organization. Section B, solicited information regarding the importance placed on different performance measures by Albanian manufacturing companies by asking them to indicate to what extent they used 13 common performance measures. Section C was pertaining to the performance measurement approach adopted by the organization and whether they were planning to implement a new approach in the foreseeable future. They were then asked whether they reviewed performance measures regularly, who was responsible for decision making regarding the implementation of new PM's and ISO accreditation. In the last section, Section D, participants were asked questions about their organizations' information system. In particular, they were asked if they had a specialized software or system to support their PMS. Respondents were asked to evaluate on a five point scale the level to which their information system supported eleven specific PMS reporting factors.

We tried to interview persons rather high up in the company hierarchy that were involved in the strategic decision making process, so that they could provide us with in-depth answers regarding how the company deals with performance measurement and we were given the possibility to interview people who worked directly with matters related to performance measurement on a daily basis.

A possible weakness of choosing a qualitative approach is that although we provide examples of how performance measurement is handled within these companies in particular, we cannot make any generalizations about performance measurement in general.

Findings Analyses

Respondent Organization Profiles

As mentioned earlier, the selected companies are among the biggest of their industry and carry out most of their business activity abroad, so it is only logical that they must respond not only to domestic developments but also to global ones. Given that they operate in such a context it was believed that these organizations would be more inclined to use sophisticated information and management systems for a

more effective and suitable decision making process, not only on the short-term but also on the long-term.

Of the companies making up the sample, one is a locally-owned company, two of them are joint-ventures of foreign and local investors, and the other two are subsidiaries of foreign companies. The size of the companies varied greatly, from 100 to 6.000 employees, while annual sales ranged from 2 million to 20 million of Euros.

Performance Measures

When listing the performance measures to be rated based on the frequency of use they were divided into these categories: financial, production, sales and customer satisfaction, and human resources. Participants were asked to state the frequency of use of each measure using a scale from one to five, one being daily and five being never. The mean results from this section were then tabulated. Table 1 takes a preliminary look at the extent to which organizations used the top ten most used performance measures (from 13 measures tested). They are dominated by production measures (7), followed by financial measures (2) and lastly human resource measures (1).

Rank	Performance measure	Mean
1	No of units produced	1.97
2	Total sales revenue	2.44
3	Amount of finished goods inventory	2.55
4	Rate of production defects	2.71
5	Amount of raw material inventory	2.75
6	No of worker injuries	2.81
7	Cost control	2.92
8	Cost of goods sold	2.94
9	No of customer orders completed	2.95
10	Gross profit margin	2.99

Performance Measurement Approach

The traditional models for Performance Measurement, based on accounting systems and financial information such as the activity-based costing, were not included in the research because relevant literature emphasizes the inadequacy of these models for current managerial needs.

The models tested were according to the three typologies defined by De Toni & Tonchia, 2001 (vertical, balanced and horizontal) see table 1. Vertical architectures are models that are strictly hierarchical (or strictly vertical), characterized by cost and non-cost performances on different levels of aggregation, till they ultimately become economic-financial.

Balanced architectures are models that are balanced scorecard or *tableaux de bord*, where several separate performances are considered independently; these performances correspond to diverse perspectives (financial, internal business processes, customers, learning/growth)

of analyses, that, however, substantially remain separate and whose links are defined only in a general way (Kaplan and Norton 1992, 1996)

Horizontal architectures (by process) are models which are focused on the value chain and consider the internal relationship of customer/supplier

Vertical	Strictly hierarchical model				
Balanced		Balanced scorecard models	Frustum Models	Internal external performances models	
Horizontal					Models related to value chain

Selected models based on these typologies took into account the size of the companies which were interviewed. Referring to the literature and the characteristics suitable for certain sizes of organizations, we selected models which suited to SMEs. Next we explain the methods and characteristics that were tested in the footwear sector.

Balanced Scorecard (Kaplan and Norton 1992, 1996). This is the most popular model both in the literature and in practice. It aims to provide management with balanced measures based on four perspectives. The first one is the Financial Perspective, i.e. the company's ability to make profits (return on capital, profitability). The second one is the Customer Perspective, which is evaluated using direct and indirect measures. Direct measures involve surveying customers and gathering their opinions regarding topics such as company image, customer perception or product/service customer satisfaction. The third perspective is the Internal Process Perspective, i.e. the lead measures are linked to the organizational business processes, which are defined by the key processes the company must excel in to achieve a competitive advantage (e.g. all the processes from product development to the sales service supplied to customer). The last perspective is the Innovation and Learning Perspective, i.e. the company's ability to develop continuous improvement and add value using continuous learning. Each of these perspectives is linked to different types of organizational objectives, measures and activities supporting improvement.

Integrated Performance Measurement System (Bititci et al. 1997). The authors defined the Integrated Performance Measurement System (IPMS) as 'the information system which enables the performance management process to function effectively and efficiently'. The model underlines two main aspects of the performance measurement system: Integrity, which is the 'ability of the performance measurement system to promote

the integration of various areas of business'; and Deployment, which 'refers to deployment of business objectives and policies throughout four levels where the higher level becomes a stakeholder of the lower level' (Bititci et al. 1997). This classification makes it possible to define the most appropriate type of performance measures, which are classified in internal, external, capability and learning measures.

Organizational Performance Measurement (OPM) (Chennell et al. 2000). This model was developed based on three principles: Alignment, i.e. the selected performance measures support the alignment between people's actions and company strategy; Process thinking, i.e. the measurement system makes reference to the process monitoring, control and improvement systems; and Practicability, i.e. at any level in the company there is a consistent process for identifying measures that should be considered and for ensuring the quality and suitability of data. The framework is based on two key management constructs, namely Zone of management and Open systems theory. The first construct describes three zones of management (strategic, tactical and operational) with different authority, responsibility and accountability. The second one focuses on the company's environment, using stakeholder satisfaction analysis. In this model, the most important indicator is stakeholder satisfaction.

All the models analyzed are balanced. This dimension is particularly important, and it is explicitly underlined to differentiate these models from more traditional models, which only focus on financial aspects. As mentioned above, the balanced approach is one of the main dimensions of recent models, and it aims to show an integrated snapshot of the whole organization.

The use of process-oriented performance measurement is increasing, particularly in the most recent models. This is probably an answer to the need to integrate the organization and to the increasing importance of business processes to satisfy stakeholder requirements.

The decrease in the attention to strategic alignment seems to be accompanied by an increase in the focus on stakeholders in the more recent models. This does not mean that the importance of strategic alignment is decreasing, but that stakeholder orientation is becoming more critical. In fact, PMS has to ensure that stakeholders needs, strategy and organization remain aligned to maximize the stakeholders' satisfaction.

Table 2 shows the result from the third section of the survey. 60% of the companies (3 of them) did not state what approach they used. Interestingly, none of the respondents planned to adopt a new performance measurement approach in the near future and 80% (4) indicated that they consider Balance Scorecard not adequate for their needs.

Performance Measurement Approach	Average Number of employees	Average Turnover in Euro
Integrated Performance Measurement	NA	NA
Organizational Performance Measurement	NA	NA

Balance scorecard	4.500	20 mil
Other	2.000	3.2 mil

The respondents were asked to rank the different perspectives in their performance scorecard in terms of their importance. From the financial perspective emerges as the most important (90%), followed by customers' perspective (40%), shareholders' perspective (30%), internal business perspective (20%), and learning and growth perspective (10%).

Performance measures are regularly reviewed by 20% of the respondents (1 company) once a year and the remaining 80% did not review them on a regular basis. Another notable point is that the respondent, who reviews measures once a year, uses the Balanced Scorecard technique but remarked that they considered their PMS ineffective due to their need for more measures.

Lastly, this section of the survey solicited information on the organization's ISO accreditation, whether they were accredited and what ISO number if they were. The responses came back with 40% (2 company) ISO accredited and 20% not, two was in the process of being endorsed. The ISO numbers for 9001 for quality management but not 14001 for environmental management systems.

The respondent companies admitted that they want to balance profit, growth, and control through their present performance measurement and control systems. Other objectives of performance management systems are balancing short-term results against long-term capabilities and growth opportunities, balancing opportunities and management attention, and balancing the motives of human behavior.

Organization's Information System

This section of the survey was designed to gather information about the companies' information system. In particular, whether they use a specialized software or system, it was also to determine how well their information system support different performance measurement system factors. It was determined that 100 % of the respondents' do not have a specialized system. Respondents' answers were split fairly evenly in regard to whether or not their PMS was supported by a software system. 60% were supported, 40% were not. The supporting software/systems were, for the most part, of an in-house nature.

The last question in this section required respondents to state how well their current information system supported certain PMS factors using a five-point scale ranging from no support (1) to excellent support (5). The factors and their mean values are shown in Table 3. The mean value was lowest for the factor 'employee performance data collection' (2.60). At the other end of the spectrum, the highest mean value was for the factor 'financial data collection' (4.34). These findings suggest a tendency for information systems to support financial factors better than non financial ones.

Supportiveness of Information Systems to PMS factors

Performance Measurement Systems	Mean
Employee performance data	2.60
Quality measurement data	2.73
Non-financial data	3.11
Accessible performance information	3.24
Relevant performance reporting	3.34
Operational data	3.45
Supply chain management	3.50
Sales performance data	3.87
Timely reporting	4.15
Financial data	4.34

Conclusions

There not many papers dealing with the state of performance measurement in Albania. The purpose of this research paper was to conduct a study focusing in manufacturing organizations focusing on a specific sector of manufacturing industry. Recent academic literature on performance measurement systems stresses the need to depart from traditional management accounting techniques which focus mainly on financial measures and measure non-financial assets as well.

Although the low response rate does not support statistical analysis or any generalization of the findings, certain observations can be made. The findings of this study with regard to performance measures used on a regular basis by the Albanian manufacturing (footwear industry). We have found that the ten most frequently used measures were dominated by financial measures, whereas this study shows that production measures are most regularly used by Albanian's footwear manufacturers.

The study attempted to assess what performance measurement approaches were commonly adopted by those manufacturers. 80% of them use old traditional systems, that are, far away from the contemporary methods like Balanced Scorecard and IPMS. Results from this study show big differences between approaches the companies use. Interestingly, no organization that completed the survey was planning on adopting a new performance approach in the foreseeable future and a clear majority (80%) considered their current PMS effective. This appears contradictory to comments in the literature, where it is maintained that more emphasis on nonfinancial measures is required before a PMS will become entirely effective. ISO accreditation was most frequently attained, private companies also had a higher tendency to be accredited (80%). In accordance with the recommendations of current literature, 80% of Albanian manufacturers who responded do not review their performance measures regularly.

It appears that although Albanian manufacturers are aware of the need for more effective performance measurements, they are not planning to implement modern performance measurement systems. The research results show that Albanian companies still consider financial performance measures as more important than non-financial ones.

We point out that companies have to put more efforts in implementing and using performance management systems to measure performance systematically and provide useful information to decision-makers.

In this paper, we have investigated the current practice regarding the performance management systems used by manufacturing companies, with a focus on the requirements of Balanced Scorecard. There is not likely to be greater acceptance of the Balanced Scorecard as a strategic management and performance management tool. What does the future hold? There is a need for more future research about the impact of Albanian managerial culture on the necessity of adopting more balanced performance measurement systems, which focus not only on financial indicators, but give the right importance to non-financial indicators as well.

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APENDIX – COMPANIES PROFILE

Albaco Shoes

Albaco Shoes was founded in 1992. Operations began with the production of uppers for sport shoes. It has steadily expanded and had a major reinvestment in 2001. The company started to raise its ambitions built around an efficient partnership with its partner, Cofra Ltd, headquartered in Barletta, Italy. The firm is certified with Quality Management Certified ISO 9001:2000- Certificate nr. 52. Production processes are advanced, and include assembly lines with new process innovations introduced from the automotive industry and robotic equipment.

Adelchi / DoniAnna

The Albanian-Italian partnership of Italian firm Adelchi with Donianna is a "win-win" proposition for both firms. Initiated as a small joint venture, today it has grown into three large sized factories with a total daily production of 10,000 pairs destined mainly for the US market and supplying customers such as Federated Department Stores, Rack Room Shoes and Kenneth Cole. Shoes produced by this joint venture are proudly branded as of Albanian origin.
The newest factory established by this partnership is Albanian Shoes Corporation, which will purchase and sell goods of Albanian origin directly to US customers. The annual sales of Albanian Shoes Corporation is projected to reach 20 million Euros.

Fabrika e Kepuceve Tirana shpk (Filanto)

Filanto is an Italian company with over 6,000 employees. The company has a worldwide strategic focus and a strong central marketing organization. Its Albanian subsidiary was established in 1991 as a 100% foreign-owned investment. A major reinvestment was made in 1997. The company produces shoes and uppers. Total capital invested in Albania is in the tens of millions of US dollars and it employs over 1,500 staff in two locations in Tirana. 10,000 pairs of shoes produced daily are exported.

GAMA

Gama is a locally-owned company and was established in Tirana in 1996. The company produces finished shoes, shoe uppers and bags, and employs around 200 staff. Their emphasis is on producing high quality products for export to Italy in competition with China and India. From Italy, Gama's products are distributed throughout the EU.

Albagroup / River Group

Albagroup was established in Tirana June 1997. The company is producing shoe uppers. The number of employees in the company is around 100. The company is 100%-owned by Italian parent company River Group. Products are marketed in Italy and then distributed across the EU.