RESEARCH IN LOGISTICS & PRODUCTION

# AN ANALYSIS OF THE CONDITIONS OF AN ENTERPRISE EFFECTIVENESS ASSESSMENT FORMATION

Katarzyna Malinowska*, Jerzy Piontek** and Piotr Cyplik***

*Faculty of Engineers Management, Poznan University of Technology, Poznan, 60-965, Poland, Email: katarzyna.malinowska@doctorate.put.poznan.pl
**Email jerzy.piontek.dok@prokonto.pl
***Faculty of Engineers Management, Poznan University of Technology, Poznan, 60-965, Poland, Email: piotr.cyplik@put.poznan.pl

**Abstract:** The enterprise assessment is used to verify its activity and is a point of departure to make future decisions. The assessment quality depends on its executor's knowledge, experience and capabilities. Enterprises have adopted an assessment performance method based on their needs and activity specifics. In the ever changing environment the applied enterprise assessment algorithm should be progressively improved. The present enterprise assessment satisfies its basic needs but is not sufficient. The assessent should be enriched by a number of elements that will consider the enterprise logistic system multidimensionality. Numerous factors and their mutual relations should be taken into account in the assessment. This makes it necessary to form a pattern of the enterprise assessment algorithm that would function as a guide.

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## 1. INTRODUCTION

Each activity undergoes assessment. Based on the assessment one should be able to give answers to such questions as: "How?" "Why?" „For what purpose?" „Is there any way to make it better?", etc. Both the assessment method and its objective are conditioned by numerous factors. As to assessing the business activities, their size is undoubtedly one of the factors (Dobroszek, 2012; Kocaoğlu, Gülsün & Tanyaş, 2011).

Small-sized and personally performed activities represent the simplest situation. In this case an assessor is an addressee of information, its source and recipient. This specific situation causes the activity assessment to be performed and kept in the assessor's own mind. The assessor as the information recipient uses its effects at the decision-making level.

Large and complex structures represent the most complicated situation. The structures are characterised by a large scale and a wide scope of activity (Dobroszek, 2012). In their case a number of shareholders is definitely higher. A large group of shareholders causes this activity assessment type to be in a material form. Thus, the assessment is formed as a result of a formalised process and is performed by resources which are intentionally set to make the assessment. The assessment formalisation is imposed by legal regulations which might be universally binding acts and internal regulations (Dobroszek, 2012; Kaplan & Norton, 1992).

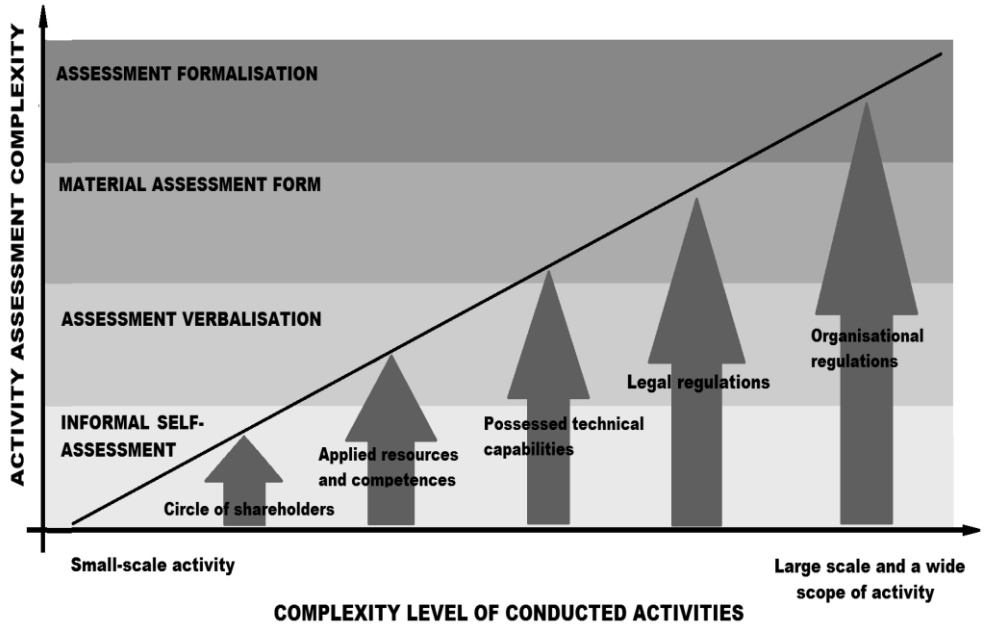


**Fig. 1.** The dependence of the enterprise assessment on the performed action scale; own elaboration

Between the above extremes there is a wide variety of intermediate states. The increase in the scale of performed activities is undoubtedly accompanied by a necessity to develop and formalise assessment, verification and control processes (Fig. 1) (Bień, 2011; Śliwczyński, 2007).

## 2. WHAT SHOULD THE ENTERPRISE ASSESSMENT BE

The enterprise activity assessment is often reduced to performing its financial analysis and assessing the enterprise financial situation based on the former analysis results (Sierpińska & Niedbała, 2003; Sierpińska, 2004, Sierpińska & Jahna, 2007; Kocaoğlu, Gülsün & Tanyaş, 2011).

Based on the data in the financial statements one calculates indicators to describe the enterprise state (Bień, 2011; Sierpińska & Niedbała, 2003, Sierpińska & Jahna., 2007). It is taken for granted that no or unessential changes were made from the moment of preparing the financial statement to the moment of their analysis. Therefore, such an analysis is conducted based on the latest statements and is considered to describe the present enterprise state. This analysis is also a base of making practical decisions (Tkachenko, 2014). The financial analysis does not give a full picture and it does not provide a cause-and-effect explanation of events in the enterprise. In order to conduct a full enterprise assessment it is absolutely necessary to complete the financial analysis results by a technical-economic analysis which is as an assessment of the enterprise resource management method/effect-tiveness (Sierpińska & Niedbała, 2003; Sierpińska, 2004; Sierpińska & Jahna, 2007). The technical-economic analysis consists of assessing particular enterprise activity stages. The effects of the activities in one enterprise functioning area do not necessarily need to cause required effects in other areas. Thus, the technical-economic analysis is intended to assess the influence of particular actions in the tactical and operational area on the enterprise functioning and the final financial result (Sierpińska & Niedbała, 2003, Mitchell, Nielsen, Nørreklit & Nørreklit, 2012; Bień, 2011; Błoch, 2003; Tyran, 2005, Śliwczyński, 2007). The financial and technical-economic analysis make up the enterprise economic analysis. The financial analysis is a point of departure to the economic analysis although the latter one solely reflects the enterprise results in the investigated period of time. The analysis of deviations of financial indicators is completed by the technical-economic analysis. In this sense, the economic analysis might be a base of the enterprise assessment.

## 3. ENTERPISE ASSESSMENT AND DIFFICULTIES IN ITS PERFORMANCE

Each enterprise aims at managing its own capitals in an effective way. It is feasible to verify the resource management effectiveness by assessing the enterprise functionality. Such an assessment should be regularly performed and its frequency should depend on changes in the internal and/or external environment of the enterprise. The assessment is normally performed several times a year during the verification of executing the adopted plans. The plans combine activity effects in various enterprise functioning areas. The above assessments are usually superficial, related to the results at the strategic level and lack technical-economic analyses that would make it possible to go into their details and present the factors which determined the achieved results (Kocaoğlu, Gülsün & Tanyaş, 2011; Sierpińska & Niedbała, 2003). This assessment is difficult to be performed. It requires an ability to make two-direction switches from the strategic management level to the operational level. Apart from that it is required to make a transition of events in particular enterprise activity areas into the results at the strategic level (Twaróg, 2005; Śliwczyński, 2007). Enterprises are often able neither to specify the assessment scope nor to measure the effectivity of particular processes and their influence on the financial result (Kocaoğlu, Gülsün & Tanyaş, 2011). This inability is a result of the lack of knowledge and experience. Another difficulty is there is no model enterprise assessment algorithm that could be applied to the enterprise specifics and then used to its assessment. In the reference literature there are various elaborations on the activity assessment of the enterprise and its subsystems. The elaborations rarely refer to all enterprise functioning levels at the same time. The analyses of particular subsystems in the reference literature are often presented separately (Twaróg, 2005; Kocaoğlu, Gülsün & Tanyaş, 2011; Kolińska & Cudziło, 2014). This might make a misleading impression of their mutual independence and makes it more difficult to identify the influence of particular subsystems and their interdependence on the enterprise financial result. As its lacks the assessment standardisation, it is impossible to perform a fast assessment of the enterprise activities and their drawbacks. The enterprises, which undergo such an assessment, are often wrong at analysing the strategic, tactical, and operational levels separately. This results in no interconnections between the particular layers and, as a consequence, there might be contradictory conclusions and improper decisions (Kocaoğlu, Gülsün & Tanyaş, 2011; Mitchell, Nielsen, Nørreklit & Nørreklit, 2012; Dobroszek, 2012). No know-ledge and experience in the complex and multidimensional assessment hampers verification of the obtained analyses and assessments made by external entities. This makes us stay at the starting point. No multidimensional enterprise assessment model causes that there is no chance to compare the previous results and prepare synthetic elaborations on the enterprise multidimen-

sional functioning in particular industries. There is also a difficulty in understanding and verifying the assessment made by an external entity.

Even the detailed economic analysis as mentioned by M. Sierpińska is rarely used in practice (Fig. 2). This analysis makes it feasible to make an in-depth analysis of the enterprise. This analysis is affordable by large organisations with complex control structures.

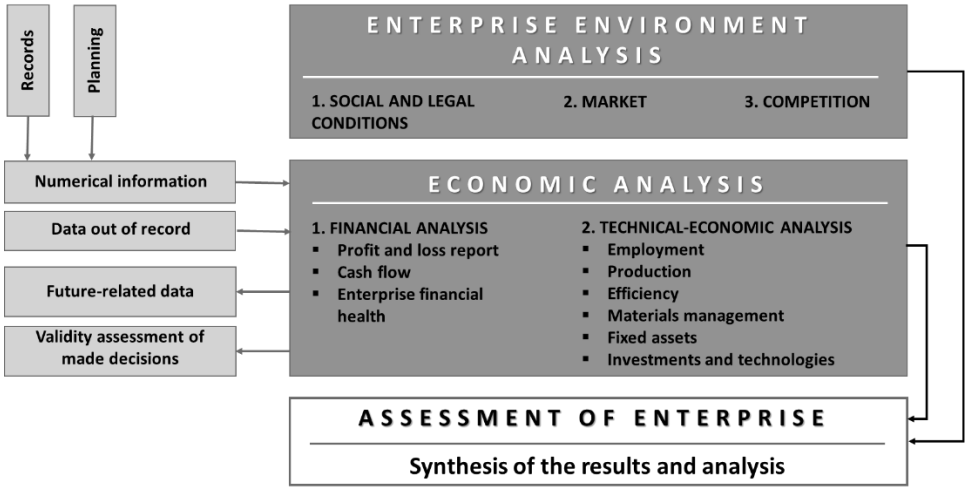


**Fig. 2.** Enterprise activity assessment; own elaborations

The analysis preparation is hampered not only by knowledge and competency requirements but also by the resource availability and enterprise technical capabilities. It is required by a thorough technical analysis to store and process detailed data about activities and the industry in which the enterprise specialises (Kaplan & Norton, 1992; Kaplan & Norton, 2001). The competencies will make it feasible to appropriately connect the data, analyse them and draw conclusions. In turn, IT tools will make it possible to store and process the data which might turn out to be difficult, time-consuming and laborious. Apart from that there is also a risk to make mistakes (Dobroszek, 2012).

The economic analysis is practically reduced mainly to its financial part in its historic scope. This is due to the limitations of the analysis in competencies, resources and technical capabilities. The technical-economic data are incomplete and analysed separately from financial analyses. The separate financial and technical-economic analyses lead to an incomplete assessment. This causes a risk of inappropriate conclusions and their consequent decisions.

## 4. CONDITIONS FORMING THE ENTERPRISE ASSESSMENT PERFORMANCE

Insufficient resources and technical capabilities cause problems that might be eliminated by outlays to develop analytic-controlling structures and systems. The above problem is more difficult in the case of competence barriers. Each enterprise is a logistic system which is defined by E. Gołembska as a set of mutually related logistic subsystems, i.e. procurement, production, transport, warehousing, marketing area and customer service (Fig. 3). The understanding of the subsystems' mutual influence enables separate assessment of each subsystem and all the subsystems considered as components of one organism (Dobroszek, 2012; Kocaoğlu, Gülsün & Tanyaş, 2011). The latter assessment is particularly significant.

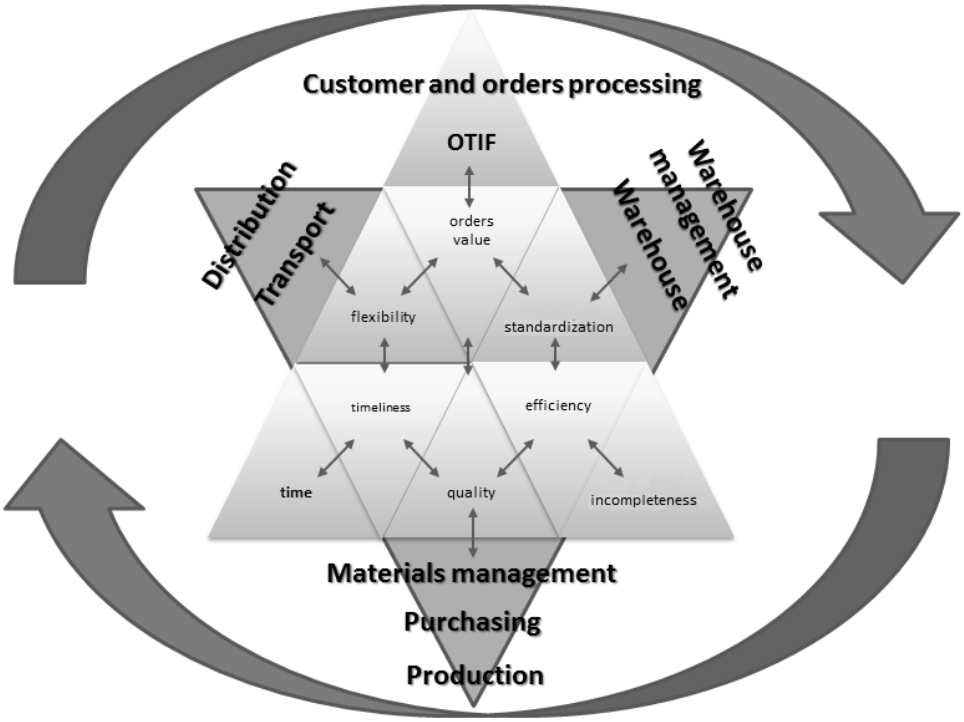


**Fig. 1.** Interdependence of logistic system indicators in the enterprise; own elaboration

The knowledge from one domain is insufficient to assess the entire enterprise. It is necessary to combine both economic and engineering knowledge. Another difficulty is there no universal algorithm of the complex enterprise assessment. The algorithm would present a method to identify mutual dependencies and relations

between various management levels. The algorithm might be independently developed if one stored data items from numerous years and their respective experiences. In other cases it is appropriate to get support from external sources. Nevertheless, one's own shortages might cause the cooperation with the environment in preparing analyses to be little effective. In addition, there might be problems understanding and interpreting analyses and assessments made by external entities. In both cases a pattern of conduct would be supportive (Zając & Zając P, 2004; Fugate, Mentzer & Stank, 2010; Kocaoğlu, Gülsün & Tanyaş, 2011; Tkachenko, 2014).

## 5. CONCLUSION

The assessment of undertaken activities should be a constant element of controlling the plan execution. This is particularly significant in the case of enterprises. The current assessment makes it feasible to specify the accuracy of the previously made decisions and present conditions of future activities. The better the assessment, the more useful results for their recipients. The future activity assessment is a basic element of the decision-making process and as such should be continuously improved. Assessments have always been made but their performance method depends on its executor's knowledge, experience and capabilities. The methods are adopted to the industry specifics and enterprise capabilities. The obtained result accuracy is conditioned by the complexity and specificity of the conducted analyses. The broadly defined assessment performance quality impacts the obtained result accuracy. The better accuracy, the more likely are accurate decisions about future activities. The assessment value/ usefulness might be increased by conducting a multidimensional analysis and including individual aspects of certain activities. It is difficult to include all the factors in the assessment process due to the range of the performed analyses. The assessment is recommended to be based on an algorithm that would specify areas to be analysed and indicate a method of identifying mutual dependencies and relations between various enterprise management levels. Although the enterprise assessment model would need to be adopted to the conducted action specifics, it might function as a guide. The model would be intended to specify basic enterprise assessment points and remaining elements. The elements would complement the assessment.

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## BIOGRAPHICAL NOTES

**Katarzyna Malinowska** is a candidate at Poznan University of Technology. She is an MBA degree holder. She improved logistic and procurement processes in production enterprises. She created and implemented a common shopping policy for the Capital Group of 30 enterprises. She made a consolidation of several dozens assortment groups. She developed and executed a programme of increasing competences in supply chain management. She runs trainings and develops training programs in the area of supply chain management, planning, shopping, logistics and Lean Manufacturing.

**Jerzy Piontek** is a graduate of Management and Computer Science at Wrocław University of Economics – master in economics. He is connected with the capital market and defence industry. He is presently interested in problems with the restructuration and effectiveness of industrial defence potential enterprises.

**Piotr Cyplik** is an academic teacher at the Faculty of Engineering Management at Poznan Univeristy of Techology. He is a specialist in inventory control, material flows and production management. He authored and coauthored numerous scientific articles in this area.