

# ANALYSIS OF PERFORMANCE IN BUSINESS OF COMPANIES IN WINE MAKING DOMAIN BY THE "BALANCED SCORECARD" MODEL

## ANALIZA PERFORMANȚEI ÎN AFACERI LA FIRMELE DIN DOMENIUL VITI-VINICOL PRIN MODELUL „BALANCED SCORECARD”

**BREZULEANU S.<sup>1</sup>, BREZULEANU Carmen Olga<sup>1</sup>, UNGUREANU G.<sup>1</sup>**  
e-mail: stejarel@uaiasi.ro

**Abstract.** *In search of success, performance management uses a variety of models, techniques and methods, some taken from other systems and improved and others of their own, more focused on strategy and differentiating elements that provide a competitive advantage. The Balanced Scorecard model applied to the SC Cotnari proposes a series of objectives grouped into four categories: financial, customers, internal processes and development / potential. All collected data, all measurements and tests made relate to each of these four perspectives. After the analysis, the characteristic of SC Cotnari SA is represented by the structural stability of income, by concentrating a large part of income in exploitation. This competitive advantage of the company has led to the reduction of sales uncertainty, currently holding one of the highest shares on the market.*

**Key words:** performance, management, Balanced Scorecard, Cotnari SA

**Rezumat.** *În căutarea succesului, managementul performanței utilizează o diversitate de modele, tehnici și metode, unele preluate de la alte sisteme și perfecționate și altele proprii cu accent pe strategie și pe elemente de diferențiere puternice care să ofere un avantaj față de concurență. Modelul Balanced Scorecard aplicat la SC Cotnari SA propune o serie de obiective grupate pe patru categorii: financiar, clienți, procese interne și dezvoltare/potențial. Toate datele strânse, toate măsurătorile și analizele făcute se raportează la fiecare dintre aceste patru perspective. Caracteristica S.C. Cotnari S.A. o reprezintă, în urma analizei, stabilitatea structurală a veniturilor, în sensul concentrării a unei mari părți din venituri în cele de exploatare. Acest avantaj competitiv al firmei a condus la reducerea gradului de incertitudine a vânzărilor, în prezent aceasta deținând una din cele mai mari cote de piață.*

**Cuvinte cheie:** performanță, management, Balanced Scorecard, Cotnari SA

## INTRODUCTION

Now the big companies in the wine making domain are facing an environment where the emphasis is on information, using modern technology and quality in serving the consumer. Thus, in an increasingly competitive wine sector

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<sup>1</sup> University of Agricultural Sciences and Veterinary Medicine Iasi, Romania

firms seek resources and new ways to reassert their own position on the market. There is an increasingly receptivity for new management tools and the method of obtaining profit is as important as profit in itself. By analyzing the economic approach of the concept of business performance, we can mention two specific ideas, namely: a comparison between projects and outputs, the definition of performance through global productivity. Tackling the performance from the management point of view, we can say that this problem is sketched on the following coordinates: economy, efficiency and effectiveness.

## MATERIAL AND METHOD

To achieve the paper we used the case study as a major research strategy and in analyzing the performance level of the company we used the Balanced Scorecard model. For data collection and analysis there were used qualitative research techniques and specific tools, analysis of internal documents, published articles and unstructured interviews with employees of the Cotnari S.A. company.

## RESULTS AND DISCUSSIONS

Cotnari S.A. is a Romanian legal entity organized as a limited company. The activity is the production of wine grapes for their own farms, production, aging, packaging and bottling wines with designation of controlled origin from Cotnari Vineyard. Cotnari SA is profiled towards producing white wines with denomination of origin (DOC) and the designation of origin and quality levels (DOC-CT, CMD, CIB - late harvest, picking at full maturity, picking the noble grains). Cotnari SA has a national distribution network covering the entire country. Sales are done through Zonal distributors, with a total of 62 companies and has a selling over 96 of the annual wine production.

In search of success, the performance management uses a variety of models, techniques and methods, some taken from other systems and improved and more focused on its strategy of differentiation and elements that provide a strong competitive advantage (Andone I., 2009). A major concern for the managers and specialists from SC Cotnari SA over time was to obtain clarity on organizational and strategic alignment to a direction so as to regain the business vision turns into action. This can be achieved by using a model of excellence in business called the Balanced Scorecard. This model was introduced in modern management science by Robert Kaplan and David Norton (Kaplan R. S., Norton D. P., 1996) as "a concept designed to measure the activities of an organization's vision and strategies against it." Translated into Romanian as the **balanced score sheet** or **balanced scoreboard**, this concept provides managers a comprehensive picture of performance of a business. Balanced Scorecard offers a number of objectives grouped into four categories: financial, customer, internal processes and development / potential. All data collected, all measurements and tests made relates to each of these four perspectives. In other words, this strategic management approach helps companies meet their goals, focusing not only on financial results, but also on employees and customers. The great advantage

offered by BSC to the business of classical concepts is that in addition to recognizing potential problems that may arise in the company, the system allows the identification of possible solutions or action plan covering several non-financial performance indicators.. According to the methodology developed from SC Cotnari SA strategy identified strategic goals for each situation, and degree objectives is measured using selected indicators. To ensure accuracy of the information on achievements in the fields of vital activity Cotnari SA SC indicators are defined as monetary and non-monetary, e.g. concern is customer satisfaction, internal processes, functionality or innovation. From this perspective, the BSC is a management approach, which can be used at SC Cotnari SA after the definition and monitoring of strategic flexible indicators. BSC's objective is to provide for SC Cotnari SA leadership and employees a general picture of the development and main areas of responsibility. The indicators that are at the basis of Balanced Scorecard model can be separated in a first stage in **early indicators** and **late indicators**. Early indicators are used at the beginning or at an early stage of a process. They measure those processes, which today must determine with certainty the profit or cash flow that the company will have over five years. Early indicator signals have been investigated to what extent the client desires and expectations and also how he had known his ways to achieve the desired product or the provision before signing the contract. Thus it can find the direction to follow the appropriate organization services the customer needs, and this gives further market position. Late indicators are calculated at the end of a process and show a retrospective approach in which the process was far better or less well managed. Examples of such indicators are: turnover, cash flow, profit, production cycle, Return on Investment, staff satisfaction.

In the second analysis stage of BSC indicators are delimited according to management priorities SC Cotnari SA in four categories corresponding to the four dimensions of the classic model: **a customer perspective, the perspective of business processes, employee perspective and financial perspective.**

The four perspectives of BSC's classic model applied to the SC Cotnari SA are listed below.

**Customer Perspective:** What expectations can their customers create if the strategy is implemented successfully?

In the center of customer perspective of SC Cotnari SA is the fulfilment of desires and expectations. Among the major factors affecting the future success of SC Cotnari SA include customer satisfaction, their loyalty and conquest new customers. Even taking into account indicators customer perspective are linked by cause-effect connections. If the image dimension and size reputation, the immaterial factors such as brand name Cotnari play an important role. These factors are particularly important for the company's attractiveness in the eyes of customers. The third category includes delivery, response and delivery time, customer buying experience and quality to be found quickly and easily. In the context of intensifying competition among organizations, the intangible values (image, customer satisfaction, customer loyalty) have become essential for all

companies in the wine sector. Indicators should reflect the client's perspective of the SC Cotnari SA client's point of view. The question is what they use high-quality services and production processes so complicated that they would not be required by customer. Indicators should be chosen that best describe the quantitative factor. Having established exactly what and when it must be measured or calculated. Examples of indicators are late for this perspective: customer satisfaction, customer loyalty, attracting new customers, market share, and early indicators are: product features, customer relations, image etc.

**Perspective of processes.** From this perspective the question is formulated like this: What processes should be improved to satisfy the customers? Production processes in SC Cotnari SA are considered to begin work in the vineyards technology, and end when obtaining an order and delivery of different types of wine to customers by submitting to the provisions of company strategy.

The production is done either manually or mechanically on surfaces which admit it, using 27 U-650 tractors, 75 vine tractors, together with all due range of agricultural machinery: Sloppy, fertilizing, plowing, cultivation, pest control and diseases etc.. A series of treatments are done with aviation, as on most modern vineyards. The scorecard design requires the identification of those critical processes that influence customer satisfaction and financial targets for SC Cotnari SA. Relevant indicators of this dimension may be: the production cycle, production costs, raw material costs, the number of hierarchical levels every 100 employees, the prevalence of external periodic report of the company.

**Perspective of employees** is subjected to question: Where must the employee know-how and infrastructure be improved to successfully implement the business strategy? In Cotnari SA there work around 380 permanent employees and about 400 seasonal employees for periods of activity in the vine. Among permanent employees, there are 50 specialists, whose activity and competence increase the fame of the vineyards.

Example of late indicators relevant to the employees' perspectives are: employee satisfaction, employee loyalty, employee productivity, and early indicators are: employee training, proposals for improvement from employees, setting and reaching goals with employees, team effectiveness, informal infrastructure (information and communication flows).

**Financial perspective.** Can the financial results be presented to shareholders in circumstances in which the strategy is implemented successfully? The financial perspective is the most important perspective of BSC. A feature of the BSC approach (Kaplan R. S., 2005) is taking into account both the current data and the future, to identify problems early. It describes the long-term objectives of SC Cotnari SA in terms of profitability, increased turnover, increased productivity, reduced costs, etc. Financial analysis shows how to achieve financial balance of short-term and long-term as objective analysis based on the balance sheet. Financial balances are calculated based on the financial statement of the company, resulted in three indicators in particular: working capital, working capital requirements and the treasury (Kaplan R.S., 2006).

Table 1

## Financial Analysis of S.C. Cotnari S.A. Iasi

Nr. crt.	Indicators	2007 lei	2008 lei	2009 lei
1	Capital Standing	33.099.552	46.544.106	63.423.547
2	Fixed assets	24.025.643	35.187.387	38.665.411
3	Current assets	20.292.249	24.018.696	28.710.384
4	Cash Money	645.205	2.239.893	696.617
5	Non-current assets (-Availability)	19.647.044	21.778.803	28.013.767
6	Current Liabilities	11.218.340	12.661.977	13.952.248
7	Working capital fund (1 – 2)	9.073.909	11.356.719	24.758.136
8	Working capital requirement (6 - 7)	2.144.431	1.305.258	-10.805.888
9	Net treasury	6.929.478	10.051.461	13.952.248

Of the data presented in table 1, the company has working capital and is necessary for carrying out a safety margin of the unit, the daily operation enabling to ensure a minimum level of current assets to operate at optimum strictly necessary parameters. This demonstrates that the unit has a surplus of funding sources in relation to the needs of capital assets and may be regarded as a favorable situation.

There is an increase in net cash, this is positive for the unit under study. This increased liquidity shows that society can afford short-term debt repayment.

<b>Customer Perspective</b> C1 The development of mass customers C2 Customer loyalty C3 Image development	<b>INDICATORS</b> % Of new customers Turnover from new customers Customers lost
<b>Process Perspective</b> P1 Developing strategic segments P2 Development of innovative processes P3 Quality P4 respect EU legislation in wine production and environment	Ha planted with vines, valuable varieties Market share Number of new types of wine out on the market Turnover related to new types of wine Litigation
<b>Employee Perspective</b> A1 Developing skills A2 Business Stability A3 Employee satisfaction	increased turnover per employee knowledge of foreign languages in the sales department, the degree of resolving complaints
<b>Financial Perspective</b> F1 Increased activity F2 The increase in operating profit F3 Compliance rates for the recovery of invested capital F4 Decrease of financial expenses F5 Improving operational performance	Increased turnover Change in operating profit Change in financial expenses Resources / turnover under its own Indirect expenses / net turnover

Fig. 1 – The four perspectives of BSC S.C. Cotnari S.A.

Although S.C. Cotnari S.A. gives managers information from four different viewpoints, while minimizing the BSC model laden with information, limiting the number of performance measures used. It forces managers to focus on a set of measures, which prove to be ethical.

From the analysis of figure 1 can be seen that the BSC model brings together in one report, many seemingly disparate elements of a competitive level of a S.C. Cotnari S.A: customer orientation, reducing response time, promoting teamwork, time-reduction for new products, management of long-term development etc. Forcing top managers to simultaneously consider all the important operational measures, TBE allows them to see if the improvements in one area did not somehow damage other areas, protecting against sub-optimization.

## CONCLUSIONS

1. S.C. Cotnari S.A. feature represent, upon analysis, the structural stability of income i.e. concentration of a large part of income in exploitation.

2. The company's competitive advantage has led to reduction of uncertainty of sales, currently holding one of the highest market share.

3. Due to the results obtained, the company has proposed a restructuring and modernization program and profit maximization, with several objectives, clearly defined and appropriate strategies.

4. Some of the major benefits that come with a successful implementation of a Strategic Performance Management System based on the Balanced Scorecard are:

- Improve management of S.C. Cotnari S.A. by reducing costs and improving productivity
- Allows alignment of operational activities to the strategic plan
- Balanced Scorecard supports the visibility provided by making better decisions faster and at budget and control processes in the S.C. Cotnari S.A.
- Provides recognition of individual merit and team by facilitating the connection between learning, performance and reward

6. Once the strategic planning process based on the Balanced Scorecard is completed, it must be constantly reviewed and updated. Since the Balanced Scorecard is a flexible model that can be adapted at any time, it must be made constantly reviewed to ensure timeliness and relevance of the strategy in relation to any changes in internal or external environment.

7. Regarding the analyzed unit, S.C. Cotnari S.A., it stands out by a complex activity, which has managed to maintain its fame, vineyard reputation and wine quality. The fame of the products made in this unit is also maintained by the distinctions obtained at various national and international competitions.

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