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Wiesław Wasilewski

University of Zielona Góra

PREREQUISITES FOR USING THE BALANCED SCORECARD IN CULTURAL INSTITUTIONS

Summary: The paper presents the concept of the cultural institution and discusses the possibilities of using controlling in this area. The purpose of this paper is to provide preliminary assumptions for using BSC and, in particular, the attempt of definition of selected components of this instrument. The purpose of the research is to explore and define the Balanced Scorecard matched to the needs and conditions of cultural institutions. The scope of issues presented in the article is as follows: at first the concept of cultural institution is being discussed with a strong emphasis on objectives of cultural institutions. This leads to prerequisites for implementing controlling tools in cultural institutions. Next, the notion of the Balanced Scorecard is briefly presented and the use of selected elements of this instrument in a cultural institution is discussed.

Keywords: cultural institutions, controlling, Balanced Scorecard.

1. Introduction

Cultural institutions are obliged to maintain and collect sufficient resources in order to guarantee their functioning, development and the ability to meet the expectations of their customers. This requires the use of certain controlling tools, used and tested in commercial organizations before implementation. Institutions may develop and achieve economic success provided they apply modern management systems adjusted to basic requirement parameters of particular markets. Such an approach can be observed in organizations and institutions operating in Western Europe, where controlling is used by non-profit institutions, including cultural institutions, on a large scale.

The paper presents the concept of the cultural institution and discusses the possibilities of using controlling in this area. It is hoped that the article will trigger a discussion about the rationale and prerequisites for using controlling tool such as the Balanced Scorecard in cultural institutions. The purpose of this paper is to provide preliminary assumptions for using BSC and, in particular, the attempt of definition of the selected components of this instrument. The purpose of the research

is to explore and define the Balanced Scorecard matched to the needs and conditions of cultural institutions.

2. Cultural institutions

2.1. The concept of cultural institution

The name of the “cultural institution” is restricted to institutions whose principles of operation are based on the provisions of the Act on Organization and Execution of Culture-related Activities of October 25, 1991. Moreover, such institutions must be established by a minister, a manager of a central organizational unit (cultural institutions controlled by the state) or by local government (local government cultural institution). The body responsible for the organization of cultural activities which establishes a cultural institution is expected to provide it with all necessary resources, which become the property of a new legal entity once it has been registered [Głowacki et al. 2009, p. 32].

Therefore, cultural institutions can be further defined as state or local government legal entities whose primary statutory purpose consists in conducting cultural activity (and not economic activity). The aforementioned type of institution includes mainly philharmonic orchestras, orchestras, operas, theaters, museums, art galleries, cinemas, cultural centers and other cultural institutions such as libraries or institutions specializing in the preservation and documentation of monuments [Wróblewski 2012, p. 26].

Cultural institutions operate on the basis of the articles of association and a statute provided by the founder. The internal organization of such institutions is governed by organizational regulations issued by managers of such institutions. The regulations become effective after the approval of the founder, trade unions and artist associations associated with the such institutions.

According to the provisions of Article 27, paragraph 1 of the Act on the Organization and Provision of Cultural Activities, cultural institutions maintain the right to manage both designated and acquired resources independently provided they follow the principles of economic effectiveness.

According to the provisions of Article 4, paragraph 1, point 8 of the Act on Public Finances of June 30, 2005 (The Journal of Laws 2005, no. 249, point 2104), cultural institutions owned by the state or by local government are treated as elements of the public finance sector. Cultural institutions are obliged to cover operational costs and any other obligations from their current income.

2.2. Objectives of cultural institutions

One of the most observable features of the operation of cultural institutions consists in the lack of strict connections between statutory objectives or implemented programs

and actions of the owner of an institution. Usually the supervision is limited to the designation of managerial positions, raising subsidies from public funds, settling expenditure and checking compliance with relevant legal regulations. This relation deprives cultural institutions of their independence, especially in respect to financing. The lack of financial independence denies any independence in terms of programs or autonomy [Głowacki et al. 2009, p. 8].

The Act of October 25, 1991 on the Organization and Provision of Cultural Activities (The Journal of Laws 2012, point. 406 and amendments) introduces the following types of cultural institutions:

- artistic institutions,¹
- other cultural institutions.

The classification specified above indicates clearly that the main objective of commercial organizations consists in maximizing their profit, whereas in the case of non-profit organizations (including cultural institutions), objectives are formulated in the form of social and economic categories. Hence, a non-profit organization should not be profit-oriented or focused on income surplus, and yet it should concentrate its activity on satisfying social needs of the general public [Limański, Drabik 2007, pp. 16–17].

The following objectives of cultural institutions can be distinguished [Wróblewski 2012, p. 66]:

- artistic objectives,
- popularization of culture,
- social and cultural objectives,
- marketing objectives,
- financial objectives,
- organizational objectives,

Bearing in mind the above considerations, it is possible to specify the following characteristics of non-profit organizations [Limański, Drabik 2007, p. 17]:

- offer oriented on service provision;
- the superior character of public and social oriented tasks, with major focus put on special values such as: general welfare, employment, health or environment protection;
- implementation of public and social tasks defined by the policy and the tasks of the state, which despite of the demand, are not realized by profit oriented public or private entities and are strictly connected with the government model assumed by particular countries, as well as provision of services which public or private commercial entities refuse to offer;
- no requirement for income or profit maximization;

¹ Artistic institutions include cultural institutions whose aim is to conduct artistic activity in the areas of drama, music, dance and participation of authors and performers, in particular: theatres, philharmonic orchestras, operas, operetta, symphonic and chamber orchestras, dance and song groups, choirs.

- profit understood as a tool facilitating the realization of missions and primary tasks;
- dependence on external financing.

3. Controlling in cultural institutions

3.1. Prerequisites for implementing controlling tools in cultural institutions

Various aspects of the concept have to be taken into consideration while discussing the issue of cultural institutions viewed as non-profit organizations. Such terms as “not result oriented” do not necessarily mean that such organizations should not generate profit and run a deficit. On the contrary, non-profit organizations should be managed effectively and their activities may generate profit and income, which in turn can be utilized for the purpose of the realization of statutory tasks and the cultural mission of an institution [Limański, Drabik 2007, pp. 13–14].

Modern management methods are based on the effective coordination of principle managerial and organizational activities. The lack of profit does not exclude possibility of defining and implementing controlling in non-profit organizations. Nevertheless, the specific fields of operation and most important aims of cultural institutions have to be taken into account [Borowiec 2007, p. 59].

Understanding the essence of controlling in cultural institution requires familiarization with its forms and defining whether it performs the function of supervising an institution or is used as a method of management [Sołtysik-Piorunkiewicz 2009, p. 37].

The most representative definition of controlling, which is strictly connected with the functions realized by this management method, was formulated by P. Horvath. The author defined controlling as a “subsystem of managing which coordinates planning and control, and provides information, creates and links the system, oriented towards result” [Horváth 1998, p. 143].

From the point of view of cultural institutions, the definition provided by P. Horvath perfectly depicts the function of controlling in these organizations. In the case of non-profit organizations, controlling should be treated as a supplementary device based on management, planning, information sharing and supervision. It combines the most important features of all these fields and allows for the realization of the basic aims and tasks of an institution.

Controlling in cultural institutions (understood as non-profit organizations) has the following characteristics [Borowiec 2007, pp. 60–61]:

- controlling is a subsystem of management which supports the realization of all basic tasks of an organization,
- the key function of controlling is to coordinate all subordinate processes,
- the main device utilized while implementing controlling methods consists in information oriented on decision making and management,

- the main aim of controlling is to achieve tasks and aims set by an organization,
- controlling improves the management process by initiating and supporting various activities .

Cultural institutions are in general service provision oriented, thus have the following characteristics:

- provided services are related mainly with spiritual and non-material values,
- results of the activity of an institution cannot be stored,
- services are provided on an one-off basis and unique contribution of an organization,
- it is difficult to standardize the activities offered by an organization.

Effective, professional and properly adjusted working mechanisms enable realization of a cultural mission as well as tasks specified by an institution. Planning should be taken into consideration while preparing the budget of such organizations. Every cultural institution is expected to plan the main topics of its activity as well financing for particular periods of time. Organizations are obliged to prepare annual plans and budgets which guarantee the achievement of strategic, operational and primary tasks. Planning facilitates the management of current activity and appropriate preparation of future tasks.

The process of budget preparation should be understood as distribution of acquired funds in a way which allows for an effective execution of all planned projects and activities within a given period of time. While preparing a budget, both income and prospective expenses are juxtaposed and subjected to further analysis [Matt 2006, p. 181].

Professional financial planning may aid the identification of generating prospective, additional income resulting from appropriate budget management.

The following major sources of income of cultural institutions can be identified [Matt 2006, p. 185]:

- subsidies granted by public institutions,
- sale of tickets
- provision of research and consultancy services,
- cooperation with sponsors.

Financing particular objectives defined by cultural institutions is subject to political decisions. Political decisions concerning the financing of important social initiatives from public resources are crucial for organizations providing services aimed at general public [Hagoort 1996, p. 47].

Cultural institutions need to manage their strategy over their long run and accomplish critical management processes [Kaplan, Norton 1996, p. 19]:

- clarify and gain consensus about strategy,
- communicate strategy throughout an organization,
- align departmental and personal goals to a strategy,
- link strategic objectives to long-term targets and annual budgets,
- identify and align strategic initiatives,
- perform periodic and systematic strategic reviews,

- obtain feedback to learn about and improve a strategy.

The Balanced Scorecard fills the void that exists in most management systems – the lack of a systematic process to implement and obtain feedback about a strategy.

3.2. The Balanced Scorecard

The specific nature of cultural institutions requires the use of tools which may coordinate actions in different areas of the activity of an organization. The strategy and the resulting objectives provide an impulse to take action at many levels. The perspective of controlling facilitates planning and control over these activities. Art managers rather seldom take advantage of modern methods of planning and coordination. The planning process tends to be archaic and the final implementation often departs from an adopted strategy.

The fact that four perspectives are identified in the Balanced Scorecard (BSC) allows for the classification of cultural institution as market participants. The background literature describes the use of BSC in non-profit institutions (particularly in the manufacturing and service provisions sectors), but so far BSC has not been applied in cultural institutions. Nevertheless, the construction of such a card is possible, since the way of defining the mission and strategic goals of cultural institutions can be translated into the perspectives of BSC.

Initially, the Balanced Scorecard was expected to perform a different and limited function of complex result assessment, but in its extended form, it operates as a universal and important element of the system of strategic management. The evolution of the method, triggered by its practical application, allowed for auto-adaptation of the BSC, which means that the method may be appropriately adjusted to changing environment. This valuable feature of the BSC defines it as a fundamental tool which can be applied in a dynamically changing environment. Adaptability means that the method is constantly updated and, if used in a creative manner, it becomes a self-learning solution [Ryńca 2009, p. 62].

BSC creates links between tasks identified in the strategy of an organization and its operational activities. The method must be appropriately combined with the initial mission of an organization and it consist of four basic perspectives:

- financial perspective – presents the tasks of an organization in the form of numbers;
- client perspective – presents market share as well as satisfaction and loyalty of customers;
- internal processes perspective – identifies key processes facilitating the achievement of assumed tasks;
- learning and development perspective – presents the satisfaction of staff as well as the ability to learn, develop and expand.

All cultural institutions must focus on the accomplishment of their goals as well as on maintaining the appropriate level of the satisfaction of both customers and organizers (funder). All these issues may be perfectly presented in BSC.

3.3. The Balanced Scorecard in a cultural institution – selected elements

Cultural institutions operating on local markets may wish to increase their effectiveness and facilitate the accomplishment of their primary tasks. BSC provides management with valuable information concerning an appropriate strategy and the development scheme of particular units. In order to take advantage of the tool, the perspectives of the Kaplan-Norton’s basic model must reflect the specification and the requirements of an institution. It is also necessary to take into account assumed results and the outcomes of an applied strategy.

The general strategy of an organization consists in maintaining the stability of an organization and acquiring funds which are necessary in order to guarantee the sustainable growth of an institution. Hence, the following draft for building BSC perspectives is suggested.

Table 1. The draft for building BSC perspectives of a cultural institution

| Objective | Measure | Target | Initiative |
|---|--|------------------------------|---|
| Financial perspective | | | |
| Increase of profits | Profits in comparison with a previous year | Increase by 5% | Proportional action aimed at convincing new sponsors to organize consecutive events |
| Decrease of costs | Profits in comparison with a previous year | Decrease by 5% | Restrictive distribution of funds, especially concerning funds spent on stationery |
| Customer perspective | | | |
| Customer retention | Number of current customers in comparison with a previous year | Maintaining the level of 95% | Loyalty program |
| Canvassing new customers | Number of new customers in comparison with a previous year | Increase by 10% | Informative and promotional actions |
| Internal business process perspective | | | |
| Reduction of time necessary for planning and creation of new events | Number of days | Reduction by 5% | Analysis and optimization of the process |
| Learning and growth perspective | | | |
| Retention of the key employees | Number of lost employees | 2 employees max. | Improvement of both social and education programs |

Source: own study.

Obviously, Table 1 represents only a draft, a general idea, which can be used to build a full version of the Balanced Scorecard.

In order to implement BSC successfully, the tool should be used on a regular basis. The continuity may be maintained by organizing meetings with employees a few times a year. The aim of such meetings would include discussion of the current condition of an institution, the update of key indicators and implemented actions. Future development prospects may be discussed once BSC has been updated.

4. Summing-up

The cultural scene is subject to rapid changes which highlight the significance of competitiveness and market-oriented actions. Cultural institutions are enterprises whose aim is to provide services to the general public. The services, which can be correctly defined from the economic, social, political and cultural point of view, are in most cases specific and cannot be provided by private companies. Moreover, private financial support may not be sufficient for the accomplishment of the basic assumptions of the initial strategy of an organization [Matt 2006, p. 22]. In order to understand the basic functions of cultural institutions as service provision centers, principle actions performed by such organizations, as well as the way in which they think, must be appropriately identified. The latter includes the features of the environment which are important from the point of view of the basic assumptions connected with tasks, a regular analysis of the effectiveness of applied methods, as well as a constant search for new solutions which may help to overcome the uncertainty of the environment. The development of a strictly specified profile and image of an institution is also of paramount importance. The application of the aforementioned approach may also lead to the improvement of the quality of provided services as a result of optimized planning and organizational structures. Such management methods are strictly connected with the application of modern controlling and planning tools.

The application of BSC as a modern and innovative controlling method is possible in the case of cultural institutions. In order to make the tool effective and facilitate the development of an institution, its application must be suggested by managers and implemented by all the employees of an organization. It has to be remembered that the introduction of controlling tools is complex in character. A basic level of knowledge of how to prepare databases and supervise the processes is relevant. It has to be taken into account that in the process of implementation of BSC, the effects of the application of the tool are visible after a long period of time.

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PRZESŁANKI DO ZASTOSOWANIA *BALANCED SCORECARD* W INSTYTUCJACH KULTURY

Streszczenie: Artykuł przedstawia pojęcie instytucji kultury i jest podstawą do rozważań nad możliwościami zastosowania controllingu w tym obszarze. Celem artykułu jest przedstawienie wstępnych założeń do wykorzystania *Balanced Scorecard*, a w szczególności próba definicji wybranych elementów tego instrumentu. Celem badań jest poszukiwanie i zdefiniowanie BSC dopasowanej do potrzeb i warunków instytucji kultury. Zakres prezentowanych w artykule zagadnień przedstawia się następująco: na początku omawiane jest pojęcie instytucji kultury ze szczególnym naciskiem na jej cele. Z powyższego wynikają przesłanki do zastosowania narzędzi controllingu w tym obszarze. Następnie przybliżone zostaje pojęcie *Balanced Scorecard* oraz zastosowanie wybranych elementów tego narzędzia w instytucji kultury.

Słowa kluczowe: instytucja kultury, controlling, *Balanced Scorecard*.