RELATIONSHIPS BETWEEN BUSINESS OBJECTIVES AND THE ACTUAL OUTCOME OF THE BUSINESS

Lavin, J & Randmaa, M.

Abstract: This article discusses the company's production performance evaluation system, which is based on the strategic objectives of a production company. Key performance indicators for shaping the company's manufacturing operations are formed into a matrix that describes the level of strategic planning in production performance. Production performance evaluation system is a resultant tracking model that aids the company to react quickly to changes in business environment, while maintaining security of supply, quality and profitability of production operations.

Key words: production performance evaluation system, Balanced Scorecard, business strategy, corporate performance monitoring system.

1. INTRODUCTION

Clearly formulated long-term objectives and successful execution are a prerequisite of company’s success. Industrial design of corporate performance starts with the company's vision, mission and strategic objectives, and appears in enterprise's performance indicators, which are divided into different, sometimes linked sub-plans, based on substantive and temporal aspects of the performance matrix. In terms of executing plans, it is important that the intentions, activities, resources, and objectives harmonize. Otherwise, our intentions will remain wishful thinking and cannot be implemented in real life. In order to ensure the implementation of flexible planning, transparency and rapid response to changes, the processes need to be monitored continuously. Corporate performance monitoring system is connecting planning and execution levels of business processes into a coherent whole, for comparing business link-level planning targets and actual results, and identifying the causes of deviations.

2. CORPORATE OBJECTIVES AND STRATEGIES

Company's strategic objectives are based on the mission, which describes the company's main objective for existence [1]. In addition to the main objective, the company needs to define its core values that reflect the nature of the organization. Company's core purpose and core values do not change over time; they define the purpose and nature of corporate existence.

Strategy is developed based on the analysis of the operating environment the company is in, which allows describing the current situation and forecasting the future. The concept of corporate strategy is based on the company's core purpose, core values and vision. The developed strategy is a systematic understanding of organizational goals confronted with the resulting action perspectives that stem from the organization and its environmental analysis. Unfortunately, generally and abstractly formulated vision, mission and strategic goals depend on the verbal formation, that can be influenced by wishful thinking of the management. It is important to establish connections between the development
and formulation of corporate strategy and its implementation [2, 3].
One instrument for strategic communication is the Balanced Scorecard that links performance metrics, derived from enterprise strategy, with the company's vision and strategic critical success-factors, objectives and resources through the four points [4]. Balanced Scorecard is a central communication instrument for strategic management process. The main idea of the measurement model is linking company's financial objectives with operational aspects of business such as customers, internal processes, learning and development. Four aspects of Kaplan and Norton must be considered as a general model that can be used in many different fields within a binding framework [5]. Every company has to shape its design perspectives based on the specifics of its operations that are of strategic importance in terms of its activity [6]. Production Company's operations have three key elements:
- commercial aspect- earnings and profitability of the operations,
- technological aspect- manufacturing operations efficiency,
- aspect of knowledge and skills- staff development etc.
Two types of chains and, consequently, two different strategies can be distinguished when setting objectives and formulating strategy for the manufacturing plant: the strategy of revenue growth and the strategy of productivity growth. Revenue growth strategy puts the emphasis on the market, products, customers and market segments. Origin for the revenue growth strategy development is in the sales department. Productivity growth strategy puts the emphasis on the company's manufacturing operations and on improving efficiency through the optimization of manufacturing processes, and improving technologies and the response to appearing problems [7,8].

For reaching the target, company may use a variety of strategies. Planning is primarily responsible for the development and evaluation of possible alternatives. Evaluation criteria of alternatives are based on corporate objectives. [9]

2.2 Connections between performance indicators and the development plans
Industrial design of corporate performance is closely linked to setting objectives and decision-making. Production Company's performance design parameters are written on production performance design matrix [Fig. 1], which is the base for the company's production plans, and are divided into different, sometimes inter-linked sub-plans.
From a chronological point of view, we can distinguish from the productivity design matrix:
- strategic-level indicators, which are primarily targeted to develop the long-term framework conditions for the enterprise;
- tactical level indicators, that are targeted to create the conditions for the implementation of strategic plans;
- operation-level indicators, that are aimed to use the conditions created at the tactical level.
Functional distribution is a mostly used way for distinguishing performance design indicators. It is based on the company's value creation process, where in the centre there are the core business processes: purchasing, sales, production, and relations between them. For larger companies, also the production unit layers are distinguished: workshop, factory, or even production-line layers. Functional distribution is originating from the company structure and management level.
From activity-process view, we can distribute production indicators and planning aspects as: input-, output- and process-driven aspects.
- **Production input planning** can also be viewed as a planning for preparedness of production potential. Production potential includes production factors, resources and materials needed for production operations.
- **Production outputs** are products and services. Different products and services constitute the product portfolio and the aim of a planning task is to find the optimal production program, based on market demand (the client's needs and the company's production potential). The production planning program is closely related to demand forecasting and technology development.
- **Production process** or transformation process planning is related to time-scale planning of manufacturing activities.

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3 A CONCEPT FOR EVALUATING MANUFACTURING PLANT PERFORMANCE

For executing plans, it is important that the intentions, activities, resources, and objectives are harmonious to each other. From business point of view, it is profitability of action that is important, however, from customer's perspective security of supply and quality is of greatest importance. In today's business environment, the company must be able to interrupt the production process without any major additional costs in order to rearrange the ordering of production. From production planning and actual results monitoring point of view, such characteristics as profitability, security of supply and quality acquire great importance. To link these processes efficiently, processes need to be:

- **transparent**, to ensure a timely assessment of process performance in real time,
- **flexible**, for a quick decision making according to registered processes performance indicators.

From process management point of view, it is important that the process would be structured so that it would be possible to affect the course of the process in time. To ensure flexibility and transparency of its manufacturing processes, we need to be able to evaluate the performance of our processes in real-time, in order to make quick decisions [10].

Key Performance Indicator (KPI) provides business with an overview of the company's production performance [11], which forms a system from three different aspects: product and production program, production potential and production process. This system is company’s activity-specific and depends on the company's business technology and economic performance. Company-specific performance indicators system serve as a basis for forming activity plans, which must ensure compliance with corporate key performance indicators and thus guarantee achievement of business objectives.

Besides planning, it is also of high importance to monitor production performance. To ensure transparency, and flexible response to changes in processes, continuous monitoring is needed. Production performance monitoring system is responsible for continuous monitoring and control execution of the production plans. Production tracking system is directly connected to the level of automation, which enables real-time process monitoring and control.

Company's production performance monitoring indicators system (Fig. 2.) is binding the levels of planning and execution. It is activity performance monitoring decision-making model that creates a link between the scheduled and actual comparisons, and helps to investigate the cause of deviations. This integral model originates from company’s objectives, activity-specifics and technological and economical capacities.
4. CONCLUSION

From the company’s point of view, establishing holistic control system for monitoring its performance is critical to the success of the company. The system design is based on the company's manufacturing strategy necessary to achieve their goals and plans for activities and resources, which are necessary for achieving goals that are based on production key indicators. To ensure the production activity transparency and flexibility, companies must evaluate their processes in real time in order to make quick decisions.

Production performance indicators are the basis for objective planning for achieving company’s production plans. Company’s production goals, operational plans and performance monitoring system must form a holistic unity, which is based on the company’s activity specificity, the production characteristics, the strategic objectives and critical success factors. Process-specific activities’ key indicators will help the company to evaluate the effectiveness of key processes and its performance.

Performance tracking system helps the company to create a specific action-decision model, which a business needs to maintain flexibility and react quickly to environmental changes in today's rapidly changing business environment. The decision-making model will help the company to make quick and right decisions, make new plans or make changes to existing plans. The company...
shall have at all times an overview of the company's production activities in order to maintain high product quality, security of supply and production profitability.

5. ACKNOWLEDGEMENTS

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7. CORRESPONDING AUTHORS

PhD student Jaak Lavin, Innovative Manufacturing Engineering Systems Competence Centre (IMECC), Akadeemia tee 19, 12618 Tallinn, Estonia
E-mail: jaak.lavin@imecc.ee

PhD Merili Randmaa, Department of Machinery, Tallinn University of Technology, Ehitajate tee 5, Tallinn, 19086, Estonia.
E-mail: jyri.riives@gmail.com