

# ANALYSIS OF THE MANAGEMENT OF THE FINANCIAL PERFORMANCE OF A POLITICAL PARTY IN ROMANIA USING THE CONCEPT OF BALANCED SCORECARD

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**Abstract:** *The research is a case study on the analysis of the financial performance of a political party in Romania, at the end of 2020, using the strategic model for measuring the performance of the Balanced Scorecard. A review of the existing international scientific literature and case studies was conducted to define a balanced plan of performance indicators for one of the four perspectives of the BSC theoretical model, namely the financial perspective, which is common to both an economic organization and a political organization. The paper evaluates the financial activity of a political party through a computer application - BSC Designer Light, whose architecture allows customizing the theoretical model of the Balanced Scorecard on the activity of a political organization. The purpose of the scientific approach is to evaluate the result of the financial activity, quantifying the scores obtained by the analysed party for each indicator and sub-indicator defined within the financial perspective. This study can be a consistent basis for expanding research to assess the performance of a political party from an electoral or parliamentary perspective and can be a viable alternative to current methods of quantitative evaluation used by political parties in analysing the activity results.*

**Key words:** *management, balanced scorecard, performance indicators, political party.*

## 1. Introduction

As in the case of economic entities, practice has shown the need to define performance indicators in the case of political organizations, their monitoring being

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possible with the help of performance measurement techniques used in economic organizations. Taken over and used worldwide by a multitude of commercial companies as well as public sector organizations, the original Balanced Scorecard model developed by (Kaplan & Norton, 1992) has evolved to the present day in a solid and validated framework of practice.

This case study is based on translating the theoretical model of Balanced Scorecard with the four perspectives: financial perspective, customer perspective, internal business processes and learning and growth, specific to the activity of a political party, focusing the analysis only on the financial perspective that is specific to both economic and political organizations.

The purpose of the research is to identify the performance indicators and sub-indicators related to the financial perspective, to establish the value of the targets and to monitor the results obtained in the current activity, at the end of the period subject to analysis.

The architecture of the balanced plan of performance indicators designed for the financial perspective facilitates the monitoring and evaluation of progress through a computer application - BSC Designer Light, specific to the classic Balanced Scorecard model.

The purpose of the scientific approach is to quantify the party's result in a final score obtained for the financial perspective, as a result of the weights of progress of each indicator / sub-indicator, depending on which one can make a first quantitative assessment of the activity of a political entity analysed.

## **2. Methodology**

Starting from this desideratum, the study evaluates the activity of a parliamentary political party in Romania, founded in 1992, and which is a well-established, traditional political party, being present at the government and represented in the Romanian Parliament in the 2016-2020 legislature.

The motivation for choosing this political party starts from the need to select for analysis, a political organization that has a history from a financial point of view. Also, from the financial perspective, it is important that the respective party has organized its own accounting in accordance with the provisions of Law 334/2006 and respects the obligation to publish financial reports according to specific legal regulations. At the same time, due to the complexity of the analysis, it is necessary for the selected entity to have the widest possible financial activity and to use all the sources of financing provided by the Romanian legislation.

The introduction in the computer program BSC Designer Light the specific data of the selected political party as well as the interpretation of the results, has in view the evaluation of the indicators from the financial perspective related to its own activity, without comparing its own results with those of other competing parties. The application allows the comparison of the results of 2020 with the party's history from the 2016-2020 legislature, practically with the years 2016, 2017, 2018 and 2019.

Starting from the basic concept of the Balanced Scorecard method, after defining the financial perspective within the analysed model, a weight is assigned to each defined

indicator, so that the sum of the weights within the perspective does not exceed 1 (100%). The same principle applies to sub-indicators related to an indicator, in compliance with the rule that the sum of the weights of the sub-indicators within an indicator is equal to 1 (100%).

According to the user manual of the BSC Designer Light software, the final score of the financial perspective is calculated in the form of a progress obtained by applying the weighted average formula. The weighted arithmetic mean applies both to each indicator and to the entire financial perspective as a whole and depends on the setting of parameters in the software.

In the minimal version of the application (Light version), you can analyse, evaluate and calculate the progress of established indicators and sub-indicators, depending on 3 parameters: "value", "baseline" and "target".

Each indicator / sub-indicator is assigned a target value in the "target" field, equivalent to the maximum target value for that indicator and a value for the "baseline" field, which is a minimum, basic value, from which the monitoring for that indicator starts. The "value" field contains the value / result obtained by the political party analysed at the end of 2020 for each indicator / sub-indicator separately.

The progress of that sub-indicator shall be calculated in the form of a score, obtained by applying the formula:

$$\text{Progress} = (\text{Value} - \text{Baseline}) / (\text{Target} - \text{Baseline}).$$

The application also allows the setting of different units of measurement for each indicator / sub-indicator in part type: score, Yes / No, etc. Also the computer program BSC Designer Light can highlight the individual progress of an indicator in graphical form: red for a progress of 20%, orange for 40%, light green for 60% and green for a progress of minimum 80%.

### **3. Defining Indicators and sub-indicators within the Financial Perspective**

Within the financial perspective, three performance indicators were set for the analysed party, corresponding to the two forms of financing provided by the Romanian legislation, private and public financing respectively, as well as revenues from the parliamentary elections, whose weights summed up within the perspective to be equal with 1 (100%).

The first indicator, private financing, comprises in its structure 4 other sub-indicators, related to each financing source provided by Law 334/2006, respectively, contributions, donations, loans and incomes from other sources.

The second indicator, public funding, is materialized in the form of a monthly subsidy that parliamentary parties receive from the state, through the budget of the Permanent Electoral Authority, as long as it complies with the legal provisions regarding the destination of expenditures for these amounts.

The third indicator, parliamentary election revenues, is the party's performance in attracting funds from its own candidates in order to finance the electoral campaign for the parliamentary elections.

Thus, summarizing, the financial perspective contains three indicators, one for each funding category and the indicator on income from the election campaign for parliamentary elections, whose combined weights are equal to 1 (100%) and four sub-indicators related to the private funding indicator whose total weights are also equal to 1 (100%), according to the principle of operation of the application.

The share allocated to each indicator in the financial perspective was set at 0.8 (80%) for private funding and equal shares of 0.1 (10%) for public funding and revenue from the election campaign for the parliamentary elections, so that the sum of the indicators from the financial perspective should be equal to 1 (100%).

The rationale for this distribution is mainly that private funding requires effort and financial discipline on the part of a political party, namely that for certain sources of income, such as contributions, their annual amount is not capped by law. The collection of funds from private sources involves a consumption of resources related to the determination of the amount of contributions, their monthly collection and the preparation of public reports on contributions.

Resources must also be allocated for the identification of donors and the registration and declaration of donations from both individuals and legal entities, as well as the amount of confidential donations. Efforts are also needed to access and declare loans from individuals and legal entities, their repayment within the legal deadline and the monthly collection of all amounts from other sources of income, especially from the subletting of spaces for the organization of parliamentary offices. All these aspects motivate a weight of 0.8 (80%) for the private financing sub-indicator under the financial perspective.

On the other hand, even if the form of public funding is predominant in the total revenue of a political party, the share of 0.1 (10%) allocated in the BSC for public funding is associated with minimal effort and minimum consumption of resources by a political party. This form of financing is granted according to the results obtained every four years during the electoral consultations (75% results of parliamentary elections and 25% results of local public administration elections), consultations which in turn benefit from financing related to electoral campaigns and which are distinct from the current activity of the party.

The financing of the electoral campaign in Romania for the parliamentary elections is a phenomenon that occurs every four years, and the effort to collect electoral contributions is exclusively the responsibility of the candidates in the elections, the party's contribution being relatively low. The share allocated in the financial perspective for the indicator on income for parliamentary elections was 0.1 (10%) because the management of financial resources related to election campaigns is done by financial agents, who, in most cases are accounting experts, people not involved in the current financial activity party.

The total budget of public and private financing for the years 2016, 2017, 2018, 2019 and 2020 amounts to 1,014,332,063 lei according to the official data published in the Official Gazette of Romania. Of this amount, 717,811,169 lei are related to the subsidies obtained by the parliamentary political parties from the state and 296,520,894 lei are money related to private financing.

Of this total funding budget, the distribution was only 29% for private funding and 71% for public funding, an important and unconditional share of any performance from the beneficiaries, which would determine access to these funds. In addition, the amounts from public financial resources are relatively constant for four years, and changes can occur only as a result of changes in legislation, which is also done at the initiative of the beneficiaries - parliamentary parties and are valid for all parliamentary parties. At the same time, the granting of the subsidy depends on a single criterion, of a legislative nature, which refers to the observance of the destinations of the expenditures that have as source the public financing. From this point of view, the Romanian legislation is permissive and overwhelmingly covers the functioning needs of a political party.

From the reports published on the website of the Permanent Electoral Authority, an institution empowered to control the financing of the activity of political parties and electoral campaigns in Romania, it results that all eligible parties in the 2016-2020 legislature, including the analysed party, received a monthly state subsidy, with the exception of the National Union for the Progress of Romania, a party that was not represented in parliament in the mentioned legislature.

For the year 2020, to which the present research refers, the total value of the financing of all parliamentary parties was 374,697,784 lei, of which 250,315,583 lei were related to subsidies and 124,382,201 lei were money related to private financing, which means a distribution of 67% for public funding and 33% for private funding. One explanation for the increase in the share of private funding is that 2020 was an election year and implicitly the mobilization of parties is growing in all areas, including the financial one.

In the case of the analysed party, the total revenue budget, both from private and public sources for 2020 was 148,783,658 lei, which represents 40% of the total revenues of all parliamentary parties in 2020. As a distribution, by financing categories, 83%, i.e. 124,124,728 lei are related to public financing and only 17%, i.e. 24,658,930 lei are money from private financing; hence this party's financing its activity mainly from public money.

In order to allocate shares to each sub-indicator of those already defined within the private financing indicator, we started from the examination of the amount of 296,520,894 lei, which represents the total value of private financing in the periods 2016–2020, for which there are published data from the same sources mentioned before. The distribution of private financing during this period is composed of contributions in the amount of 120,614,208 lei, donations in the amount of 101,525,006 lei, income from other sources in the amount of 9,830,202 lei and loans of 64,551,477 lei, which leads to a share for each funding source in total private funding in the amount of 0.41 (41%) for contributions, 0.34 (34%) for donations, 0.03 (3%) for income from other sources and respectively 0.22 (22%) for loans.

Regarding the party subject to analysis for 2020, the distribution of funding in the case of the contribution sub-indicator, followed the national trend, the total amount of contributions being 11,070,764 lei with a share of 0.45 (44%) of the private funding budget that was in the amount of 24,658,930 lei.

Regarding donations, their total value in 2020 for the same party was 411,000 lei, which represents a percentage of 0.02 (2%) of the total funding, similar to revenues from other sources, which were in the amount of 468,141 lei.

The loans represented the most important source of private financing for the party at the level of 2020 because they amounted to 12,709,025 lei, which represents a share of 0.51 (51%) of the total private financing. In fact, at the level of 2020, the monitored party registered the highest value of loans in the entire analysed period, in the sense that in 2016, 2017 and 2018 the party did not register any loans, and at the level of 2019 the loans amounted to 930,000 lei.

Thus, taking over the distribution of the weights on each source of financing in part with respect to the total revenues from private financing for 2020 for the party under consideration, in order to monitor the progress of the financial activity, for the private financing indicator, the following weights were operated in the computer application: contributions 0.45 (45%), for the sub-indicator donations 0.02 (2%), for the sub-indicator revenues from other sources 0.02 (2%) and for the sub-indicator loans 0.51 (51%).

#### **4. Progress of Indicators and sub-indicators from the Financial Perspective**

To assess the progress of the three indicators related to the financial perspective and the four sub-indicators related to the private financing indicator, the score was calculated applying the aforementioned formula, which depends on the value obtained by the party analysed in 2020, relative to target and baseline.

Within the private financing indicator, the target for the contribution sub-indicator for 2020 was set based on the analysis of the history of this sub-indicator during 2016-2019 and was set at the level of the year in which the party registered the highest level of contributions and the baseline parameter. As regards dues, the target was set at the lowest level of dues received by the party during the period under review.

The value field was filled in with the result of the party's activity on the respective sub-indicator, i.e. with the total value obtained by the party at the level of 2020, for the contribution sub-indicator.

Similarly, the target, baseline and value parameters were set for sub-indicators, donations and income from other sources.

In the case of the loan sub-indicator, due to the fact that the analysed entity during 2016-2019 registered loans only in 2019 amounting to 930,000 lei, if the setting mode of the baseline parameter had been kept, the value of 0 lei would have been systematically compared with both the value of 930,000 lei and the value registered in 2020, 12,709,025 lei respectively, in which case the party would have registered a counter-performance of -1266.56%.

In order to maintain the objective and realistic character of the analysis, the unit of measurement of progress for this sub-indicator was set according to the "Yes / No" mode. Thus, a party that does not have loans was considered to be performing, which is why, for 2020, the result was "Yes" because the party contracted loans, "No" was applied to the target because the objective was not to contract loans and baseline "No" because the party did not register loans until the previous year, not having a comparable

history in this regard. The confirmation of the lack of history on this source of financing, also emerges from the consultation of the database of the banipartide.ro website, according to which, starting with 2006 and until 2018 (including this year), the party did not access loans.

This approach led to a score of 0% for the loan sub-indicator, which shows that in 2020 the party used to finance a loan income that must be repaid according to the legislation in force within two years.

The same unit of measurement with "Yes / No" was used in the case of the public funding indicator, motivated by the fact that all parties in the legislature receive the subsidy from the state. The parties can not influence the monthly value of the subsidy because the calculation algorithm is provided by legislation, in which case the amount is relatively constant from one month to another and from one year to another.

The increase in the value of the public subsidy is not the result of a sustained and constant effort of the party, but is due to the results obtained once every four years in the parliamentary and local elections. The comparison of the values of the subsidies with other parties is not relevant for the period 2016–2020 because the political party in question, due to the fact that it has the greatest number of mandates of parliamentarians and county councillors, will implicitly have the highest value of the subsidy.

All these context motivated the allocation of the share of only 0.1 (10%) from the total financial perspective. In this case, in the computer application, the value was "Yes" because the analysed party received public funding, the target was also operated "Yes" because the objective was to obtain the subsidy, and the baselines recorded " Yes "because the party has accessed that funding every year. In this case, too, the monitored indicator did not progress, the score for the BSC public funding index being 0%.

For the income indicator of the parliamentary elections from the financial perspective, the logic of establishing the progress of this index was influenced by the theoretical value that party candidates can bring as a contribution to the election campaign. In this sense, the legislation stipulates the maximum quality of the contributions of the candidates for the electoral campaign for the parliamentary elections to be in the amount of 60 gross minimum basic salaries per country for each candidate for the position of deputy or senator.

Thus, the target was set at the level of 62,217,000 lei obtained by multiplying the value of the minimum gross salary in the country in 2020, i.e. 2,230 lei with 60 salaries and the total number of seats of parliamentarians - 465. Baseline was established at the level of the candidates' contributions from 2016 related to the same type of elections, in the amount of 14,959,061 lei, and in the value field the result of this index for 2020 was completed, which was in the amount of 47,939,214 lei. The synthesis of the progress of the indicators and sub-indicators of the financial perspective and the values of each parameter are presented in Table no.1.

*The progress of the financial perspective*

Table 1

KPI	Progress	Value	Baseline	Target	Measure	Weight
<b>Private financing</b>	<b>15,83%</b>	.....	.....	.....	%	<b>0,8</b>
<i>Contributions</i>	38,95%	11.070.763	8.499.854	15.099.999	Lei	0,45
<i>Donations</i>	42,39%	411.000	69.000	875.745	Lei	0,02
<i>Revenue from other sources</i>	-127,16%	468.141	729.984	935.900	Lei	0,02
<i>Loans</i>	0,00%	Yes	Yes	No	Yes/No	0,51
<b>Public financing</b>	<b>0,00%</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>Yes/No</b>	<b>0,1</b>
<b>Revenue parliamentary elections</b>	<b>69,79%</b>	<b>47.939.214</b>	<b>14.959.061</b>	<b>62.217.000</b>	<b>Lei</b>	<b>0,1</b>

The final score of the **financial perspective** from BSC for the analysed party in 2020, calculated based on the weights and parameters set in the software, was **19.65%**, as signalled in red by the application, according to the screenshot below.

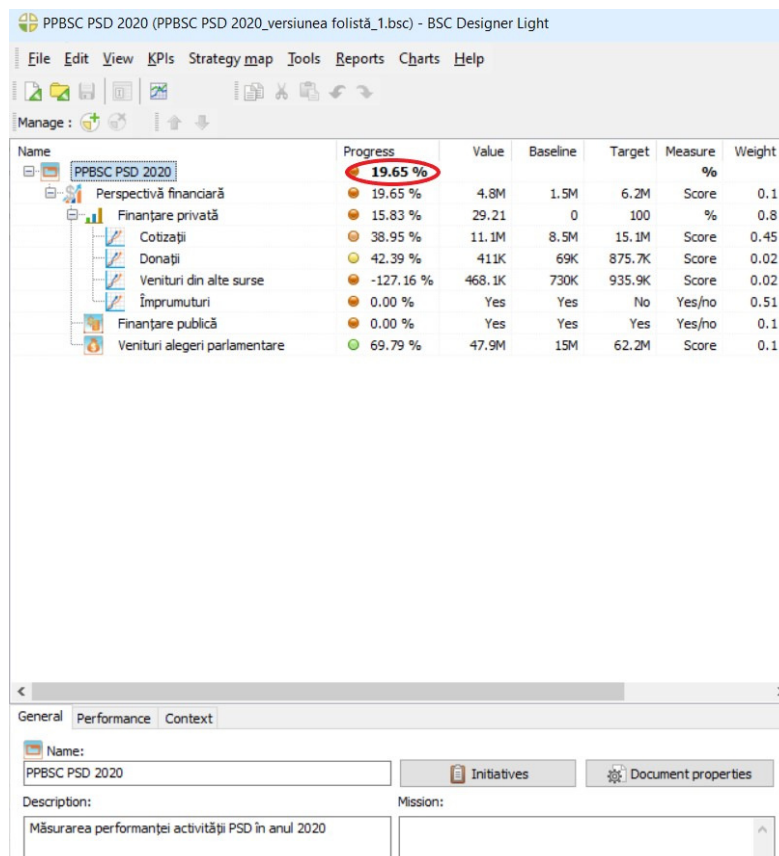


Fig. 1. Image of BSC Designer Light



## 5. Conclusions

The score of the financial perspective in BSC for the party subject to analysis in 2020, of only 19.65%, shows a very poor result for the largest parliamentary party in Romania.

Even if it is the party with the highest revenues in Romania, 83% of the total revenues come from state subsidies and in the case of private financing, 51% of revenues are obtained from loans. This distribution of revenues clearly emphasizes the party's dependence on public funding.

Although it is the party with the largest number of members, at the level of 2020 it registered a value of 11,070,764 lei from the collection of dues, a value lower than the one in 2016, when it collected dues amounting to 15,099,998 lei. The situation is similar in the case of donations, when in 2016 it received the amount of 875,745 lei from donors, and in 2020 it decreased to the value of 411,000 lei. The score of -127.16% indicates a clear counter-performance for revenues from other sources that overwhelmingly come from renting / subleasing their own spaces in order to organize the territorial parliamentary offices.

The final score must be analysed in the context of the COVID-19 pandemic and it can be considered as predictable most likely not only for the analysed party, but also for the other parliamentary parties, because some sub-indicators have registered a similar evolution for several political parties, which reflects the reality on the Romanian political scene.

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