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# ASSERMENTS ON PERFORMANCE OF ECONOMIC ENTITIES

**Assistant professor PhD. Cristina Gabriela COSMULESE**
*Stefan cel Mare University of Suceava, 13 Universitatii Street, 720229, Romania*
*gabriela.cosmulese@usm.ro*
**Professor PhD. Elena HLACIUC**
*Stefan cel Mare University of Suceava, 720229, Romania*
*elenahlaciuc@gmail.com*

**Abstract**
*Currently, the direction of most entities is aligned not only with the development of new services or new principles, but also with the highlighting of a new way of approaching the problems as an equivalent of the innovation term that helps to obtain a value contribution, more precisely, of performance. The present paper focuses on deepening the notion of performance, analyzed first and foremost at a general level, and then to include and delimit the concept of financial performance in particular. In this regard, we will consider the details of the essential components of the performance of the company, since the management system of a company cannot use a decision-making tool if it does not have the possibility to measure concrete and relevant the obtained results. At the same time, the paper discusses a classification of the performance as found in the specialized literature, as well as the implications of the accounting policies on it.*

**Key words:** global performance, social performance, organizational performance, financial performance indicators, evaluation.

**JEL Classification:** M41

## I. INTRODUCTION

As the competitive environment of the entities has evolved lately, mainly due to the phenomenon of globalization, we see a shift from what it means to approach control in an enterprise, to the phenomenon of monitoring the activity and the results obtained. Therefore, we can say that the monitoring and evaluation process starts from a traditional approach, based on control, to a system based on obtaining data and financial information relevant to the performance measurement.

Therefore, we can say that the monitoring and evaluation process starts from a traditional approach, based on control, to a system based on obtaining data and financial information relevant to the performance measurement. Also, another level includes the social effectiveness from the point of view of conflicts of interests, contradictions that can influence the social climate of the entity and implicitly the performance. Another perspective is that which concerns the organizational sphere.

Analyzing the specialized literature we found that all activities and requirements are centered around performance. First of all, it is desired that the activity carried out is performing, especially from the point of view of the beneficiaries of results, then we have found this requirement also in the relation with the employees, at all the hierarchical levels, from managers to the last stage of the organizational chart. Also, the products and services offered are required to be performed by their users. We notice, therefore, that the term "performance" is found very often in all areas of activity.

However, in defining the performance we had some difficulties due to the fact that the concept has several valences.

According to the explanatory dictionary of the Romanian language, the performance is “a (very good) result obtained by someone in a sports competition; special achievement in a field of activity or the best result obtained by a technical system, a car, a device, etc ".

We note that the definition focuses on the sports field as it has a major impact on the public, and the results are uniformly quantified in medals, trophies and other distinctions for special merits. Thus, the performance is practically transposed by obtaining “particularly good results” by a technical system or even by an individual or group of people within the activity carried out. We must emphasize that in the general definition of performance no details are made regarding the organizational or financial performance of an enterprise.

Another interpretation, from the point of view of Didier & Etienne (2002), traces new directions of performance. The author considers that performance is not a mere finding of a result, but rather the result of a

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comparison between the result and the objective. The author's definition is far from explicit because the results and objectives vary, most often, from one field of activity to another.

Studying the specialized literature, we identified an interesting link between performance and effort defined by expectations theory (Vroom, 1964). By his approach, the author quantified the results, depending on the effort made by an individual in his actions. Thus, the expectation seen from the point of view of an employee, for example, refers to the idea that effort is indispensable in obtaining the performance, this being influenced by the resources available to the individual.

In conclusion, the concept of "performance" can be expressed according to the following essential characteristics:

- depending on the objectives expected;
- by reporting to a specific activity;
- in direct association with the results obtained from the activity carried out;
- in relation to the effort and resources put in place.

## II. COMPLEXITY OF BUSINESS PERFORMANCE

Over time the concept of performance has been analyzed and quantified from several points of view, so that in the specialized literature we can capture different dimensions of the performance of the company, namely (see Table 1):

| No. | The dimensions of the performance of the enterprise | Concept description |
|---|---|---|
| 1. | Overall performance: concept-suitcase | represents, a cumulative of achievements in terms of financial and non-financial results created for partners, as well as the certainty of obtaining benefits over a long period of time |
| 2. | Social performance - social responsibility | it represents “the actions of an enterprise regarding the promotion of social interests before elements of strictly economic interest and outside the legislative demands” (Ștahovschi & Mircea-Dafinescu, 2013: 37). |
| 3. | Organizational performance | to express organizational performance, they are used in addition to the benchmark indicator, profit, a generous number of other information, such as organizational growth, turnover, or market share; also, the intangible factors, such as the image or the satisfaction of the employees, are used mainly by the organizations as a support for the establishment and the fulfillment of the social objectives (Ciubotariu, Socoliuc, Mihaila & Savchuk, 2019). |
| 4. | Financial performance | refers to different financial reports given that these reports are a convenient tool for measuring performance |

Source: Author's own processing

High performing entities are considered to be the ones that invest sustainably in their employees, in the products and services offered and place a major emphasis on the needs of the customers. Thus, the performance of an entity must follow, in addition to the financial perspectives and the extra-accounting information regarding the social, environmental, cultural, etc. aspects.

According to the authors Albu & Albu (2003: 97-103), “global performance refers to the balance and the causal relationship existing between external and internal forces, constituting through continuous improvement of internal processes, through innovation and training of personnel, through customer and shareholder satisfaction through environmental protection ”.

Corporate social performance is a concept often used in the field of business ethics, often defining the basic interaction between the principles of social responsibility and the existing policies for solving specific problems. This definition implies the establishment and delimitation of the principles of an organization in the direction of responding to the challenges that arise as a result of the relations between the company and the society. Having connotations and connections with the social environment, the performance gives rise to an accumulation of obligations for companies, regarding the ethical behavior, maximizing the profits of the stakeholders, ensuring a sustainable development as well as maintaining an optimal relationship with the stakeholders (Dahlsrud, 2008).

There are several approaches to organizational performance, but we have unanimously found that this represents the achievement of organizational objectives from the perspective of stakeholders. According to Seashore and Yuchtman (1957), conceptual frameworks for evaluating organizational performance have been developed in response to managers' repeated failure to make reliable and valid estimates of organizational

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performance, as well as repeated failure to identify applicable relationships between predictor variables. and organizational performance variables.

Although prescriptions for improving and managing organizational performance are widely available, the academic community has been largely concerned with discussions and debates on terminology issues, levels of analysis, and conceptual bases for performance evaluation (Ford & Schellenberg, 1982).

## III. Financial Performance - Core Of Performance Of The Company

The accounting literature gives financial performance an important segment of analysis and development both nationally and internationally. Thus, one of the objectives of International Accounting Standards is to provide information on the financial performance of the company. From this statement, we can deduce the idea that any organization that has achieved positive results is performing, but in practice things are much more complex.

We align ourselves with the opinion of Feleagă and Ionașcu (1998: 133) according to which the performance of an organization is defined first of all according to the value of the profit, that is to say the result. It can be highlighted at the patrimonial level, through an economic approach and it can also be calculated according to the financial theory. As confusion is often created due to the diversity of concepts used in performance, we consider a clear delineation of each concept necessary.

Productivity is considered by researchers (Jagoda, Lonseth & Lonseth, 1992) to be the primary source of performance. First, productivity is closely linked to the availability and use of resources. Specifically, this means that the productivity of a company has low values if its resources are not used properly or if some of them are lacking. Second, productivity is related to value creation. This presupposes the following hypothesis: high productivity is achieved when the resources used in the manufacturing process add added value to the finished products. The concept was analyzed by us and in the previous subchapter, and we defined it as a ratio between input and output resources.

Profitability or profitability is "the economic category that expresses the ability of the enterprise to make a profit" (Petrescu, 2010: 31). Generally speaking, long-term profitability is itself the main goal for the success and development of any business. This can be defined as the ratio between revenues and costs or between profits and assets. However, rates of return mainly serve the needs of shareholders and, therefore, many researchers (Grünberg, 2004) argue that overuse of monetary ratios may have disadvantages. About the rates of return we will discuss at length in the next section of this chapter, this part being reserved only for the definition of terms.

We have encountered opinions that the performance of an entity is positively related to the capabilities of the enterprise concerned, with particular reference to tangible and intangible assets and existing personnel. However, the notion of growth is an important instrument in measuring performance, it can be said that two companies cannot have the same growth potential, due to the differences between their capacities. For example, if we were to consider sales performance in measuring performance, the authors conclude that performance is positively correlated with firm capacity.

Summarizing the definitions found in the specialized literature regarding the performance of the enterprise from an economic point of view, we can say that the result of a financial year is calculated as the difference between total revenues and total expenses, as we can see in Figure 1.

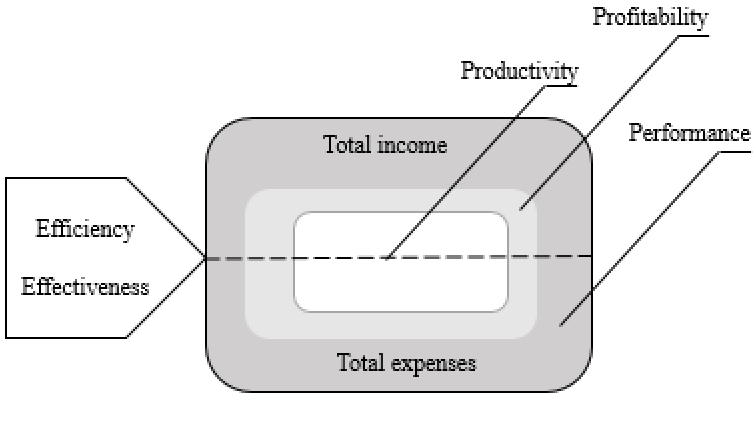


**Figure 1 - The dimension of performance from an economic point of view**
Source: Tangen, 2005

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It can be seen from the figure above that performance is much more comprehensive than productivity and profitability and the result is influenced by efficiency and effectiveness.

For an organization that does not work in the positive sense, performance can mean the possibility of paying off its outstanding debts, and for a successful entity, performance consists of high profitability and efficiency.

Referring to the last two concepts, we can say that, the performance consists in the state of competitiveness of the company achieved through efficiency and efficiency, and their sum converges towards excellence.

## IV. Measurement, Evaluation And Analysis Of Financial Performance

Measuring the value of the enterprise is a complex process as the methods of financial evaluation are numerous: patrimonial, capitalization, goodwill. However, the overall value of performance must be expressed through a number of indicators on which it is directly dependent and can be easily quantified. If we were to generalize, we can say that the notion of performance concerns the result obtained after the action. The financial performance, however, is particularly focused on the possibility of a company to make a profit and implicitly shows us the potential resources that the company will own and control in the future (Mates, Seucea, Dumitrescu, Alionescu, Grosu, & Socoliuc, 2012).

Performance measurement is a complex and progressive system that clarifies the present, and more importantly, the future of performance.

We believe that performance measurement is practically the value used to quantify performance. It is an analytical tool in the performance analysis process, which records measures, displays results and determines subsequent actions. Generally, performance measures have financial or non-financial and fixed or intangible classifications. Financial performance measures tend to focus on the impact that results in financial symbols of manufacturing activities, such as manufacturing activities, while non-financial performance measures tend to focus directly on actual production activities, such as turnover, cost of investments, etc.

The performance measures of the bodily elements indicate direct measurements, such as the value of the total costs, while the intangible measures are intangible values that indicate indirect characteristics of the goods, such as the instant attitude, service capacity, goodwill, and reputation.

From a quantitative point of view, the performance is related to the results, practically, to a scale of values, and means that, in general, it can be quantified in a variety of dimensions.Therefore, we think that the global performance is “a compromise between the directives of the shareholders, managers, customers, employers, creditors and other interesting parties such as: public power, suppliers, etc. In fact, there are few solutions to replace the financial evaluation of performance that is based both on a solid theory and on the operability of managers ”(Tabara, 2012: 230).

The importance of measuring performance within the company is first and foremost the following: a good system of corporate governance cannot exist without this support. However, poor measurement methodology can significantly impede a company's progress.

Of course, it is difficult to quantify the exact value of the performance (Bostan, Roman, Grosu, & Condrea, 2009), but in order to get as close as possible to it, we must correctly identify the measurement indicators and apply them properly, taking into account the evolution of the events and processes of the analyzed entity as well as legal and methodological regulations.

Figure 2 shows the main indicators used in the financial performance analysis, as follows:

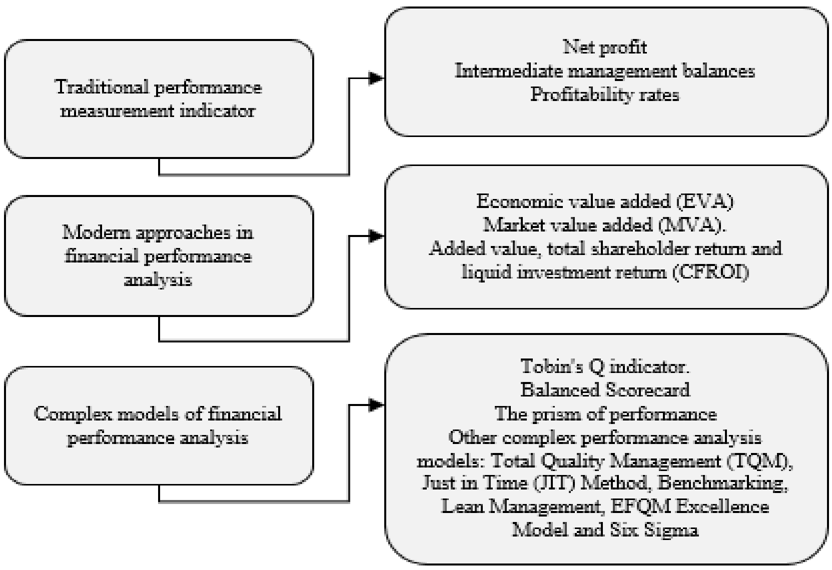

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**Figure 2 - Financial performance indicators**
Source: own elaboration author

Regarding the advantages and disadvantages of the financial performance measurement models in the following, we will try to make a brief analysis according to the representative characteristics of each type of indicator discussed in the figure above.

As for the traditional indicators they have certain advantages such as: simplicity, intelligibility, they can eliminate the subjectivity in choosing the indicators, help to identify the strengths and weaknesses of the company. They are used to identify the profit or loss of the company, provide a perspective for the management of the company; helps identify progress on cash flows, revenues; in their calculation they are mainly operated with data obtained from the financial accounting; have a static character; are the most present and most often used in practice (Ciubotariu, Zlati & Nuca, 2019).

However, they also have certain limitations, namely: they are calculated on the basis of an accounting system based on commitment principles; do not take into account any changes in the market value of the assets; information about the occurrence of some causal problems is missing.

As representative features in terms of modern indicators, according to the specialized literature it appears that the methods are based on value added management; these can be used for some complex management models; and are used only in large, listed companies. As an advantage, these indicators simply and intelligibly express the company's success; they can be used as a link between operational and strategic management; and recognize the market value. However, they also have certain limitations, namely: complicated calculations of indicators; calls for identification of the input data; the results obtained through the work of the managers are not well differentiated from the results determined by other circumstances; complicated calculations of indicators.

The indicators within the complex models of financial performance analysis are oriented towards indicators, financial and non-financial, aim at the evaluation of the overall performance of the entity; they are not just limited to performance measurement but can be used to manage the factors that affect performance; and are used only in large organizations. The advantages consist in the evaluation of the overall performance of the entity; they can be a support for strategic management and in identifying the causes, relationships and consequences. Some limitations of these indicators may be that it takes a long time for analysis; we suppose certain costs with the implementation of the methods and there is the possibility of the emergence of a strategy problem and its transfer to the operational management.

## V. CONCLUSION

Interest in performance measurement has increased considerably over the past 20 years. In particular, it is important to note the evolution of performance concentration from a financial perspective to a non-financial perspective. Since the mid-1980s, companies have underlined the increasing need for process control within companies in the sphere of production. Companies have understood that in order to compete in a constantly changing environment, it is necessary to monitor and understand the performance of the entity. Measurement has been recognized as an essential element to improve business performance.

In this sense, we have classified performance measurement indicators into three categories: traditional, modern and complex indicators. Thus, we presented the implications of the net profit, the intermediate management balances as well as the profitability rates in the measurement process.

Regarding the modern indicators of performance evaluation, we can say that they are focused on the notion of "added value". We believe that through these modern methods some of the limitations of traditional financial measures are being attempted. Including the capital cost of a company in the calculation of measures based on "value" facilitates the assessment of value creation. Moreover, these measures attempt to eliminate some of the accounting distortions that result from the limitations of conventional accounting information.

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