MODERN APPROACHES REGARDING THE ASSESSMENT OF THE COMPANY'S OVERALL PERFORMANCES

Achim Monica Violeta
Babes-Bolyai University,
Faculty of Economics and Business Administration, Cluj-Napoca

Pintea Mirela Oana
Babes-Bolyai University,
Faculty of Economics and Business Administration, Cluj-Napoca

Mara Ramona Eugenia
Babes-Bolyai University,
Faculty of Economics and Business Administration, Cluj-Napoca

The importance of this research can be supported by ambitious goals that are attributed to performance measurement / assessment of a company such as: improving company performance, optimization of company's management and motivating staff. In the current context of sustainable development, the performance definition, measurement and maximizing system of companies becomes a complex one. The modern business environment demands a multi-goal orientation. Profit theory is no longer a valid measure of organizational performance and neither are other approaches that only take the interests of shareholders (owners) of a company into account. Today's business environment is characterized by the increasing importance and strength of various stakeholder groups. This paper captures the current mutations brought on the line of developing a modern system of assessment of company's performance.

Keywords: sustainable development, global performance, financial indicators, non-financial indicators.

Jel Classification: M10 , M14, M21

1.Introduction

In a world of competition, which has gained increased dynamism, as a result of environmental change and increased financial risk once with increased financial and economic turmoil and with the internationalization of trade regarding goods and money, achieving **"excellence"** in business is the way of survival and development for any business in a competitive economy.

One of the ways to achieve excellence, is performance, currently is increasingly talking about **overall (global) performance**. This new approach to performance is now known as sustainable development, which has three objectives: increasing economic and financial performance of the company, development of effective environment and encouraging social development. Thus we can say that overall performance is the sum of financial and economic, ecological (environmental) and social performance.

In the current conditions of globalization of world economy, a performing company is the "enterprise that creates added value for its shareholders, satisfies customers demand, takes account of employee opinion and protects the environment. Thus, ownership is satisfied that the company achieved the desired return, customers trust the company and the quality of future products and services, employees are proud of the company where they work and the society benefits through policy adopted by the company regarding environmental protection (Jianu, 2006).

Measuring performance has been and is a constant concern of management because it represents are an essential criterion for companies' survival. Current economic circumstances justify the need for renewal and improvement of performance measurement techniques and tools and selecting appropriate indicators in the steps to maximize target performance.

2. Triple Bottom Line approach on company's overall performance. Literature review.

In the current context of sustainable development, the accent regarding the issue of maximizing overall performance of the entity is put on the fact that this should happen only in the conditions in which it maximize (optimize) in the same time the performances for all participants in economic life of a company (stakeholders) and not just those of shareholders. In this sense, the key to driving adoption of company policies should start from the approach "Triple Bottom Line" that is maintaining a balance between the three pillars, namely:

- *Maximize economic performances* meaning maximizing performance for shareholders. This goal can be achieved based on traditional accounting financial criteria, (based on income, profitability, cash flow) or criteria derived from the theory of value creation for shareholders (Economic Value Added, Market Value Added).
- *Maximize social performance* which requires maximizing performance for all participants in economic life (stakeholders) this means from employees to the community, from suppliers to customers and from investors and creditors to state, from managers and corporate governance and maintaining the center attention of the shareholders.
- *Maximize environmental performance* which implies an activity that does not affect the surrounding community and environment, thus developing the best environmental performance in relation to the environment

Triple Bottom Line (TBL) concept developed by John Elkington in 1997, advocates the idea that a company's overall performance should be measured by its contribution to triple economic prosperity, environmental quality and social capital. Subsequently, this idea began to be widely supported by a large mass of writers, recalling only a few outstanding authors: Philip Kotler and Nancy Lee (2005), David Vogel (2005), William B. Werther, Jr. and David Chandler (2006), William C. Frederick (2006).

In Romania, there were also concerns in the direction of approaching performance from a global perspective, especially in the context of national economic approaches on the line of EU integration. We recall in this regard concerns of authors such as Niculescu M. (2003), Stancu A. &, Orzan M. (2006), Ciobanu (2004, 2005, 2006), Mironiuc M. (2009), Tabara et al (2007), Siminica M. (2008).

In the current context of sustainable development, financial performance is not sufficient to assess the activity of an enterprise. This notion was extended to take into account social responsibility and societal responsibility of the company towards stakeholders, which includes environmental issues.

The concern regarding the modalities of adopting social responsibility at the company’s level in the current context of sustainable development, raised concerns about their reporting in various forms, among with financial and accounting reporting. The most advanced initiative towards a credible reporting system of sustainable development is the Global Reporting Initiative (GRI). This report should provide sufficiently detailed and balanced representation of sustainability performance of organizations, including the impacts both positive and negative ones generated by it. Performance indicators developed by the GRI are divided into: ***Economic performance indicators, Environmental performance indicator and Social performance indicators.***

3. Selecting performance indicators representative for the company's global performance

In literature, there is very differentiated approachs in terms of choosing the most representative indicators of overall company’s performance. Meyer (2002) identified a total of 117 top-level measures that include 17 financial measures, 17 measures related to customer, 19 internal processes related measures, 35 measures on renewal and development and 26 measures related to human resources. This supports the allegations according to which " we measure everything that walks and moves, but nothing that matters" (Neely, Austin, 2002).

3.1 Selecting performance indicators representative for the company's economical performance

Making references to economic performance, the synthetic forms of representation of a company's economic performance is around traditional concepts of profit and profitability and the modern approach, yet extremely artificial, the increase of the value of a company. Regarding synthetic performance reflected by increasing the value of a company representative indicators for the increase of the value are addressed differently in the literature as follows:

- Halpern P, Weston F & Brigham E. (1998) refers to a company's growth measured by growth rates that are designed to indicate the firm's ability to maintain its market share when the economy and industry are in a period of expansion. Most representative indicators that reflect a company's growth would be, in the authors' view the following: turnover, net profit, earnings per share and dividend yield.
- Greuning H.V (2005: 27), making some interpretation about International Financial reporting Standards (IFRS), considers that the increase of a firm would be given by "the rate at which an entity can achieve growth, as it is determined by the retain (undistributed) of the profit and by the profitability measure with the help of return on equity (ROE)."
- Colasse B (2009:54) defines the state of "company's growth" as "the company's capability to increase its size; it can be measured by using several criteria such as: turnover, production, value added, fixed assets, total assets'.
- Cabinet consultancy Stern Stewart (1991) proposed as indicators able to measure de performance of a company *the economic value added (EVA)* to which they added *the market value added (MVA)*, *the Future Growth Value (FGV)* and *the Current Operations Value* (COV) (http://www. sternstewart.com).
- Boston Consulting Group and HOLT Value Associates from Chicago have promoted *Total Shareholder Return (TSR), Cash Flow Return on Investment (CFROI).*
- Applied Finance Group (AFG) have promoted the *Economic Margin (EM))* as a representative indicator for measuring the value of an entity that comes to correct distortions created by the traditional financial analysis based on accounting documents. The Economic Margin Framework is more than just a performance metric, as it encompasses a valuation system that explicitly addresses the four main value drivers of enterprise value: profitability, competition, growth, and cost of capital. Unlike traditional valuation approaches that utilize highly sensitive perpetuity assumptions, AFG's approach incorporates company specific competitive advantage periods which identify companies that may lose excess returns over time faster than their competitors.

Based on the literature review presented above, we conclude that if we use only the classic indicators (of **profitability and return**), we can find companies which gain performances but do not create value, instead they consume an existing one. Therefore, to gain profit and, going further, to work efficiently (the increase of the effects to overcome the increase of the efforts involved), is not sufficient to lead the company to maximize their global performance. In addition, it is necessary for society to succeed in creating the new value (value added). The modern main indicators that reflect the value creation for shareholders, separated on the basis of literature covered, would be: ***Economic Value Added –EVA, Market Value added –MVA, Cash Value Added- CVA, Total Shareholders Return- TSR, Cash Flow Return on Investment – CFROI.*** These indicators complement successfully indicators such as **profit (net profit, Eearning per share-EPS), Profitability (ROE, ROA, ROI)** and **cash flow** in making synthetic images of company's economic performance.

3.2. Selecting performance indicators representative to reflect performance involved by corporate social responsibility adoption: social and environmental performance

There are many important non-financial aspects of performance regarding the social responsibility corporate. Identifying and analyzing non-financial performance indicators may have as object: monitoring firm performance, purchase / sale of business (business), make reports to shareholders, guiding the allocation of resources to invest, identified intangible assets held by company that impact on its performance, interest managers in the value they create for shareholders. As a result, the selection of non-financial indicators, most often, it takes into account the perspective from which business performance analysis is made. For example, for making reports to shareholders generally are elected those indicators identified as relevant to capital market investors, while the selection of non-financial indicators for assessing managers' bonuses consider the strategy adopted by the company.

Given the large number of studies on this subject we consider appropriate, to present proposed indicators for reporting on global performance by the Global Reporting Initiative (GRI) in the context of sustainable development of an organization.

A. In what follows we will focus on the **social performance indicators.** According to GRI, these social performances indicators could be:

− performance indicators on ***practices and working conditions:*** the appearance of employment, occupational health and safety issue, issue education and training;

− ***human rights performance*** indicators: nondiscrimination appearance, freedom of association issue, the issue of child labor, rights of indigenous peoples;

− indicators of ***performance*** **on society**: corporate issue, political contributions issue, conformity aspect;

− performance indicators on ***product responsibility:*** consumer health and safety issue, the issue relating to labeling, marketing communication aspect, conformity aspect (Mironiuc, 2008).

B.Regarding the **environmental performance indicators,** GRI select the following indicators:

− ***raw material*** aspect: the raw materials used per unit of product, amount of weight in the total amount of recyclable materials;

− ***energy*** aspect: direct and indirect energy consumption, on primary energy sources, energy savings achieved by preserving and increasing its efficiency, products and initiatives to achieve low energy services, initiatives to reduce indirect energy consumption;

− **water** issue: total consumption of water by sources, significant water sources, the percentage of reused and recycled water;

− aspect of ***biodiversity:*** area of owned, leased or managed land in protected areas, describing the major impacts of activities, products, services on protected areas, protected habitats, strategies for managing protected areas, the number of protected species that have habitat in protected areas of the organization;

− aspect regarding ***emissions,*** waste: direct and indirect total emissions of greenhouse gas per unit of product, initiatives to reduce emissions of greenhouse gas and the results achieved, emissions of harmful substances per unit of product, nitrogen dioxide, sulfur and other air emissions per unit of product, wastewater and reuse methods (recycling), ratio of hazardous waste to be imported, exported, transported, treated, fauna, flora and aquatic habitats significant destroyed by sewage and emissions from the organization;

− ***appearance of products and services:*** initiatives to mitigate environmental impacts exerted by products / services of the company, the ratio of products sold and the amount of packaging / materials recycled and reused, by category;

− ***compliance*** aspect: value of significant fines and the number of non-monetary sanctions for failure regarding environmental regulations;

− ***transport*** issue: a significant environmental impact caused by transportation of goods / materials used in each activity of the company and every movement of personnel;
−***general appearance***: Environmental expenditure and investments, by type.
Many important non-financial aspects of performance can't be measured. So, they remain outside the formal performance measurement Contrary to financial performance measures, non-financial performance measures are less appropriate for decomposition, which results in the fact that they are unique to specific business units, whereas financial ones are common to many units.

4. Current mutations in the importance of indicators that comprise the overall company's performance

The value of non-financial metrics becomes more important than just a few years ago. A number of studies realized over the years by consulting firm Ernst & Young (Ittner, 1998) revealed that indicators measuring customer satisfaction is of increasing importance in corporate strategic planning. In 1988, 54% of businesses considered highly value these indicators, their share reaching 80% in 1991.
Another study conducted by Mavrinac for the same consulting company Ernst & Young - Center for Business Innovation, shows that only one third of investors and financial analysts propose mandatory publication, widely reported by companies, of non- financial information. In the same study was carried out and a hierarchy of key financial and non-financial indicators underlying investment decision making (see Table 1).

Table 1. Hierarchy of performance indicators

Financial analysts	**Rank**	**Portfolio managers**
Profit	1	Market growth
Cash-flow	2	Profit
Market growth	3	Cash-flow
Average performance of the segment (sector)	4	Company's ability to develop new products and services
Market share	5	Costs
Investments	6	Market share
Cost	7	Investments
Investment in research & development	8	Average performance of the segment (sector)
Strategy success	9	Investment in research & development
Company's ability to develop new products and services	10	Productivity of R & D expenditure

Source: Mavrinac S, Siesfeld G. A, 1999

Highest importance that portfolios managers attach of non-financial information may be the result of their concern to capture real-time changes taking place in different sectors, meaning the companies that operate within them. Unlike financial information reflects past performance of the business, non-financial information may be indicative of current and future profitability of the company.
More companies are including non-financial data in their annual reports or their shareholder briefings, and compensation structures continue to involve non-financial targets. According to another study conducted by ***Business Systems News*** & ***Analysis*** for Finance and IT (FSN) in 2007, more than a third of the respondents (37 percent) say that a company's performance is determined more by intangible assets and capabilities than by hard assets. As companies gain experience with non-financial metrics, they discover a wide range of predictive, forward-looking managerial tools. Fifty-four percent say forward-looking information is of greater value to management and the board than historical information. Customer satisfaction, innovation and employee commitment are identified as key drivers of performance among the companies Deloitte interviewed.

If the case of Romanian companies, the study realized by Ciobanu (2006) on a sample of 60 companies from different industries showed that 62.7% of managers used in the same extent non-financial indicators and financial ones for business performance measurement, giving them 13.6% of non-financial indicators even greater importance.

5. Conclusions

One cannot evaluate organizational performances without taking organizational goals into consideration. The modern business environment demands a multi-goal orientation. Profit theory is no longer a valid measure of organizational performance and neither are other approaches that only take the interests of shareholders (owners) of a company into account. Today's business environment is characterized by the increasing importance and strength of various stakeholder groups. Recognition of the optimum combination of financial and non-financial indicators which best measure performance, or is capable of explaining or predicting future levels of performance remains an area of current concern.

Refferences:

1. Collase, B. (2009*) Analiza financiara a intreprinderii,* Traducere de Niculai Tabara, Ed. Tipo Moldoca, Iasi.
2. Elkington, J.(1997) *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*, Capstone Publishing, Oxford.
3. Frederick W. C., (2006) *Corporation, Be Good! The Story of Corporate Social Responsibility*", IN: Dog Ear Publishing; Indianapolis.
4. Greuning H.V.,(2005) *Standarde Internaţionale de Raportare Financiară,* Institutul Irecson, Bucureşti;
5. Halpern, P., Weston, F., Brigham E.F. 1998), Finanţe manageriale , Editura Economică, Bucureşti.
6. Ittner, C D., Larcker, D.F (1998) *Are Nonfinancial* Measures Leading Indicators of Financial Performance? An Analysis of Customer Satisfaction, *Journal of Accounting Research,* Vol. 36 Supplement.
7. Kotler, P., Lee, N. (2005) *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*, (Hoboken, NJ: John Wiley & Sons).
8. Jianu, I. (2006) Performanţa – o noţiune care se caută pentru a se regăsi. Ambiguitate şi claritate, *Revista Contabilitatea, expertiza şi auditul afacerilor*, nr. 5/2006, Bucureşti.
9. Kotler P. and Lee N., (2005) *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (Hoboken, NJ: John Wiley & Sons, 2005).
10. Mavrinac S, Siesfeld G. A. (1999) Mesurer l'immateriel: une entreprise delicate" ("Problemes economiques" n. 2629, 1999)
11. Mironiuc M. (2009), Analiza financiara versus analiza extra-financiara in masurarea performantelor intreprinderii durabile", *Supliment of Theoretical and applied economics Revue,* Bucharest, 2009
12. Neely A. (2002) *Business performance measurement: theory and practice*, Cambridge University Press.
13. Niculescu M. (2003) *Diagnostic financiar,* Ed. Economica, Bucuresti.
14. Stancu, A.and Orzan, M. (2006) *Responsabilitatea socială a companiilor româneşti – un pas pentru dezvoltarea durabilă,* Revista de Marketing [Online], vol. 1., Nr. 2.
15. Siminica M. (2008) *Diagnosticul financiar al firmei*, Ed. Universitaria Craiova;
16. Sink, D.S. (1991) *The role of measurement in achieving world class quality and productivity management*, Industrial Engineering.
17. Tabara, N., Horomnea E., Nuta F.M., Dicu, R (2007) Consideratii privind performanta globala, a intreprinderii, *Contabilitatea, expertiza si auditul afacerilor*, nr. 8/2007.

18. Vogel D, (2005), *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility,* Brooking Institution Press, Washington, DC.
19. Werther W. B., Jr and Chandler D.,(2006) *Strategic Corporate Social Responsibility: Stakeholders in a Global Environment*, Sage Publications, London.