MODERN FACTORS THAT ENHANCE COMPANY'S FINANCIAL PERFORMANCE

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Company performance varies among economic sectors, countries and regions. It is influenced by a very large number of factors. This study aims at identifying and analyzing the determinants that must be considered by company's management presently in order to face competition and achieve superior financial performance. The research methodology used is specific for the theoretic nature of the article and includes literature review, comparative analysis and synthesis. Results validate and argue as relevant modern factors that influence the performance of contemporary companies: organizational culture, corporate social responsibility, innovation, knowledge spillovers. Study limits refer to the fact that these four factors are not entirely responsible for modern business performance and future research should be done to develop an integrative point of view on overall performance determinants.
This paper is a dissemination of the results obtained by the author in the doctoral program "The financial performance of EU member states' companies", coordinator: Professor Carmen Corduneanu, PhD, carried out within West University of Timişoara, Romania, in the period October 2010- July 2012.

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1. Introduction

The financial performance of companies changes over time. Profits are different from one year to another and from one company to another. Some companies obtain increases in profit; others record decreases and some even losses. What are the reasons of these changes and witch are the determinants of financial performance that influence it to be different in time and space? This article will try to answer these questions.

Company's financial performance is a fact. Analyzing and improving it is not just about indicators calculated based on annual financial statements, market data or by other means. This is the result of company's overall activity and it is influenced by many factors. Generally speaking, performance factors can be structured in: (1) factors of efficiency, that refer to economic, social and organizational efficiency, (2) internal environmental factors that refer to ownership, management, company size, complexity, technical endowment, location, human potential, informational and intellectual capital, financial position, organizational culture, etc. and (3) external environmental factors: economical, technological, political, demographical, cultural, scientific, organizational, legal, social, educational, environmental and others (Sima 2009). Among the many factors that can be analyzed, this research will focus on the modern ones, which have been conceptualized in the relatively recent period. These factors are: organizational culture, corporate social responsibility, innovation, knowledge spillovers and other advantages offered by business clusters.

2. Literature review

The studies that emphasize on the determinants of company financial performance include two dimensions: theoretical and practical. Theoretically speaking the factors influencing business performance are extremely numerous, but only a select few, considered more important, are empirically verified. In choosing a factor, besides the relevance criterion, the quantitative or qualitative nature is also decisive. Qualitative factors like organization culture are difficult to measure. Research will continue with a comparative study on theoretical and empirical evidence found in literature regarding the four modern performance factors stated above.

2.1. Organizational culture

Organizational culture is a performance determinant that has been intensely studied in the recent period. Although it existed in a certain form along with the establishment of first companies, it acquired more importance, only in the relatively recent period, amid ever rising market competition, the development of economic research and the growing importance of human resources in the new knowledge economy.

Organizational culture is an intangible factor of social and psychological nature, which leads employees to behave and act in a certain way. It arises along with the growth of company personnel because of each employee's personality and if not controlled can have a negative influence on performance. The technical side of organizational culture consists of a set of rules, procedures, decisions and recommendations. Through these techniques, company's management attempts to induce a positive attitude and behavior for company employees. Once a certain culture is implemented among personnel, it has a strong effect on new employees. It is therefore very important for it be a positive and constructive one.

The components of organizational culture are very difficult to quantify. Denison and Mishra (1995), in their study, identified four dimensions of organizational culture: employee involvement, consistency, adaptability and mission, measures that, according to the results of their study, are positively correlated with various indicators of company performance. Another author (Sorensen 2001) reveals that a strong positive organizational culture increases company performance only in periods of economic stability and its influence is negligible during high volatility periods. Baer and Fres (2003), after developing several empirical studies, have found that a constructive organizational climate that positively affects performance should also encourage initiatives and sustain innovative employees by adopting and implementing their innovations. A company should also provide a psychological safety to employees in the sense that they should not suffer negative consequences if their innovations don't have the desired effect. A recent article (Skerlavaj et al. 2007) shows the positive influence of another element of organizational culture: employee attitude towards learning and training programs. Quoted researchers argue that this has a direct effect on company's non-financial performance and an indirect effect on financial performance.

2.2. Corporate social and environmental responsibility

Corporate social responsibility (CSR) refers to the fact that presently companies must contribute to the development of modern society. This concept is relatively recent, especially for our country. The main supporters of this practice are international institutions such as the United Nations, European Union, Organization for Economic Cooperation and Development, World Bank, the central government and local authorities. To encourage such practices some of the mentioned institutions have developed a set of principles and recommendations. Thus, companies wishing to be socially responsible must know and integrate these practices with their activities.

CSR practices are varied. However, what they have in common is their voluntary nature. Therefore an initiative may be considered as belonging to CSR if it is not taken in accordance with certain regulations or as a result of complaints or pressure from nongovernmental organizations or consumers. Socially responsible practices concern the general welfare of the

community and environment protection. Some examples of such practices are: reduced energy consumption and the use of renewable materials, improved production processes with few waste and chemical substance usage, removal of harmful products even if they are not illegal, the choice of ecologic materials, providing detailed information about products, implementation of social protection programs for employees (medical, psychological, recreational facilities), for people with disabilities, and others.

Responsible activities bring benefits for both community and company. Benefits are more noticeable, direct and immediate for the community, and harder to assess at company level. However theorists explain a series of advantages obtained by companies that invest in social activities. Such programs generate several benefits at company level, such as: (1) differentiation from competitors and high customer loyalty to the brand, (2) improved reputation, (3) increased sales and market share, (4) increased employee loyalty, (5) investments from individual and institutional investors concerned about sustainable development, and others. According to theory all these positive consequences of CSR practices have a positive effect on company performance.

Empirical studies that explored the correlation between corporate social responsibility and financial performance had varied results. In a recent study (Garcia-Castro, Arino and Canela 2010) the authors conducted a critical review of the literature that empirically examines the correlation between the social and financial performance of the company. They argue that, despite the numerous studies (over 100) made in the last three decades, there is insufficient evidence to support this correlation because the obtained results are not similar. Thus several researchers have identified a positive correlation between the two characteristics and some obtained ambiguous results. A few studies have even found a negative correlation.

In another study (Margolis and Walsh 2003) the authors argue that out of the 127 empirical studies examined, 109 had social performance as an independent variable, and financial performance as dependent variable. Of these, most (54) validate the correlation between the two variables, 28 have identified an insignificant link, and 20 had conflicting results. Of the 22 studies that considered social performance as a dependent variable, most (16) confirmed the correlation between the two characteristics. Although the results are varied, there are few studies in which CSR practices adversely affect performance; therefore profits obtained after making socially responsible investments mostly cover their expenses.

2.3. Innovation

In a concise interpretation, innovation activities refer to the creation, adaptation and adoption of new products, services, processes, and their improvement (Iancu 2006: 12). Innovation is one of the key factors influencing the performance of modern companies, intensively studied and promoted presently, in the context of the fierce competition at microeconomic level, but it is also a priority direction for development at macroeconomic level, national and international. For example the well-known Lisbon Agenda, recently extended until 2020 but with broadly the same objectives, sustains innovation and has as main objective economic competitiveness growth.

Innovation is usually a distinct activity within a company. But there are companies that do not have such compartments in their organizational structure. An innovation decision is first necessary to initiate this kind of activity. For example smaller companies can not afford to invest in innovation due to the high cost of this activity compared to the funds they have at their disposal. The size of investment in innovation, in absolute amount, is usually proportional to the size of the company and inversely proportional to its sales if we consider the relative weight in turnover of R & D expenditure.

According to Kemp et al. (2003: 11) three elements of innovation can be identified: (1) innovation decision, (2) the intensity of innovation (how much to invest in innovation) and (3) the inputs of the innovation process, production process itself and the output which is actually the outcome of the entire innovative process. Another description of innovation shows the following

components: (1) product innovation, (2) process innovation, (3) marketing innovation and (4) organizational innovation (Gunday et al. 2008: 5).
The main indicators for assessing innovation correspond to its components: the existence of this activity in the company, the size of innovation expenditure, number of domestic projects, foreign or jointly developed and implemented projects, the number of new products introduced, the number of patents and others.
Empirical studies that verify the influence of innovation on performance at the microeconomic level generally have similar results, confirming the positive effect of research. McAdam and Keogh (2004) show that innovation is very important for company long - term economic development. It is a factor that explains differences in competitiveness between companies, regions and countries. Other authors (Gunday et al. 2008) measured the influence of innovation on three categories of performance: innovational, operational and market. They found that a correlation exists between innovation and operational performance, but have not identified a significant link between innovation and market performance.
The authors of a larger study (Kemp et al. 2003: 52) identified a positive impact of innovation on certain measures of performance of small and medium-sized companies. The study found that innovation leads to increased turnover, particularly for small business and increased employment, especially in medium-sized companies. A correlation between innovation and profitability hasn't been found.

2.4. Knowledge spillovers

Another factor affecting the performance of companies, particularly in industry, is geographical location. Although apparently it can be presented as an external environmental factor, the choice of company site is at the discretion of owners and directors (within the financial possibilities), being a company-specific factor in this regard. Presently, given the specifics of production activities, especially the advanced level of specialization, a large part of market goods, especially durables are manufactured by a group of interconnected companies. For example, automotive companies buy various parts, assemblies, tires, seats and other components from other more specialized companies and assemble them together with other components manufactured in own factories and sell cars under their brand name. Among these companies that are both producers and suppliers in the same time, certain cooperation relations and being established. Because of these ties they ameliorate their performance by improving delivery, product characteristics, working together even for innovations and changes that each brings to the product. All these advantages can easily materialize if the companies are located in the same region, city or industrial zone. As a result of these considerations industrial and commercial zones have been formed over time under the generic name of industrial or commercial clusters in which companies from similar sectors have developed. Good examples of such areas can be identified in the automotive, forestry and energy industries.
Although infrastructure has seen a continuous development in the recent decades the geographical distance between suppliers and producers is a disadvantage compared to competitors with better positioning. The main drawbacks are the additional costs of transportation, insurance, additional time required, customs charges and others.
Other advantages of interconnected companies' agglomeration are knowledge spillovers. These occur when a company obtains knowledge from another company, university or government agency, without paying for this benefit in a transaction brokered by the market (Maftei 2010: 1). Thus different product and process innovations of suppliers or competing companies helped make innovations and improvements within the company. The existence of clusters also favors the development of joint research and rapid correction of defective products that may occur.
With the emergence and spread of theories arguing the positive influence of business clusters on company's performance numerous empirical studies verified this correlation. In a recent study (Folta, Cooper and Baik 2006) the authors found evidence to support these theories. They found

that companies located in industrial areas are performing better than companies outside clusters. Corporate performance increases with the development and expansion of their business cluster, but at a certain point, crowding a large number of companies with similar activities generates increased competition that makes the survival of all companies difficult. Molina-Morales (2001: 290) revealed a higher performance for companies located in industrial clusters, also identifying a greater capacity to absorb knowledge externalities in the case of companies with greater seniority. Another study found a positive influence of factors specific to business clusters (economies of scale, urbanization and the formation of company groups) on performance (Malmberg, Malmberg and Lundequist 2000). A more recent study (Gilbert, McDougall and Audretsch 2008: 414) shows that industrial agglomeration has a positive effect on the company's innovative edge and sales.

3. Discussion

Organizational culture is a strong factor that influences company performance. Its importance has intensified ever more in the context of the current competition between companies and the enhancing of human resources importance. It is relevant to note that the formation of an organizational culture is inevitable because this is often influenced by the personality of employees. Or, to remove the risk of string of unproductive attitudes and behaviors, management involvement is imperatively necessary. This can be done by implementing behavioral regulations, fair and proper procedures regarding discipline and various social activities for employees.

Social responsibility primarily involves additional costs for the company, consisting of both material costs and expenses for designing and implementing specific social activities. These, in a first phase, adversely affect company's financial performance as well as all other expenses. However, they sensitize consumers, making them feel obliged to support responsible companies, as long as their products have the same quality and price with those of competitors. The effects are generally positive; the growth in revenue generated by responsible activities is superior or at least equal to the expenses incurred. In addition, social responsibility on a long term helps keeping a positive perception about the company among consumers.

Innovation is crucial for the long term success of any company, regardless the size. However, most small companies can not afford to invest in innovation. Presently, given the literal explosion of knowledge and the existence of numerous research projects funded by various organizations or government, companies can be informed without costs about news and innovations in the their field of activity. Thus they can implement certain elements of novelty without having to finance research projects from their own funds.

Business clusters have advantages and disadvantages. Thus for a company that aims to increase its competitiveness and penetrate international markets, collaboration and knowledge spillovers in industrial agglomerations are very helpful. But for companies that aim to preserve a share of the local market and are satisfied with a certain level of results a relocation within business clusters is not recommended. This depends mostly on company’s profile and objectives.

4. Conclusions

Presently, in the context of the fierce market competition, managers have to consider new factors that can enhance company performance. Besides the classic means meant to increase productivity, like investment in physical capital and other investments that help cost reduction, modern companies must invest in other key factors that affect company results.

These new factors, that have a positive impact on company’s financial performance, are organizational culture, corporate social responsibility, innovation, knowledge spillovers and other characteristics that are specific to business clusters. The first, third and fourth factors have a very strong human and managerial determination. They mainly include investments in human resources and are meant to increase process and product quality. This has a positive effect on competitiveness even if company products are more expensive than those of competitors.

Innovative and high quality products also generate a large amount of value added and enhance company's financial performance.
Although theories about the benefits bought by the mentioned factors are not very recent, they are considered new in the present article because a relatively small number of Romanian companies take them into consideration in the management process. Among these companies the majority are subsidiaries of multinationals that apply the same strategies as mother companies and other economic entities owned by foreign investors.
Companies that aim long-term competitiveness and financial performance must include in their strategies measures concerning the development of human resources and insure a constructive organizational culture, a supportive environment and encourage innovation and knowledge exchange between employees and between the company and collaborators. All these internal efficiency measures can be doubled by socially responsible practices to insure the basis of a good perception among consumers and a long presence on the market.

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