THEORETICAL APPROACHES REGARDING THE ECONOMIC AND FINANCIAL PERFORMANCE MEASUREMENT

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Abstract

The need for performance evaluation appears from the importance of the assessment of the available resources usage, the identification of the economic resources potential for future use and the capacity to generate cash flows. Practice has held a number of tools that provide information needed to assess the performance state, obviously, differentiated from one country to another corresponding to the particularities of each economic system and that are useful to a large number of *people involved in the life of a trader.*

This article presents some performance characteristics and refers to the options of measuring the global performance by using the balanced scorecard, the Triple Bottom Line reporting and the GRI G3 guidelines.

Keywords: performance, measurement, environmental indicators, quality management.

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1. Conceptual boundaries of performance

The concept of performance is taken into consideration each day by all the employees of a company so not only by management but also by the first line employees. Companies that want to continue their activity in an unstable business environment must do all they can in order to obtain performance.

Many times managers make the mistake to pay too much attention to what the competition does instead of checking its activity. It is necessary that a successful manager takes into consideration not only the financial information but also the non-financial information. When talking about non-financial aspects we have to remind the importance of employees, they must be treated correctly because most of the times customers identify the employees with the company and only a satisfied employee will make a customer happy.

Customers should be the most important aspects taken into account by companies when delivering products or services. The key to satisfying customers is the delivery of quality products and services which will ensure the company's long-term performance.

The primary objective of financial management at the level of economic entities is represented by the maximization of their value, no matter what size they have (for large companies, listed on the stock market, it is advisable to maximize the exchange rate; in the case of small and medium enterprises or those unlisted, it is necessary to ensure the financial stability, the ability to pay, the solvency and the profitability of the activity undertaken). From this aspect, tracking the efficiency developed in companies requires constant monitoring of the financial performance.

Although it is a matter of major interest to any entity, the concept of performance has been researched empirically over the past decades. A description of the literature in terms of structure and content of the performance appears at Campbell, which has considered it as "a virtual desert". [1] The same author believes that "performance is what the organization is committed to do and to do it well". [2]

Performance should not be seen as a determining factor of success of an entity, but as a way to promote easier within it the individuals with high performance, compared to those who recorded lower levels. [9] Others consider that current changes in the nature of work, the focus on continuous learning and orientation towards results, the development of teamwork, the improvement of technology as well as the trends towards globalization have an impact on the concept of performance and on the future research on performance. [7]

Developing the economic activity in a highly complex environment and in a sharp dynamics, due to the record of significant differences in terms of actual conditions, has generated the need for the performance concept as a measure of the results obtained, corresponding to the established objectives. In other words, you cannot resize an indicator that enables the measurement of the entities' results, being necessary a multidimensional approach, in line with the objectives sought.

Moreover, the concept of performance is explained by three fundamental characteristics: economy (purchase resources at the lowest cost), efficiency (maximize the results obtained from a given amount of resources, or minimize the amount of resources for a predetermined outcome) and efficacy (results are higher or at least equal to the results provided). [5]

By analyzing the many meanings of the performance concept, we have three important categories: performance analysis in accordance with the degree of achievement of the objectives set by the strategy approved, that projects the lines of action of the work; identification of the performance correlated with the ability to create value and performance correlation with the level of productivity and efficiency achieved.

A particular importance is given to the indicators that can be used in sizing the performance and to their evaluation in accordance with the features registered at the level of each economic operator or person interested in this aspect.

2. Overall performance measurement options

Measuring the performance remains an issue of great interest to managers and researchers. This is quite difficult because there are many issues to be clarified. In literature appears the view that "performance measurement is a topic that is often discussed but rarely defined". [4]

To measure performance, in relation to the comparison element, we use the quantitative indicators (amount of profit, income and expenditure, value added or created value, productivity, etc.) and the qualitative indicators (level of customer satisfaction for the delivered products, services or work performed, motivating employees, etc.).

In assessing the overall performance we can use different forms but, summarizing previous explanations, I think there are two major possibilities: a comparison between the results obtained and those projected or those recorded in an earlier period, the tools used being the indicators of progress related to various criteria considered in this process and a comparison between the results achieved by the company and the ones recorded by the strongest competitor (in this case, you can use various economic or financial indicators).

2.1 The balanced scorecard

The balanced scorecard is a tool proposed by the economists Robert Kaplan and David Norton, as a consequence of the disadvantages resulting from the use of traditional tools for assessing the operational performance that does not allow an effective management. [3] The two started from the consideration that it is required a financial and operational value analysis with four sets of parameters.

This model is related to:

We must take into consideration the fact that the four axes require the same attention, none of them requires special attention compared to others. Thus, based on the idea that every client should be satisfied with the goods or services provided, the manager must properly identify the potential clients corresponding to the targeted market segments and quantify the performance, quality and costs which create value from the customer perspective.

Also, managers must analyze the cash flow, the quarterly growth in turnover, the increase in the market share and return on equity, because shareholders are interested in the remuneration of the equity made available to the entity.

Another important issue is the identification of processes and skills that yield the best results, with a major impact on customer satisfaction levels and shareholders. Finally, it is necessary to determine the ability of the company to improve its business, create value and develop in accordance with technical and technological innovation. Basically, such tool enables managers to do a pertinent analysis of the evolution or involution of areas at the expense of another.

2.2 Triple Bottom Line reporting

In recent years, internationally, there is an increasingly emphasis on the responsibility for reporting the activities conducted on certain standard. Triple Bottom Line concept has many meanings: social, environmental and economic performance, sustainable development, sustainable environment, sustainable communities, impact on society, the environment and economic development, economic growth, social progress and environmental quality etc.

The "triple bottom line" term was first used by John Elkington in 1995 but it became known only after two years, when he launched his book "Cannibals with Forks: The Triple Bottom Line of 21st Century Business". It is noted that this term is used in the general sense of the values and processes used by the entities in order to reduce or eliminate losses and obtain economic, social and environmental values, in the context of harmonization of interests of all those involved in their work (shareholders, employees, creditors, customers, suppliers, partners and public authorities).

The "triple bottom line" reporting provides a series of advantages to the companies using it. Advantages like increasing the number of investors by showing them transparency, also building a strong reputation for the company and by analyzing key aspects related to the company the possibility of risks to appear is lower.

The information provided by this reporting must be taken into consideration by the financial reports because it can increase or decrease the financial performance.

Nowadays, the changes that occur each day in the business environment make companies to permanently try to find solutions on how to analyze their activity and how to improve it. In a world dominated by incertitude it is no longer enough to only use financial data, there is a continuous need to use other types of information.

2.3 GRI G3 guidelines

The concerns regarding the identification of indicators to enable a perception close to reality of the performance of economic entities led the American organization CERES (Coalition for Environmentally Responsible Economies) to launch, in 1997, the Global Reporting Initiative (GRI). In 2001, GRI became an independent governmental organization, with its headquarter in Amsterdam, whose objective became the permanent improvement of the rules, principles and indicators in order to develop quality reports available to those interested. The third generation of GRI standard, published in 2006, proposed "The Guidelines" that include the performance indicators, for 2013 being expected the publication of G4 standard. GRI standard is presented from the point of view of reporting and in terms of the data to be reported and the performance indicators. Performance indicators are structured in 3 categories, namely: economic, environmental and social (the latter are divided into the categories: employment, human rights, product liability).

The first category refers to economic performance, present on the market and the direct economic impact. The economic performance is evaluated with the help of some indicators that measure the direct economic impact of the activity performed through the added economic value recorded after its processing, the financial implications and other risks and opportunities for the activity of an organization, as a consequence of the weather changes, the degree of coverage of the planned benefits and the financial assistance received from government. The presence on the market is quantified with the help of some indicators that offer information about the interactions from certain markets. The indirect economic impact materializes the economic effects determined by the economic activity and the transactions performed by the entity.

The environmental indicators proposed by G3 are reported to the dimension of the impact that an entity has on the environment, as a consequence of the activity performed. Thus, starting from the idea that the majority of the entities use energy, water and material and that it generates emissions and waste, are proposed indicators that measure them.

In the category of social indicators, firstly, are included those that report to labor. So, the set of performance indicators includes: employment; training and education; the relations of labor force with the management; health and social security; diversity and equal chances.

Performance indicators regarding the human rights concern the impact that an entity has on civil, politic, economic, social and cultural rights of the parties interested, in accordance with the standards recognized at international level (Universal Declaration of Human Rights and the OIM Declaration regarding the fundamental labor principles and rights from 1998).

An aspect of social nature relates to the quantification of information concerning bribery, corruption, monopoly practices and the conformity with the laws.

The product responsibility is appreciated through a set of indicators that report to the effects of products and services on the users and clients. Thus, in this category are included customer health and safety; products and services concerning labeling; customer confidentiality and conformity.

The use of the system that highlights performances, proposed by the directing lines of G3 allows entities to size and report performance. In this way, they can determine an increase of the interested parties in the activity performed and in the global economy.

In Romania, the first CSR report elaborated in accordance to the G3 standard has been performed by BCR. So, it must be highlighted the fact that the report has not highlighted only the financial performance but also the bank's impact

on customers, partners, employees, communities in which they perform their activity and on the environment. Of course, this report represents an important step in ensuring future sustainability of the bank's existence and on its financial performance, being more important to carry out an analysis regard the effect of its elaboration on those mentioned.

3. Non-financial aspects in evaluating the performance

The financial analysis has consecrated a series of financial indicators that allow the appreciation of the performance either under the form of the liquidity, debt, efficiency of using capital, investment profitability rates, or under the form of some elements that allow the identification of the new created value that is aimed by shareholders (the economic added value, the market value added, the liquid profitability of investments, etc.).This last category has appeared as a result of the growing interest of shareholders regarding equity by using the created added value.

In this way, the methods regarding the financial and economic management used at the level of the economic agents are "oriented towards creating value for shareholders". [8]. No matter the types of financial indicators used to measure and anise performance, in literature we find numerous critics regarding their use in establishing decisions and the quality of the information use for their determination. Robert Kaplan states that "in the case in which managers put too much accent of the management of numbers, the long term viability of the organization can be threatened."

Practically, the exclusive use of some financial indicators can determine the adoption of some incorrect decisions, having as a basis the insufficient number of methods concerning orientation and control. In the same time, taking into consideration these critics, new indicators of non-financial nature have been proposed that allow a more realistic appreciation of the performances of a company because they give importance to a series of aspects with important impact on performance. In this category are included a series of criteria, correlated with practices of corporate governance, which can be structured as it follows". [6] (Table no. 1)

Table no.1 Criteria for the performance assessment

Quality Management	**The efficiency of payment policies and of the executive management**
• The degree of implementing the company's strategy • The quality of the company's strategy • The managerial experience • The quality of the organizational vision • The style of management leadership	• The harmonization of the policy for management boost with shareholders' interests • The payment policies based on the criteria corresponding to performance • The ratio between the payment of the executive management and the payment of the labor force •
Corporate Culture	**The quality of the communication system with shareholders**
• The ability of attracting and keeping talented persons • Quality of labor force • Quality of the reward system • Quality of the programs for training the personnel • Social and environmental policies • Use of team work	• Management credibility • Management accessibility • Efficiency of the department of relations with shareholders • The quality of published materials

Source: Robu, V., Vasilescu, C., Îmbunătățirea sistemului de guvernanță corporativă – strategie de creștere a performanței globale a întreprinderii, Revista de Contabilitate și informatică de gestiune nr. 10, 2004, pg 181

It can be noticed that non-financial indicators put accent on the operational part and not on the financial (from this point of view, in the category of non-financial instruments we find the balanced scoreboard method).

The business environment is characterized by risks and incertitude these days so it is necessary for managers to use all the available resources in order to maintain the profitability of their companies. It appears that the end of the financial crisis is far away and due to that companies have to take all the right measures if they want to continue their activity.

Of course, the non-financial reports are subject to critics, being considered that certain indicators do not present relevance or that they do not ensure continuity from a year to the other, fact that determines the impossibility of predicting some risks or events with negative consequences on future activity.

4.Conclusions

Throughout the last years the economic crisis has influenced the economic and financial activity of the majority of the companies from around the globe. An important percentage of these companies have not managed to continue their activity and went through bankruptcy.

The measurement of the economic and financial performance is a subject that has started to receive even greater importance than before. Managers who are interested in the efficiency of their companies and that apply a management based on objectives have to measure constantly the performance in order to detect problems, solve them and increase turnover.

Nowadays, companies do not use only financial and economic indicators to measure the performance of a company, they also use non-financial indicators. Management should create strategies that combine the economic and financial indicators with the non-financial indicators. Companies are not the same so each manager must take into consideration the activity of its company when deciding which indicators should have the greatest importance.

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