THE IMPACT OF COMPANY'S PERFORMANCE OVER CORPORATE GOVERNANCE

DAN ROXANA LOREDANA
PH.D. CANDIDATE, WEST UNIVERSITY OF TIMISOARA,
FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION
E-mail: roxana.dan90@yahoo.com

Abstract:
The following paper has approached the concept of company's financial performance, being motivated by the context of the current economic market, and as a term that is driven by its spread worldwide. Starting from Ralph Marston's motto, "do not decrease your expectations in order to achieve performance, but increase the level of performance in order to satisfy your expectations", we can state that performance represents an essential lever for achieving the company's objectives.

Key words: Corporate governance, financial performance, management.
JEL Classification: G01, G18, G34.

1. Introduction

The concept of "performance" was widely discussed by many researchers over time, the term originates from Latin, from the word "performare", which means achieving an objective which was already set. On the other hand, the economic significance of the word comes from English from two complex words: "to perform" which means to carry out, to achieve something by working regularly and "performance", which symbolizes a broader range of activities carried out in order to achieve the goals of an organization. The concept of performance is clearly highlighted by a simple search of the word on Google, which provides us with over 3.5 million results related to its significance.

2. Steps in defining the performance

By analyzing the specialized researches in the field of performance, four different steps have been identified, namely:

1. The first attempts to define the term performance during the 50s - 80s;
2. Defining performance in terms of the achievement of objectives during the period 80 - '95;
3. Defining performance by considering productivity and effectiveness of the company during the period 1995 - 2000;
4. Defining performance based on added value creation, since 2000 until now.

Between 1957 and 1979 **there were the first attempts to define performance**, the first definition being given by Georgopoulus and Tannenbaum (1957), who described performance as consistent with the organizational effectiveness, representing the level of goals achievement in the organization, without the involvement of a significant effort on behalf of its members. The criterias used to define performance were: productivity, flexibility and organizational power.

Caplow (1964) defined performance in terms of the following criteria: achievement, integration and stability. The authors Mahoney and Weitzel (1969) define performance as a productive and efficient action, based on the following criteria: trust, planning, productivity, initiative, development, quality of staff and cooperation.

Knemakhem (1971) considered that performance measurement is a system of control techniques designed to ensure that the achievements of the various responsibility centers of an enterprise comply with the rules established for each of them and also involves the application of positive or negative sanctions if the achievements have changed significantly the rules. Thus, for the first time is being discussed the situation of standards' determination.

Neganthi and Reiman (1973) assessed performance by: employment of new staff, stability and satisfaction of staff, use of labor force, relationship between services, net profit and sales growth. Harrison (1974) described performance in terms of the final outcome of the application of effort.

Later, the performance was described as a relative and subjective concept, which is highlighted through six indicators: growth of added value, return on capital employed, increase of fixed assets, and variation in staff,

meeting the needs of exploitation from the working capital and indebtedness on term in relation to the ability to finance itself. In 1979, Dubois did not present a definition of performance, but evaluated it on five dimensions: growth, profitability, productivity, indebtedness and solvency.

The second stage of defining the performance is achieved depending on the level of fulfillment of objectives, the word "target" being used increasingly more by managers. This period is characterized by the fact that there is no good or bad performance, there is only setting goals and achieving them and the level of performance depends only on the predetermined objectives. Bourguignon (1995) described the performance as achieving organizational goals.

The third step in defining performance, in relation to productivity and efficiency of enterprise, was defined in our country by Niculescu (1995), according to whom the conditions necessary for a performing enterprise are efficiency and effectiveness. At international level, the main feature of performance was considered the effectiveness.

A complex definition of the concept of performance was given by Ristea (1997) according to which the performance is the three E's equation, namely:

- Economical – involvement of necessary resources at the lowest cost;
- Efficiency - either maximizing the results obtained starting from a given amount of resources or minimizing the amount of resources for a predetermined result;
- Effectiveness - achievement of organizations' objectives by exerting predetermined tasks.

This opinion is correct from our point of view, given that currently the price is determined by the market and the positive results are achieved by companies that manage to act in several ways: once by obtaining the best results given the existing resources and achieving the preset goals, on the other hand, by reducing costs through acquisition of resources at the lowest possible costs.

The terms mentioned above, efficiency and effectiveness have been used since antiquity. These concepts originate from Latin words: the term efficiency derives from efficere signifying to perform, and the notion of effectiveness comes from efficacis, which means having the desired effects.

The definition of performance based on value creation, **the last stage** in defining the performance, was given by Sergio Rossetto (2005) according to whom the common objective of a company's owners and administrators is to increase the added value and remuneration of invested capital. Specialized researches states that the company's value is influenced by a number of factors, both internal and external. From the internal perspective, the company creates economic added value, which is a positive value after the remuneration of all factors of production, including the cost of equity, and among the internal factors we can include: turnover, profits, total assets, dividend policy, and equity and borrowed capital. On the other hand, among the external factors affecting the company's value can be includes the economic growth at national economy level, inflation, interest rate, as well as the economic agents operating in the economy.

According to this stage, the value is not only seen in terms of the shareholders, but also of stakeholders involved in achieving the company's performances. According to some authors (Jianu, 2007), "the performance of a company depends on its ability to create value for its customers." Thus, among the beneficiaries of value we can include customers, employees, suppliers, the business environment and competition, as the latter maintains a long-term distance from competitors through a policy of motivating all the organization members.

3. Performance measurement systems through indicators

Starting from the principle that one can only manage and improve what is known in order to achieve the organization's objectives, it is necessary for the performance to be measured or quantified in order to analyze the results. Moreover, the performance cannot be analyzed in isolation but must always be analyzed through a process of comparison in relation to a benchmark. According to the specialized literature (Siminică, 2010:114) "*highlighting performance can be achieved only by comparison with other results recorded*" since being efficient means both to achieve the goals established and to overcome them.

Also, the author Ganea (2012) argues that „the performance measurement involves, beside the activity of quantification, rendering performance through a number or a value associated with various indicators, and action of comparison, of reporting a referential (internal or external, previously conducted or scheduled)" in order to establish the effectiveness or innefectiveness of the entity's shares.

The company's performance must be measured by a set of indicators, from the simplest to the most complex and can not be limited in any case to the knowledge of a single indicator result (Jianu, 2007).

Analysis of economic and financial performance can be achieved through a range of indicators, based on several types of classification, as shown in Figure no. 1 (Siminică, 2010: 121).

1. Depending on their nature: quantitative indicators (quantifying efficiency) and qualitative factors (reflecting effectiveness).
2. Depending on their content: outcome indicators, efficiency indicators, effectiveness indicators.
3. Depending of the frequency of use: traditional indicators (turnover, gross operating profit, profit, productivity) and modern indicators based on creation of added value (cash-flow, added value)
4. Depending on the way of expression: indicators in absolute value and indicators in relative value.

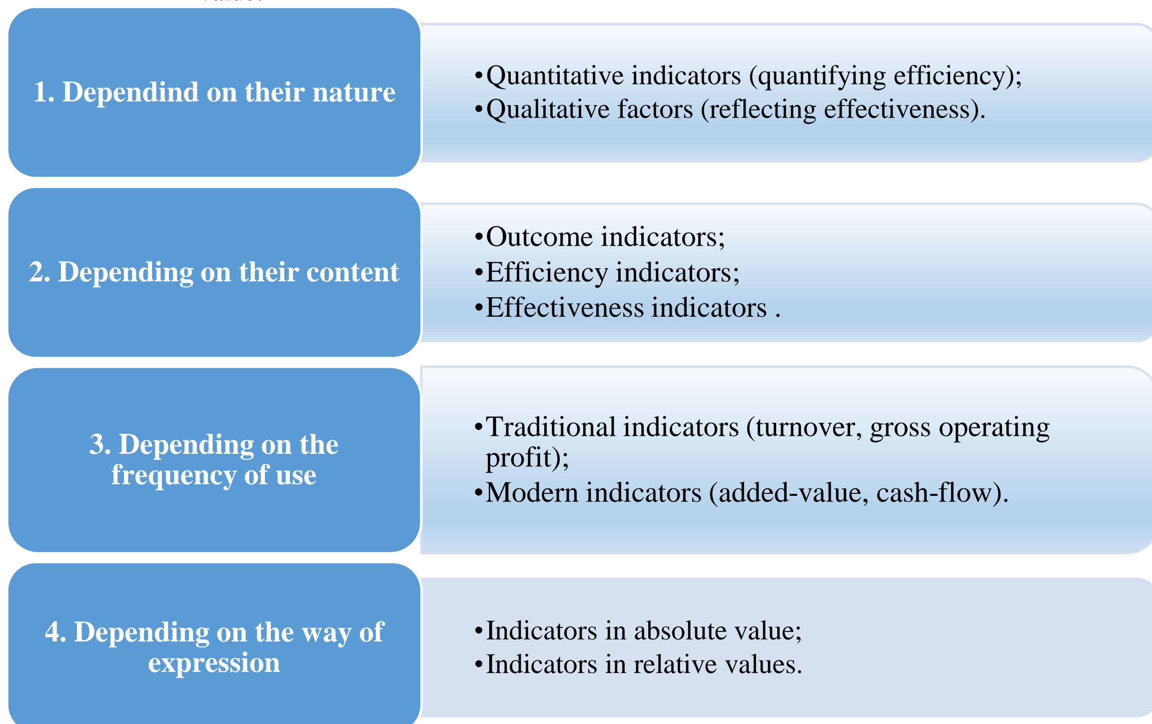

Figure no. 1 - Typology of indicators used for analysis of economic and financial performance
Source: processing after Siminică (2010).

4. The role and impact of corporate governance on company performance

Corporate governance is a complex system by which companies are directed and controlled. Also, in a broader sense, corporate governance represents the relationships developed between a company and the interest groups that shape its goals, strategy and performance. Through a healthy implementation of corporate governance principles, a company improves its indicators of profitability, competitiveness, credibility and relationships it develops with shareholders, employees, customers and other stakeholders' categories. At the same time, companies applying corporate governance principles are confronted with a lower level of risk in every day activity, thus becoming more attractive to investors, determining a development and improvement of both the production capacity and market positioning.

Organization for Economic Co-operation and Development (OECD) defines corporate governance through the relationships established between the company's management, board of directors, shareholders and other stakeholders. Corporate governance presents the conceptual framework in which goals and indicators of company are established as well as the manner to meet these objectives and achieve these indicators.

The application of sound principles of corporate governance can prevent a number of negative effects on the company, such as litigation, fraud or a negative perception of the company on the market. Good corporate governance is not a goal in itself. It is a means to develop the trust of markets and the integrity of business environment, which are essential for companies to attract investments that are very important for its future development. Good corporate governance is an important factor in increasing the integrity and

efficiency of the company and the market in which the company operates. Unhealthy corporate governance can guide the company towards a negative evolution in terms of economic - financial indicators and create prerequisites for financial difficulties, frauds or scandals. Thus, a series of scandals such as Enron, Adelphia, WorldCom, Parmalat showed that the implementation of inadequate corporate governance principles had determined even the bankruptcy of these companies, bringing about the introduction of a specific legislation such as the Sarbanes-Oxley Act from 2002, which is considered by some authors (Byrnes, 2003) the strictest regulation in the past 70 years.

5. Conclusions

As previously shown, the concept of corporate governance has played an important role in mitigating the effects of the economic and financial crisis on the company's performances. Therefore, good corporate governance, which implies an independent and vigilant board of directors, separation of management functions and an efficient reward system between the management and shareholding, will create the premises for the maximization of financial and accounting results and the respect for creditors and minor or other types of shareholders will help the company to be situated above the waterline in difficult times and impose on the market in favorable times.

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