

## THE NECESSITY OF APPROACHING THE ENTERPRISE PERFORMANCE CONCEPT THROUGH A THEORETICAL FUNDAMENTAL SYSTEM

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### Abstract

*The purpose of this paper is to justify the necessity of building of a theoretical-fundamental system to define and delimitate the integrated notions applicable to the concept of enterprise performance. Standing as a fundamental research, the present paper argues and shows that the literature in this field and the applied environment, as well, require a more clearer segregation, respectively an increase of specificity of the concept "enterprise performance" considering that it is not unanimously defined, on one hand, and, especially, due to the fact that it represents a key concept widely used, which, ultimately, has to be measured in order to be helpful, on the other hand. Moreover, the present paper would be useful to scholars working in the field of firm performance who are willing to understand this concept and to develop the future research referring to enterprise performance measurement.*

**Keywords:** performance, enterprise performance, definition, specificity

**Clasificare JEL :** M40, M41

### 1. Introduction

The primary purpose of this article is to answer to the question "How the concept of "enterprise performance" can scientifically be defined in a clear, explicit and concise manner?". Although, it looks as an easy question, it generates other questions which always interconnect among each other:

- does the enterprise performance conceptually have a standalone meaning unless it is correlated with its measurement ?
- how an enterprise can be described as performant without having the performance measured ?
- how the enterprise performance can be measured if it is not previously explicitly defined?

The fact that this term is used more and more frequently in economic-financial activity, that it is the goal of each manager, that the IAS 1 - Presentation of Financial Statement is addressed to this desideratum through its objectives, may easily induce the idea that the performance is a concept which is widely perceived, almost banal, as well as the idea that any company which has recorded positive outcomes can be called performant. But things are not as they look like.

Also, the interest of the national and international professors for this topic has been continuously increased throughout the years. Andy Neely one of the most cited authors of the international literature, presents in one of his papers [1] five general phases of the performance measurement literature, being displayed as a reasonable approximation to understand the evolution of the domain of performance measurement in time. Other authors have studied *the evolution of the concept "performance" in time from its valorification criteria point of view* [2] or *have detailed the link between the enterprise performance and various criteria of its definition* [3]. Some authors have described the performance as a "valise-word" [4] which contains diverse concepts. However, we observe that the literature has not yet reached to a common understanding for defining and approaching the concept of "enterprise performance". To conceptually define the enterprise performance is currently a challenge. We affirm this due to the multiple sides of this term existing

in the present time, on one hand, and due to the multiple existing ways to measure the enterprise performance, on the other hand.

We consider that a detailed description of the essential components of the definition of the enterprise performance is absolutely mandatory, considering that the enterprise board cannot use the decisional tool unless they have available a factual, real measurement system to form the base of management decisions. Still this system cannot be projected unless a really clear definition and identification of what is desired to be measured is available, respectively the performance.

As a consequence of the above mentioned aspects, the further hypothesis can be issued:

- *H1: The enterprise performance is not unanimously defined by literature; this generates the necessity to build a theoretical- fundamental system focused on defining and establishing the extension of the concepts integrated within the term of performance, to be accomplished within the context of the complete running system of the enterprise.*

## 2. Methodology

In order to manage to understand the concept of "enterprise performance", we have chosen to consider a more wide vision of this term, starting from a general definition of the concept "performance" to a focused on the topic of interest definition.

This research is of fundamental type, the research methodology is deductive. The applied research methods are: analysis of documents, consisting of the review of the information sources used for the completion of this research, the comparative and typological method.

## 3. Approaches

After reviewing of the literature, we have found that the wide range of definitions of the term "performance" means a very good result, a functional outcome of the actions performed by people or machines, but not an economic result, which is generally defined based on three important elements:

- *depending on the established objectives;*
- *through association with an activity;*
- *as directly correlated with the results of the undertaken activities.*

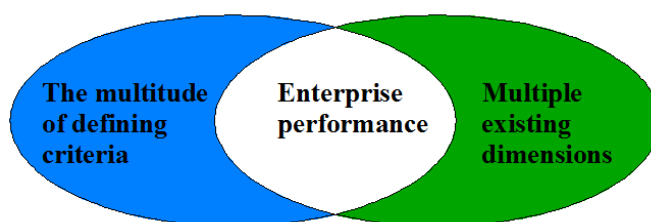
As we were trying to define in the most clearly, briefly and concisely manner this term, generically named as enterprise performance, although the initial idea we started with seemed very promising, however, after analyzing the literature, we were "forced" to rethink it, because that performance is an concept extraordinarily often studied. However, out of all the evaluated papers, we have not managed to reach to a consensus and to briefly, clearly and concisely clarify this concept, as we originally have planned.

As a consequence, we go along with the view of Michel Lebas and Ken Euske, according to whom, although the frequency of using the term performance is high, "it's precise understanding is rarely defined in an explicitly manner by the authors, even when the principal topic of the paper or book is the performance" [5].

Therefore, we have underlined and considered it is mandatory to treat two essential aspects in order to define the enterprise performance, as sintetized in Fig. 1., respectively:

- *the fact that the enterprise performance is a multisemantic concept;*
- *the fact that the enterprise performance is an unit made of multiple aspects or dimensions of performance.*

Fig. 1 - Essential aspects in defining the company performance.



Source: personal projection.

#### 4. The research results

Within the following aspects, we will develop and argue our flow on splitting the two aspects regarding the definition of the company performance.

##### 4.1. The enterprise performance: a multi-semantic concept

The enterprise performance is a multi-semantic concept due to the fact that is defined through several other concepts, such as effectiveness, efficiency, productivity, rentability, growth and many others. This aspect of performance definition is a natural consequence of the fact that the enterprise performance is perceived differently by each user of the content of information existing in this concept.

Another similar view is the one belonging to Bernard Colasse who affirms that "*the word „performance” used either in single or in plural case, although it is used more and more, is a valise-word, it covers various and different concepts, such as growth, rentability, profitability, productivity, yield, competitiveness, these being the principal ones*" [6].

Another view referring to enterprise performance is "*the instable equilibrium generated as a result of the evolution of the concepts efficiency and effectiveness*" [7] or "*the terms effectiveness and efficiency further complicate the terminology within this field. These terms are frequently confused with each other*" [8].

In this context, we observe that in order to define the term „enterprise performance”, we have to define other terms, such as *effectiveness, efficiency, rentability, profitability*.

According to the Dictionary of Economical Sciences, the concept effectiveness "*has an accurate meaning in production economy: a situation is effective if the rare resources allocation to various producers and the consumption of these resources leads to obtaining of a set of manufactured goods, such that there is no other set to contain a higher quantity of each of the manufactured good*" [9].

A view upon the terms effectiveness and efficiency is the one belonging to Verboncu I., who explains "*if the effectiveness implies the existence of several effects, in causal relation with the efforts performed for their obtaining, the efficiency consists in performing of the objectives and executing of the managerial tasks in pre-established temporal and qualitative condition*" [10].

The terms rentability and profitability "*place us within the context of evaluation of the companies and their performances. Generally, we should mention that the term rentability refers to the performance linked to a certain level of performed investment (besides, the anglo-saxons speak about the return on capital invested), while the profitability refers to the absolute capacity of the company to generate a profit*" [11].

The term profitability is "*the capacity to obtain enough incomes (profits) in order to attract and keep the invested capital within company*" [12] or "*economical- financial situation of the*

*economic agent, which attests its capacity to obtain profit, to generate incomes higher than the costs, out of which it may hand dividends to the shareholders, it can pay the interests for the used credits, the employees to be able to participate to profit etc” [13].*

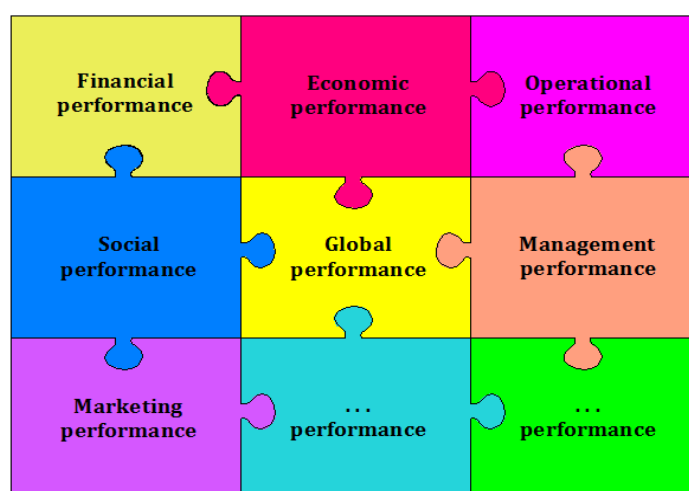
#### 4.2. The enterprise performance: an unit made of fragments

Studying the economical literature, we have observed that although the majority of papers admit that the performance is multi-dimensionally treated, few papers specify from the very beginning what side of the enterprise performance is disputed.

Some authors [14] consider that the organizational performance is synonymous with the financial performance. Others papers in this field [15] treat the performance under operational aspect or from management or marketing points of view, leading afterwards to referrals to financial performance, and other papers [16] treat the social and global performance. Still, very few papers define from the very beginning the enterprise performance side which they treat.

We can name all these as sides or aspects or dimensions of the company performance, as we have presented them in Fig. 2.

Fig. 2 - The company performance: an unit made of fragments.



Source: personal projection.

Obviously, we intend to understand as well each dimension of these terms. Nevertheless, unclarities interfere in this case, respectively there is no generally accepted definition for each side of the performance or a common and general conceptualization of this.

Some features of the definition and conceptualization of the term are quite clear and specifically explained. We will present them within the following. Other aspects in searching of which we are, we could not very clearly delimited them as we have intended to, in order to reach a better understanding.

Therefore, the most frequent terms and which worth the differentiation between them are: the economical-financial performance, the operational performance, the social performance, the global performance. Within the following, we will enumerate few definitions of the literature:

- the economical-financial performance is defined as it follows: "*superior qualitative level of the economical- financial activity performed by the economical agents, which is assessed through various indicators such as: fiscal value, capital rentability, work productivity, capital yield, brut and net profit, annual renewal rate of the fixed capital, the effectiveness of fixed assets usage etc*"[17].

- the operational performance is defined by referring to the management of the operations which consist of fulfillment of the objectives by each department existing within an economical entity or by a team. *"For each responsibility domain, different descriptors of the performance will exist, as well as different users of the signals which describe the performance. All these descriptors would not mandatorily be concordant one to the other"* [18]. Therefore, we can affirm that the operational performance cannot be described through one single definition within organization, but we can conclude that there is one side of the enterprise performance which is called operational.
- the global performance of the company is a concept which presumes an aggregation of the economic, social and environmental performances. A vision on the global performance, presented through comparison with the financial performance is: *"if the financial performance is just „the outcome of the race”, the global performance is the race it self, as well as the vector of the success of further races"* [19] moreover *"the global performance refers to the equilibrium and to the existing causal relationship between the external and internal forces, building itself through continuous improvement of the internal processes, through innovation and personnel training, through customers and shareholders satisfaction, through environment protection"* [20].
- the social performance is studied as directed connected to the social corporative responsibility, frequently debatable concept, which presumes *"more responsibilities for companies: ethical behavior, the duty to support durable development, stakeholders profit maximising, maintaining a good relationship to the co-interested groups (partners, customers, users, suppliers, shareholders, governmental and non-governmental organizations, etc)"* [21]. Moreover *"the majority of researchers have demonstrated a positive relation between the social corporative responsibility's activities and company's performance"* [22].

As a result of the aspects presented, we can affirm that the understanding of the concept "enterprise performance" requires defining of each criterion of its definition (e.g. effectiveness, efficiency etc.) on one hand, and defining of each of its side, on the other hand (e.g. social performance, financial performance, etc.). But this becomes more difficult, as we observe that there is not common and generalized conceptualization from scientifically point of view.

## 5. Conclusions

In conclusion, due to the fact that the enterprise performance requires to be firstly measured in order to be managed, and in order to be measured, it has to be previously defined and identified, we accentuate these criteria, which generate a consensus in performance definition.

The analyze of the background of the enterprise performance definition and specification has already demonstrated the multiple aspects of the term performance. Considering these aspects, we can observe as per literature evaluation that defining the concept "enterprise performance" is a challenge, that there is not an unanimously accepted definition, and that the multiple sides through which the enterprise performance is conceptually approached, makes its measurement activity even difficult. Still, as we have accentuated before, the enterprise performance is only valuable through measurement.

*"The definitions are important and necessary to mitigate confusion, but most often they are neglected"* [23] therefore we consider that a generally accepted definition and extend delimitation should ultimately be projected by literature in order to let every researcher and more important, every practitioner knows what does he/she have to solve firstly, and to improve nevertheless of what it's measured - the performance.

Based on the aspects presented, we consider that the initial formulated hypothesis:

"H1: The enterprise performance is not unanimously defined by literature; this generates the necessity to build a theoretical-fundamental system focused on defining and establishing the extension of the concepts integrated within the term of performance, to be accomplished within the context of the complete running system of the enterprise"

has been validated.

We consider that the classification of the concept “enterprise performance” in a theoretical-fundamental defining system is not an easy task, but even a challenge for further researches. Still, we hope that the present paper is applicable to scholars working in the field of firm performance, willing to understand the complexity of this concept and to develop future researches regarding the measurement of the enterprise performance.

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