

SHORT INTROSPECTION ON PERFORMANCE EVALUATION OF PRODUCTIVE COMPANIES

Cristina IACOBAN

*Stefan cel Mare University of Suceava, 720229, Romania
iacobancristina@yahoo.com*

Abstract

Performance is the most important goal of a productive company. The basic questions are: How do you know when your company reached its highest or lowest performance? What and when you should improve or change? In order to succeed, a manager should always ask himself and his employees about individual and global performance. And each day, the answers are different.

Present paper is making a short introspection of the economic Romanian and international literature, by presenting the theoretical and practical aspects of the performance evaluation of a productive company. The paper synthesizes the methods proposed by specialists and used by different companies, based on examples from agricultural companies, field chosen because of the advantage and the importance gained in the last decade by agriculture and food industry.

Key words: *agriculture, performance evaluation, decision making, financial indicators.*

JEL Classification: *M40, M41*

I. INTRODUCTION

The global situation of productive companies is constantly changing. A company has to fight daily to adapt to the market demands and survive for a long time, or die trying.

The managers and the owners of the companies must understand and capitalize the financial-accounting information to which they have access and turn them into competitive advantages. In order to know your position on the market, you must evaluate yourself. In order to surpass your competitors, you must evaluate your proposed future activity.

The specialized literature and information technology presently offers you many possibilities, you just have to identify the right one and adapt it to your own company. In the following parts, we will present a synthesis of the literature.

II. PERFORMANCE INFLUENCERS

In the economic and financial field, the concept of performance is considered to correspond in the same time to at the minimum two of these meanings: success and action (Burja and Burja, 2017). From this point of view, we can say that the company is effective when its productive activities to fulfil its targets (the action) bring art of value (the product of the action) and positive consequences for the interested parties (success).

Performance is the whole process of performance appraisal, not just the results measured at the end of an operation. Performance is a product, the final effect of an activity, but it is found that an outcome cannot be reached if is correlated with its purpose. The performance contains all the logical elementary stages of the action, of the intention of the actual result. The product of the operation is the performance, which is subjective, and of a subjective nature, which consists in approaching a reality to a desire.

Performance information is provided, first and foremost, through the profit and loss account. The literature offers several acceptances that refer to performance:

- Performance in the sense of success, different categories of users of accounting information are dependent on how to represent the success;
- The performance as a result of the action, does not stop at understanding the value judgment of the stakeholders and is opposed to the first acceptance and the measurement of the performance is appreciated as an after evaluation of the obtained product;
- Performance as an action itself, not the result that appears at one point, but the process.

The performance of the enterprise refers to its possibility of obtaining income. This is where the estimated value and number of the assets and the capital that the company is to be expected to control and hold also

emerges. Profit is often used as a baseline for other indicators, for instance: return on investment or return on equity or as a measure of performance for business.

Due to the fact that this notion is frequently used in the economic-financial activity, which it is the purpose of any shareholder and CEO, that IAS 1 - Presentation of Financial Statements responds to their wishes, it can lead to the idea that performance is a notion that can be easily understood, but it is not really so because performance is not easy to define, it is an ambiguous and integrating concept, different people think that if a company records positive results it is performance, but it seems that the reality is not.

In Romania, the current financial and accounting regulations directs the companies in evaluating the performance of companies through profitability indicators. In the same time, the companies take into account the financial reports and cash flows for evaluation of their performance. The structure of the annual and interim financial reports is intended to evaluate the performance based on income and expenses, these being the fundamental issues needed to determine the effective results and the profit registered by the company.

The evaluation of performance is treated by the specialists to be a very good way for determining the financial position of the company, being possible the comparison with other companies and the mission and the goal of the stakeholders. Any approach of assessing performance and identifying the impact factors of the targets are needed to pay attention by the persons involved, to be monitored and minimised the possible dangers and negative effects. In this respect, there are many factors to be considered. We can find a lot of scientific and practical contributions that state

There are some studies that demonstrate a difference between the size of registered profits and the assets with high liquidity of an enterprise (Tehrani, 2012, Deloof, 2003, Eljelly, 2004, Burja and Burja, 2017). The utilisation of the assets with high liquidity (compared with other assets of the company) sends good signs to the suppliers and grantees regarding the solvency of the company, but, in the same time, indicates the under-utilization of the production resources. The challenge for the managers is to ensure the balance between the needed finances and the existing resources, in order to optimise the use of assets and resources and to maximise the results of the production. Some researchers sustain the importance of the assets of the company (Burja and Burja, 2017), in the sense of sustaining the capability to innovate in the field of production, and to generate an economic advantage that leads to better profitability. The improvement of the competitiveness of productive enterprises depends more and more on the value of the sources invested in intangible resources.

Other important factors, depending on the results obtained by the company can be the shape of the finances (Purcărea and Stancu, 2008), the financing advantage (Ryan, 2008), the actions of the managers and shareholders behaviour and risks assumed (Bromley, 1991).

Creating specific values, which is seen in the size of the revenues, profits and performance overall, is a wide action given by the activities in the fields like production (the diversity of goods and the volume of sales) and promotion services (Lane, 2011).

III. PERFORMANCE EVALUATION INDICATORS

Recently, the methods of evaluating the performance are more diverse. Performance appraisal can be presented as the capacity of an enterprise to stimulate attracting new investments, to conduct productive activities (and not only), to contribute to better productivity and results and to the achievement of business companies goals (according to Berheci, 2009, Muchiri et al., 2010). Evaluation can be an instrument that helps the CEO of the company to establish how to carry out the activities in an effective manner, through the recorded performance (Hornungová and Milichovský, 2018).

Performance evaluation in a classical manner can be done not only analysing the profit and loss account and the evolution of cash flows, but can also take into account other indicators, which can be calculated based on other accounting registers and reports, like the balance sheet, so that can result the indicators of liquidity, solvency and profitability. This information also can be found within note 9 of the explanatory notes to the annual financial statements). In this respect Fig. 1 presents, in the conception of Anghel I. (2008, pp. 29-34), a summary of the main indicators calculated on the bases of the accounting and financial reports. The author determined and presented a number of 150 indicators, needed and applied in financial analysis.

Financial analysts use different scientific (and not only) technics in order to make a professional analysis, and especially based on rates, rates that are more relevant as statistic information (Feleagă and Feleagă, 2007), correlated with the principle of continuity of the activity. Colasse B. (2009) clarifies the financial analyst's task in choosing the financial indicators needed for a certain evaluation or diagnosis, "... the financial analyst can assess according to his needs, the claim of the accounting indicators applied for studying the performance of the company".

Most companies produce and publish financial reports, which targets the stakeholders (intern and extern

ones), these reports aiming at evaluating and justifying the actions; in this respect, they offer also indicators that reflect the financial position and financial performance of these companies.

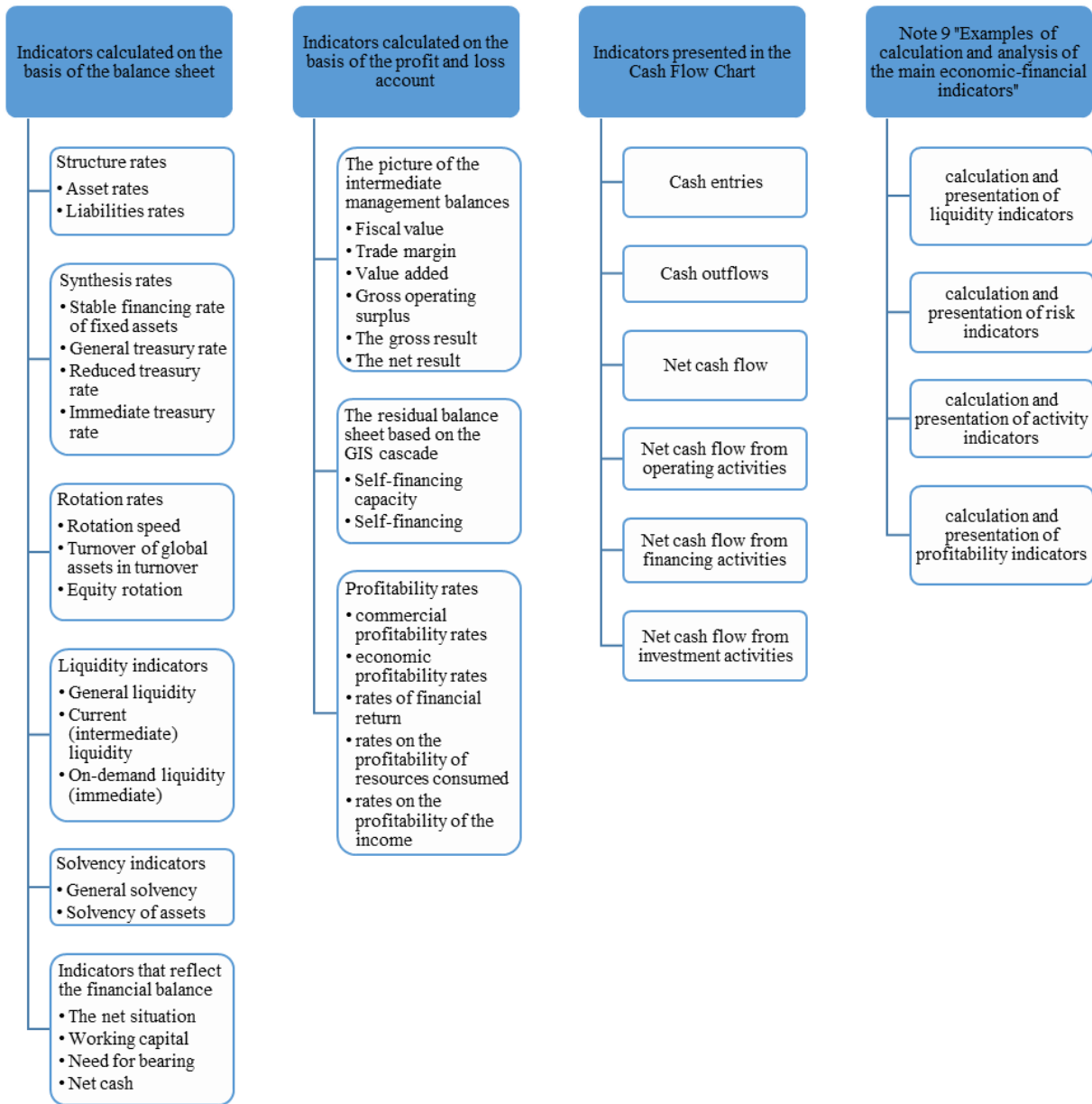


Figure 1 - Indicators calculated based on financial reporting

Performance assessment in modern society refers to performance monitoring and measurement through results that involves regularly collecting of data based on registered operations. This kind of way of performance assessment includes choosing the most important and relevant elements for monitoring the result searched, elements that should be: fair (narrow and explicit), economical (obtained at certain costs), monitorable (it can be tracked) and adequate (to present the tracked information) (Mihalciuc, 2009). Modern indicators by which performance is measured are indexes, which present the formation of value for stakeholders, and this approach is extensively debated by the specialists. Robu et al. (2014) present briefly and very clearly this concept of value creation for internal stakeholders reflected by their investments in the company, as being a positive report between the invested capital (reflected in the rate of return of investment - ROI) they make and the exceeded costs. Bostan I. and Grosu V. (2010) come with an interesting explanation referring to one of the indicators utilised for the assessment of the value creation for the internal stakeholders: the economic value added method was not created as a way of evaluating the entity, nevertheless as a performance parameter, so following an

analysis of the added economic value presents an economic aspect, which can complete the procured indications, considering the evolution of the value.

Regarding agricultural holdings, according to Tyrychtr et al. (2015), focuses mainly on the technical performance (more than 50% of the active enterprises in the agricultural sector), not only on the financial performances. Meanwhile, the percentage of enterprises oriented towards economic and efficient agriculture is increasing, according to the same authors. However, the degree of their effectiveness is less than 13%. The financial indicators traditionally calculated (on the basis of data offered by accounting) are still used nowadays to assess performance; this way performance assessment is fully accepted as the most efficient on long term, despite of the differences between accounting and financial indicators, as a result of being based on official quantitative data and based on the annual financial statements declared to the institutions of resort. Since 1980, traditional methods have faced different points of view, identifying controversial aspects in utilisation of these methods, as a result in investigating other solution for performance assessment (Bostan and Grosu, 2010).

Over time, performance was assessed taking into consideration the size of the company or by its efficiency and profitability. The specialist divide the financial indicators of the company's performance into three categories (according to Hlaciuc and Mihalciuc, 2005; Brignall, 2007; Mihalciuc and Cibotariu, 2009; Vasilescu, 2011; Nicu, 2012), indicators applicable to agricultural enterprises:

- The accounting results and indicators that come from the annual / interim financial statements, which present and explain the efficiency of the corporation in absolute value. The indicators are easy to calculate and detect, as companies are required to present them.
- Financial productivity indicators present data using the value of investments. The most popular indicators are ROI (return on investment), ROE (return on equity). Financial productivity indicators present data that helps the enterprise to analyse its expected efficiency with shareholders.
- A special group of financial indicators is represented by EVA (Economic added value); if it has a positive value it presents, financially speaking, the enterprise registered a positive value, after paying all the resources invested, especially to the shareholders of capital. EVA supports the CEO of the enterprise to organise the prevention and assessment of the risks that the enterprise encounters. In the same time, offers a basis for anticipating and manipulating the market value of the enterprise against the investor's capital.

Researchers in the field have begun to evaluate the performance of companies as a support for substantiating managerial decisions, such as making new investments and innovation, oriented to the market and strategic thinking (intensively analysed by Hornungová and Milichovský, 2018). For a company to be successful in using innovative strategies and decisions directed directly to production, the manager must be open to change and constantly update its business strategy (Micheels and Gow, 2015). The data offered by accounting is a “primary and essential resource for decision-making processes, used both for drawing up strategic plans of development in compliance with the organisational culture of each company, and for designing operational plans in agreement with the medium and long term development strategies” (Boghean et al., 2011).

Few articles and papers have presented the performance of farming companies in Europe, utilising indices such as profitability, economic efficiency and technical efficiency. Hornungová and Milichovský (2018) presented as using the value-added gross productivity indicators to assess the economic efficiency of dairy farms, but also the use partial productivity, capital productivity and land productivity indicators.

In practice, the process of assessing the sustainability of an economic system is difficult because it requires a large set of indicators to express specific issues. The analysis of sustainable development in agriculture and rural areas has four components in general: food security, employment and income generation, conservation of natural resources and the environment, participation and empowerment of people.

At the macroeconomic level, over time, different indicators have been proposed that evaluate the sustainability of agriculture at national or local level, recommending a set of environmental indicators for agriculture, regarding issues such as: agriculture in the economic, social context and the environment, more broadly, the management of farms and the environment, the use of agricultural inputs and natural resources and the environmental impact of agriculture. These indicators have been used in studies to evaluate the effects of agriculture on the environment in various countries, including Romania.

The set of indicators used to monitor the sustainability of agriculture, developed by the European Commission, facilitates, in particular, the assessment of the link between agricultural practices and the impact on the environment. These agro-environment indicators refer to farm management practices, agricultural production systems, environmental pressures and risks and the state of natural resources. Although they have a great informational value, they present primarily global quantitative problems regarding the interaction of agriculture with the environment and, therefore, should be supplemented with other information to identify the specific problems of the regions and farms.

IV. CONCLUSION

According to Moroşan-Dănilă L. (2015, p. 185), at global level, the accounting has benefit from the IT development, so that, nowadays, all financial and accounting processes and analyses are computerised. Accounting operations, achieved through computerized accounting systems, should help to solve specific problems as accounting operations on accounts and balance sheets calculation. This is done by processing the data from entry documents and their storage, data processing and delivering results to the decision makers. It is recommended to include in the accounting softs at least the calculation of some basic financial and profitability indicators, if not an entire ensemble of performance evaluation indicators, as presented in the paper.

Generally, companies are encouraged to draw up budgets and use different elements to enable performance measurement and management, for this purpose, internal reports are prepared for managers, data in the form of dashboards that include elements from several sources. Also, costs play a special role in internal reporting, if reference is made to their importance.

Each company with a strategic thinking should have an information system capable of assessing the performance of the company by implementing a management control system, on the basis of the following management techniques: organizing and operating at the lowest cost of an information system adapted to the coherent processes of management; analysis and synthesis, such as cost-volume-profit (CVP) methodology; as well as defining the problems and information internally and externally needed for the organisation, for which we will have to prepare the cost and revenue estimations.

As a conclusion, we can say that CEO must be able to evaluate and handle the performance of their companies, because they have access to information in a more detailed manner (compared to other stakeholders), like the data provided by managerial accounting, not only those published in the annual and/or interim financial statements. It should be noted that even though the financial data could be helpful in evaluating the performance of the enterprise, it can be deficient to really know and evaluate how the business or its specific climate works. In this sense, the CEO needs also some non-financial and qualitative data. As we know, financial indicators are simpler to define, they can be more easily evaluated and compared to each other than the subjective (non-quantifiable) information defined for other functions of the enterprise. Within the enterprises it is necessary to implement that set of agreed performance standards with which to compare the performed performances, improvement targets can be set based on such standards. In general, budgets represent the most used performance standard, representing a very important internal control mechanism, budget information being easily accessible and available.

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