

# OLD AND NEW CONFIGURATIONS REGARDING THE CONCEPT OF ECONOMIC PERFORMANCE

Lecturer Ovidia Doinea Ph. D.  
University of Craiova  
The Faculty of Economics and Business Administration  
Drobeta Turnu Severin, Romania

**Abstract:** The performance is generally known to be a special achievement in a field of activity. The measurement of performances represents a system of control techniques meant to make sure that the achievements from various centers of responsibility within the enterprise are in conformity with the norms established for each of them and to apply positive or negative sanctions if the achievements are sensitively off track from the selected norms. In the economic specialized literature, the performance is perceived in three different ways, respectively: performance - the strategic objectives' achievement level; - defining performance depending on the creation of value; - efficiency versus efficacy in defining the performance. The performance of the enterprise is known nowadays under the name of sustainable development, a concept targeting the achievement of three objectives: - the growth of the enterprise's financial performance; -the development of its surrounding environment's efficacy; - the favoring of the social development.

**Key words:** performance, economic performance, internal value, external value, sustainable development, efficiency, efficacy, enterprise.

## 1. INTRODUCTION

In order to define the concept of performance, we consider necessary to follow along its evolution in time the word *Performance*, starting from the origin and first signification of this notion, and only afterwards we shall try to define in our own manner the performance.

We must point out that, in spite of its abundant use and various meanings, *performance* is very rarely define, even in the papers that are focused on this matter. It seems like the signification of this word is so obvious and its definition is totally unimportant.

The origin of word performance is Latin, but its main signification from the English language. The words more related to it are *performare* in Latin and *to perform and performance* in English. *Performare* in Latin means to give shape to a thing.

The generally accepted signification of *performance* is: “*a special achievement in a domain of activity*”. (The Romanian Language Explicative Dictionary).

The general performance, defined as a system aggregating the economic, social and environment performances [1], is a multidimensional concept difficult to measure from the technical point of view.

In most of the cases performance is associated *with the positive result of an action or with an action leading to success*. In other words, we can say success can be appreciated only from the perspective of the results obtained a posteriori. “*It is built up during the entire period of a process's manifestation, from the moment of defining the action plan until the moment of finalization, when the strategic objectives are achieved.*” [7].

This definition leads to the conclusion, also supported by A. Bourguignon, that **performance is not a thing that can be noticed at a certain moment, it is built up gradually.**

## 2. METHODOLOGY

The economic performance has been defined in various manners during time.

In 1971, L. Labrousse defines the economic performance starting from a set of characteristics specific for it: „ *an enterprise that knew to place itself on the market and exploit a certain peak and consequently has known and knows a really remarkable expansion; a well managed enterprise that knew how to measure its productive effort at the lowest costs; a enterprise that knew how to preserve its own expansion*”. F. Harrison [4] defines performance like „*the final result of making efforts*” while M. Klein [5] affirms that performance „*is a subjective and relative notion.*”

## 3. ANALYSES

In the specialized literature, many criteria has been used along time for the measurement of performance, both of quantitative and qualitative nature, but very few authors succeed in defining the concept of enterprise's performance. This explains why some researchers found it more practical to evaluate the enterprise's performance by using measurements based on *the perception of enterprise's managers*.

The notion of performance is known from the beginning of the 20th century and used to designate the numerical indicators that characterized a car's technical qualities. The performance of cars is explained by making reference to its objectives. In the domain of sport, performance signifies the results obtained by an athlete in a race or by a sportive team.

If a comparison is made with the economic domain, it can be noticed that in sport the performance is referring to the qualification of the sportive at high level competition; and in the case of an enterprise, it refers to holding a higher percent of the business market in comparison with the percent hold by the competitors; in sport it is about a better position within the elites while in the enterprise we talk about a better position within the companies' hierarchy; in sport it is about a personal record broken while in the case of an enterprise it is about the higher sales percentages than the ones gained in the previous years.

So, the sense of the word result, but also that of the word success, varies depending on their number. Success dominates result when the signification of these terms is used at singular. As a plural, success is less frequent, the accent being put on the result in order to determine its size. It can be observed that the *performances* are multiple considering the archaic senses of the term, but the performance become singular in the present senses of the term.

At singular, the notion is used especially in the innovative sense of management that lead the enterprises to a much more efficient success than by the traditional methods, but its imprecision answers better to the multidimensional strategies from nowadays, within which success often surpasses the traditional economic-financial dimension.

At plural, the term is associated in general with the classical management instruments which consisted of the measurement or the evaluation of performances.

It is obvious therefore the sense of the notion performance has evolved and changed during time. It has become a term with multiple senses, having various significations depending on the domains in which are used.

In the economic specialized literature performance is perceived in three distinct manners, as follows:

### 1. The performance – the strategic objectives' achievement level

Performance is a notion frequently used because of the metaphorical allusions it contains.

The performance represents the achievement of the organizational objectives [3]. This definition can be translated by something equivalent: the performance in the enterprise represents all the factors that contribute to the strategic objectives' achievement. We can not affirm a performance is not good or is bad by itself. The same result can be considered a good performance if the objective is modest and bad performance if the objective is really ambitious. The organizational performance depends on the enterprise's objectives but also on its internal or external reference points in the same manner in which the sportive performance can be appreciated in report with the goal the athlete fixed for himself, by *external reference point* (it competitors, a worldwide record) or *internal one* (a previous performance).

Therefore, the performance is always the *result of a comparison. Achieving performance means to achieve or surpass the objectives.*

This definition indicates that:

- *“performance depends on a reference point – objective or goal;*
- *Performance is multidimensional when there are multiple goals;*
- *Performance is a subassembly of action;*
- *Performance is subjective because it represents the result of an operation, which is subjective by its nature, and consists in bringing a desire closer to become a reality”.*

But it seems this definition of performance is incomplete since it refers only to the performance's characteristics without researching for an operational method [6].

From another perspective, the performance represents: *„the achievement of the organizational objectives no matter their nature and variety”*. The organizational performance proves the capacity of an individual to progress due to its efforts. *Performance does not exist by its own. It always represents the result of a comparison. But to what kind of base we report the comparison? This base of comparison can be an internal variable (an objective for progress or a result of a past period) or an external variable. But the base for comparison has a dynamic character, which makes the performance seem a transitory state.*

Taking into account all the above mentioned, the conclusions are the following: **“the actual real content of performance is dependent on the strategic objectives; there is no absolute performance, independent from its objective; the evaluation of the performances depends on the objectives that have been established, so what is considered to represent performance in a certain situation, characterized by certain objectives, can be considered a non performance in another situation characterized by other objectives.”**

### 2. Defining the performance by considering the creation of value

This perspective is supported by P. Lorino [7], who affirms: *“the performance of an enterprise represents what is contributing to the amelioration of the relation value – cost, and not only the demand of the relation value-cost; or, as we put it, it explains the manner in which the enterprise creates and will create value”*.

But when is an enterprise creating value? In order to answer to this question it must be made clear that an enterprise can create two types of values: *an external value and an internal value* [2]. **To create external value** implies that the enterprise has a higher market value than the accounting value of its assets. We refer to it as the external value since the difference between an asset's market value and its accounting value is given by the growth of respective asset's market price, and this can not be influenced by the internal decisions taken by the enterprise but only by the specific conditions of the market. **To create internal value** means the enterprise creates economic added value, so a positive net value after the remuneration of all the factors of production, including here also the costs of owner's equity.

The primordial role in assuring, maintaining and developing performance belongs to the client. Though the large majority of the enterprises recognize the principles determining a better performance, they do not always succeed to line up their competences to the clients' exigencies. A reason for this difficulty seems to be the acceptance of the notion of performance.

To support this opinion, we mention M. Porter's point of view [15], expressed by him in some specialized literature who considers that **the enterprise's performance depends on its capacity to create value for its clients**. We extend the area of value creation further more not only for clients, but also for shareholders, employees and natural environment, giving a new nuance to the definition above.

Therefore, the creation of value results not only from a product's intrinsic qualities, but also from the structure of the immaterial services that are accompanying it. The ways in which the people communicate and work together determine the performance of any organization. So, we believe *the education of the 21st century must answer to four objectives: learning to know, learning to make, learning to be and learning to live together*, and the enterprise must take into consideration this new approach to obtain performance for its employees, as well.

In order to be able to live together, we must respect the environment, as physical persons, but the enterprises should do it too, as juridical persons. The enterprise's commitment towards the environment must be perceived nowadays not like an option but like a common sense obligation from the following perspectives:

- *commercial*, because the clients have new expectations; they are demanding, for example, the recycle of used household appliances;
- *moral*, because we are all citizens with children and we must act in such a manner so to live the future generations a world that will offer them better conditions;
- *economic*, by diminishing the consumption of materials, eliminating the waste, diminishing the accidents' number.

This new approach of performance is known in the present under the name of sustainable/**lasting development**, concept targeting the achievement of **three objectives: the growth of the enterprise's financial performance, the development of the surrounding environment efficacy and the favoring of the social development**.

This concept appeared officially at the beginning of the '80 at the same time with the creation of the "*Commission for Environment and Development*" under the ONU auspices, its leader being Gro Harlem Brundtland. In 1987, this commission *had defined sustainable development* like "*the development that satisfies the needs of the present without compromising the future generations' possibility to satisfy their own needs*".

In conformity with the opinion of the European Commission, the principles of sustainable development at the enterprises' level should become applicable by the mean of

social responsibility. This commission defines the notion of enterprise's *social responsibility* to be "the volunteer integration of the social and environmental preoccupations in the economic activity and in the relationship with the interested parties by the enterprise" (Livre vert, 2001).

This thing *essentially* implies the enterprises should become responsible from their own initiative in order to contribute to a better society and the best manner possible for the protection of the environment, in collaboration with the interested parties. These parties interested in this aspect or the «*stakeholders*» were defined by Freeman (1984) as being any group or person that can influence or can be influenced by the activity of enterprises. The concept of performance is used in this context to evaluate the manner in which the firms put in practice the sustainable development strategies [4].

The practical sense of social responsibility in enterprises is concretized nowadays in the concept of "Triple Bottom Line" respectively **economic prosperity, respecting the environment, respecting and ameliorating the social cohesion** [8]. The concept reflects the recognition at the enterprise level of the sustainable development's three dimensions [1]. The sustainable development in the enterprises is often represented by a triangle so to underline the three objectives targeted: the first one is economic, the second objective is referring to the environmental protection and the last one has a social character. The principle of sustainable development consists in balancing these three dimensions in disfavor of other objectives.

**The importance of the social performance in assuring the performance of the enterprise is also supported by M. Porter, who assimilates the performance with the concept of excellence that is based on four determinants: the efficiency of the organization, the social identity, the achievement of the objectives and the reputation of the organization.**

Analyzing the opinions presented above, we can consider an enterprise characterized by performance is the enterprise which conciliate the expectations of all its partners: *creates value for its shareholders and clients, makes the place of work enjoyable and preserve a clean environment for the collectivity*. So, the enterprise that achieves performance is the one creating value for its shareholders, answering its clients' expectations, taking into account the opinions of the employees and respecting the environment. *The consequences are: the shareholder is satisfied because the enterprise has obtained the targeted profitability, the clients are confident, the employees are proud of the enterprise they work in, and the society is pleased by the enterprise's environmental protection policy.*

### 3. Efficiency versus efficacy in defining performance

In order to properly define **performance**, we consider necessary to clarify first the signification of two other concepts, respectively **efficiency and efficacy**.

**The term of efficiency** has many senses in the specialized literature. Some authors affirm an activity is efficient when it achieves the targeted aim with minimum effort. The problem raised in this case is to delimit the degree of concordance between the results obtained and the objective that has been established from where the activity is considered to be efficient.

The most general meaning of efficiency is that of the direct or indirect report between the useful effects obtained and the effort made for them: **Efficiency = effort/effect or effect/effort**.

From the **managerial point of view**, we understand by efficiency the degree in which the desired goals and objectives were achieved. The managerial performance is obtained in this situation at the crossroad between the quality of the managerial results, decisions and actions and the quality of the managerial system's aims.

**Efficacy** can be defined as the degree in which the enterprise succeeds in satisfying its own exigencies or the external expectations (the clients, state, retailers, employees, shareholders). The efficacy of an enterprise is obvious when it succeeds in optimizing the manner in which its internal and external development resources are used, as well as the correlation between the two of them, answering as good as possible to the expectations of the third parties or of the external partners.

Therefore *an enterprise has economic and social performance when it is simultaneously characterized by efficiency and efficacy*. It results that *performance is a function with two variables, efficiency and efficacy, their combination reflecting an enterprise's level of performances*.

#### 4. CONCLUSIONS

Consequently to our incursion in the specialized literature to identify the definitions of performance along time, priority having the economic oriented ones, we can affirm that **the performance represents the degree in which an enterprise succeeds to satisfy the requirements of the internal environment, as well as those of the external environment by an optimal combination between efficacy and efficiency**.

**Performance is a state of competitiveness for the enterprise which grants a lasting presence on the market; is an indicator of a potential of future results that emerges due to the satisfying of the strategic objectives**. So, the performance does not characterized only a temporary situation, it is always referring to the future.

**Performance is multiple**, it is different depending on the person evaluating it, because each of us perceives performance from his own point of view and in report with the degree in which the objectives established have been achieved.

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