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DIMENSIONS OF COMPANY PERFORMANCE

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Abstract: *Globalization, along with the increasing competition and the uncertainty of today's dynamic business environment, are putting more pressure on companies to constantly seek methods, techniques, and solutions to improve their ability to adapt in order to achieve, to improve, and to maintain performance in every possible manner. In a classical (traditional) approach, the main goal of all organizations is to be profitable, and the financial results (profitability, revenue, expenses, assets, liabilities) are usually the first thing that is considered when it comes to company performance. Though the financial performance is a very important aspect and the ability to generate profit is a crucial factor for a company' s success, the overall firm performance is a significantly more complex, extremely vast, and widely used concept. There is no generally accepted and unitary definition; it is a concept that has evolved over time, and has now been extended with two new dimensions: social and environmental. The aim of this article is first of all to present some theoretical and conceptual approaches related to the concept of firm global performance, its definition, and the ways to analyze and measure it, as they have been previously presented in the academic literature, and also to propose an approach to firm performance that goes beyond the economic and financial area, including both financial and non-financial aspects, and to present it as an aggregate of the positive returns given by the financial area, social field, environmental protection, customer satisfaction, and the achievement and development of human capital.*

Keywords: *Firm Performance, Efficiency, Profitability, Global Performance*

JEL classification: *L25, M0*

1. Introduction

The global performance of companies extends beyond creating value for shareholders or investors, but for all those who have an interest in the company's activity and performance, because "the modern organization is a network of relationships between firm and its outside partners" (Albu & Albu, 2003). Therefore, a successful company is considered to be the one that creates value for shareholders, fulfills the needs and expectations of customers, considers the opinions and aspirations of employees while adequately compensating them, promotes environmental sustainability and contributes positively to the society in which it operates. Consequently, the meaning of performance varies depending on the expectations of each stakeholder category. Shareholders and other investors are satisfied if they receive the expected return, employees value job stability and fair compensation, creditors are interested in the company's financial stability and customers seek satisfaction in the quality of goods and services provided by the company.

Performance, as discussed in the article below, is a widely utilized and intricate concept that requires effective management rather than simply being "pursued and measured" (Albu & Albu, 2003).

2. The concept of global company performance

Verboncu, Apostu, Gogîrnoiu and Zalman (2014) argue that performance is "an outstanding result obtained in management, economic, commercial, etc. field that imprints competitiveness, efficiency and effectiveness characteristics on the organization and on its procedural and structural components" (Verboncu, Apostu, Gogîrnoiu, & Zalman, 2014). Thus, global performance is regarded as the attainment of superior results across all the activities undertaken by a company.

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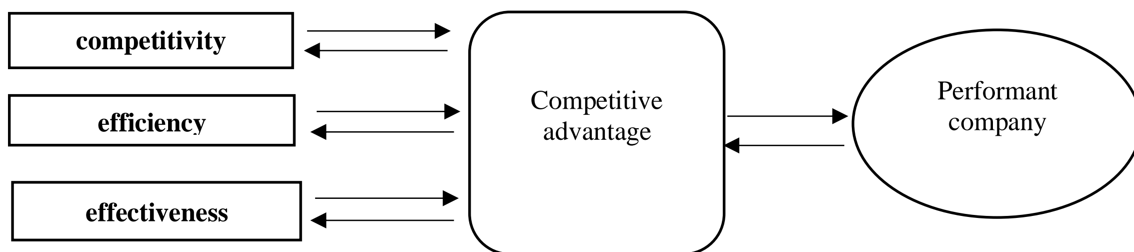
Figure 1: The link between performance and competitive advantage



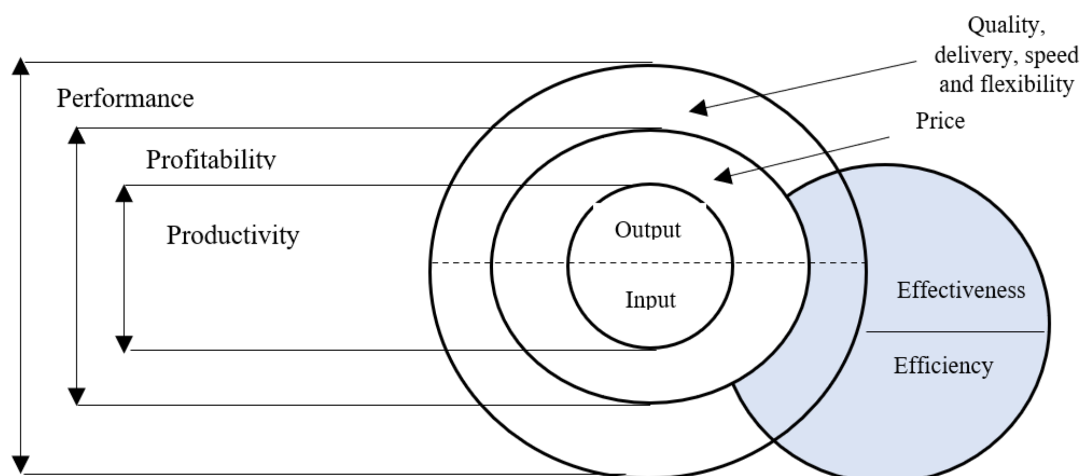
Source: Verboncu, Apostu, Gogîrnoiu, Zalman, (2014) Management. Eficiență, eficacitate, performanțe

According to the authors, it is crucial to consider effectiveness and efficiency alongside the concept of performance. They emphasize that performance, as a managerial and economic concept, cannot be isolated and examined independently but should be understood within the framework of efficiency and effectiveness. They assert that performance is essentially the combination of efficiency and effectiveness, expressed as Performance = Effectiveness + Efficiency = f(efficiency, effectiveness) (Verboncu, Apostu, Gogîrnoiu, & Zalman, 2014).

In their work, Georgopoulos and Tannenbaum (1957) also provide insights into company performance by emphasizing its connection to effectiveness. They define effectiveness as the approach companies employ to accomplish their goals by leveraging their available resources and means, while ensuring that their members are not subjected to excessive pressure. The concept of effectiveness is guided by various criteria, including productivity, flexibility (the organization's ability to adapt to internal and external changes), and the absence of tensions within the organization.

Stefan Tangen (2005) introduces the Triple-P model, consisting of performance, profitability, and productivity. Within this model, Tangen defines performance as a comprehensive concept that encompasses the overall success of a company and its various activities (Tangen, 2005). In other words, performance serves as an umbrella term that encapsulates the multifaceted achievements and outcomes of the organization. By adopting this model, companies can evaluate and optimize their performance by considering factors such as profitability and productivity alongside broader indicators of success.

Figure 2: The Triple - P model



Source: Tangen, S. (2005) Demystifying productivity and performance

In Tangen's perspective, productivity takes center stage as the "core" of the Triple-P model. He defines productivity as “the ratio between the quantity of output produced and the resources utilized during the process of obtaining those outputs” (Tangen, 2005). Profitability, on the other hand, represents this ratio in monetary terms, considering the price of the products. Tangen goes on to explain that performance serves as the encompassing term for excellence, encapsulating not only profitability and

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productivity but also other crucial non-cost factors, including quality, speed, delivery, and flexibility (Tangen, 2005). In this holistic view of performance, it becomes apparent that achieving excellence involves a comprehensive evaluation of multiple facets, going beyond mere cost considerations.

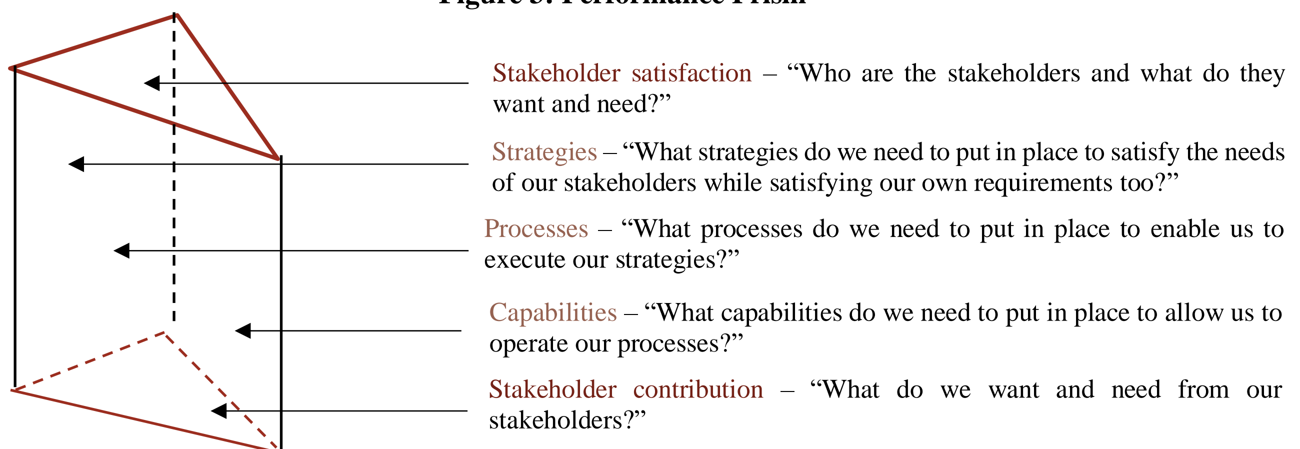
John Elkington expands the scope of performance beyond traditional measures such as financial results, competitiveness, productivity, and customer satisfaction. In the mid-1990s, he introduces the concept of the "triple bottom line," advocating that company performance should encompass the 3Ps: "people, planet, and profits" (Elkington, 2013). This concept emphasizes sustainability and asserts that evaluating company performance requires considering three dimensions: social, environmental, and economic. Germain and Trébucq (2004) share a similar perspective, emphasizing that incorporating social and environmental dimensions is a crucial concern within companies alongside financial performance.

According to Michel Lebas (1995), performance is not solely about past accomplishments; rather, it is primarily focused on the future. Lebas emphasizes that a successful firm is not determined by its past achievements but "a successful firm is the one that will achieve its goals, not the one that has already achieved them" (Lebas, 1995). In Lebas' perspective, the role of management is to envision and shape the future of the organization. Lebas highlights the forward-looking nature of performance and underscores the significance of proactive management in shaping the destiny of the organization.

The concept of performance is inherently expansive and lacks a universally agreed-upon and singular definition. It has undergone evolution over time, with the criteria for evaluating performance shifting from effectiveness to effectiveness and efficiency, and subsequently incorporating productivity and flexibility. Today, the concept of sustainability has emerged as an essential consideration, introducing two new dimensions: social and environmental. This progressive evolution reflects the growing recognition of the multifaceted nature of performance and the need to address broader societal and ecological concerns. As a result, the assessment of performance has become more complex, encompassing effectiveness, efficiency, productivity, flexibility, and sustainability, thereby acknowledging the interplay between organizational success and its impact on social and environmental well-being.

By "performance prism", Andy Neely (2007) suggests 5 dimensions to assess a company's performance:

Figure 3: Performance Prism



Source: Neely, A. (2007) – Business Performance Measurement. Unifying theories and integrating practice 2nd ed. Cambridge University Press

The authors create a broad, multidimensional framework that covers all aspects that affect a company's performance, providing a balanced picture of the business, highlighting both external (stakeholders) and internal (strategies, processes, capabilities) aspects (Neely, 2007). In fact, Neely's

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framework starts with the needs and expectations of stakeholders, then strategies are developed to meet these needs (Bourne, Franco, & Wilkes, 2003)

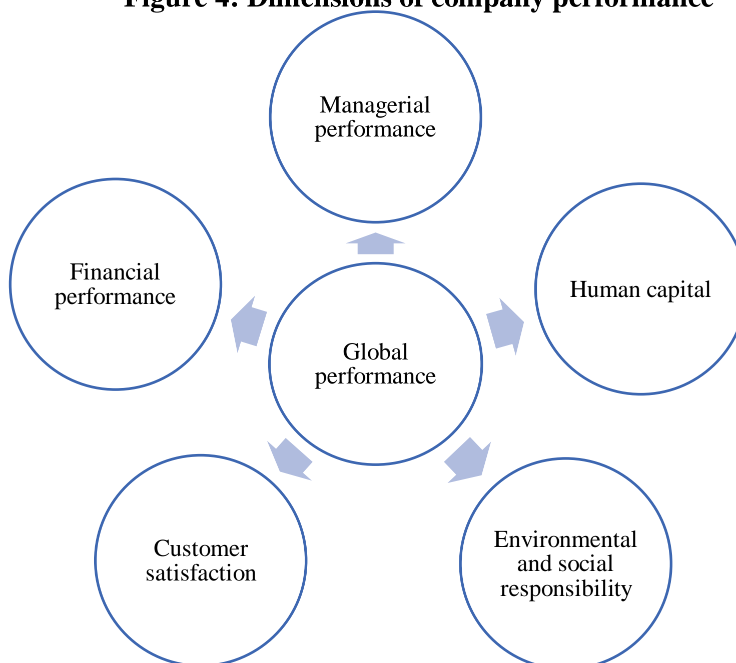
Robert Kaplan and David Norton (1992) have proposed a scorecard model of performance measurement designed to give managers as a clear picture of the company as possible because they want a "balanced presentation of both financial and operational measures". The Balanced Scorecard Model combines financial measures with operational measures regarding customer satisfaction, internal processes, and innovation and improvement of business activities – operational measures that are key factors for future performance" (Kaplan & Norton, 1992). In addition to the financial perspective (How do we look at shareholders?), the "balanced scorecard" model introduces: the internal perspective (with the question: What must we excel at?), the innovation and learning perspective (Can we continue to improve and create value?), and the customer perspective (How do customers see us?). This way, Kaplan and Norton provide a picture of global company performance beyond financial area, and the Balanced Scorecard proves to be more than a performance measurement tool specific to strategic management, but is considered by many authors as a management system (Verboncu, Apostu, Gogîrnoiu, & Zalman, 2014).

Therefore, one of the important facts that can be noticed about performance measurement systems presented above is that they have evolved from internal assements, which were focused on financial performance, to systems that consider the needs and expectations of all stakeholders (Bourne, Franco, & Wilkes, 2003).

3. Dimensions of company performance

After analyzing the definitions and measurement models of global company performance, the image that this paper aims to offer to global company performance is based on 5 dimensions: managerial performance, human capital, environmental and social responsibility and financial performance (Figure 4).

Figure 4: Dimensions of company performance



Source: made by the author

3.1 Managerial performance

Management serves as the cornerstone of organizational success. The effectiveness and efficiency with which managers carry out their responsibilities have a significant impact on the social and economic performance of companies. It is crucial to recognize that managerial performance is an integral component of overall company performance. In fact, it is the most crucial factor that contributes

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to and enables the attainment of economic and financial performance across all areas of operation. The foundation of a company's performance lies in its management, "the most important factor that contributes to and without which it is not possible to achieve economic, financial… performance in all conducted fields" (Verboncu, Apostu, Gogîrnoiu, & Zalman, 2014). Therefore, nurturing and enhancing managerial performance is paramount to driving organizational success and achieving desired outcomes in a wide range of domains.

3.2 Human capital

Employees are one of the most important and valuable resources of organization, one of the factors that help to "create value within an organization" (Albu & Albu, 2003). Human capital is itself an intangible resource, and since 1890, Alfred Marshall said that "the most valuable of all capital is that invested in human beings" (Marshall, 1920 (1890)) and represents a very important asset in creating value and increasing organizational performance. Because, after all, all the activities, processes of companies are designed, planned and conducted by people and depend on their skills and knowledge and, in the end, human capital represents the value that people provide to the organization (Baron & Amstrong, 2007).

Thus, in order to achieve high performance, companies need to possess and develop the most qualified human capital possible, and in the perspective of increasing development of knowledge and technology, it becomes essential for firms to have highly qualified human capital (Crook, Todd, Combs, Woehr, & Ketchen, 2011), and those that fail to invest in their employees jeopardize their own success and even survival (Bassi & McMurrer, 2007). Globalization, Bassi and McMurrer (2007) claim, has created only one path for companies to achieve performance, and that is to build their competitive strategy on exceptional human capital management, because the most competitive companies will be those that treat their employees as assets (Bassi & McMurrer, 2007).

3.3 Environmental and social responsibility

Corporate social and environmental responsibility plays a crucial role in global performance, making significant contributions to the success of companies. It represents an essential and indispensable dimension for the sustainable development of organizations.

It is imperative for companies to acknowledge and address societal issues such as poverty, political instability, and resource depletion, as only producing goods and services is no longer sufficient (Tsoutsoura, 2004), (Committee for Economic Development, 1971). Therefore, companies must assume certain responsibilities towards society, extending beyond their core business activities.

These responsibilities and engagements in the social and environmental domains fall under the purview of ESG (environmental, social, governance) and CSR (corporate social responsibility). While CSR has been a long-standing concept, ESG has gained prominence in recent times and offers a broader perspective by explicitly incorporating governance issues. ESG tends to be broader as it explicitly includes governance issues, whereas CSR refers to governance indirectly (Gillan, Koch, & Starks, 2021), thus painting a holistic view that sustainability extends beyond social and environmental issues (Peterdy, 2023). In essence, this holistic approach paints a comprehensive picture, emphasizing that sustainability encompasses a broader range of factors, including social, environmental, and governance considerations, all of which are integral to achieving long-term success for organizations.

Environmental, social and governance issues can have a positive or negative impact on the organization's financial performance or solvency (Li, Wang, Sueyoshi, & Wang, 2021), ESG factors are seen as determinant in the long-term success of companies (through better risk management, anticipation in consumer trends, accessing new markets, reducing costs, and have a positive impact on the organization's reputation) (United Nations Global Compact, 2004). The inclusion of social and environmental policy information in companies' annual reports has been welcomed on the capital markets, and a number of international institutions have decided to assess the market performance of social responsible companies (Bahurmoz, 2020), leading to the emerge of tools (indices, ratings or

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rankings, such as: Dow Jones Sustainability World Index, FTSE4Good, ECPI World ESG Equity Index, ESI (Ethibel Sustainability Index), Excellence Global, MSCI World ESG Leaders Index) for measuring corporate performance in terms of sustainability (Diez-Cañamero, Bishara, Otegi-Olaso, Minguez, & Fernandez, 2020). ESG has thus become, nowadays, a way, a strategy by which investors can assess companies' practices and predict future financial performance based on environmental, social and governance factors (Li, Wang, Sueyoshi, & Wang, 2021).

3.4 Customer satisfaction

"The customer's perception determines the obsession the customer needs. Without the customer, the company has no one to produce for. Customers and their needs have to be the key driver of employee motivation and managerial concern" (Coates, 1995), so the customer and creating value for customer has to be the center of an organization's activity, because the customer determines whether "firms win or lose" (Albu & Albu, 2003), and satisfying their needs must be the "main concern of managers and employees" (Coates, 1995).

The long-term development of organizations requires meeting the needs and expectations of their stakeholders, customers being the most important of them (Krylov, 2019). They certainly represent a key element for the development and future of organizations, and their satisfaction includes both the feelings associated with the purchase process, as well as pre- and post-purchase expectations (Biesok & Wyród-Wróbel, 2011).

Customer satisfaction is considered to be a non-financial indicator for measuring the performance of organizations (Ciobanu, 2006), firms can thus identify their position in relation to their market competitors, and by measuring the satisfaction that company's goods and services provide to customers reveal its strengths and weaknesses, helping the organization to improve the production processes (Eklöf J. , Hellström, Malova, Parmler, & Podkorytova, 2016), and through a better understanding of customer needs and expectations, companies can increase the quality of goods and services they offer (Gonzalez Menorca, Fernandez-Ortiz, Fuentes-Lombardo, & Clavel San Emeterio, 2015).

In order to face the competition and increase their market share, firms need to retain existing customers and attract new ones, and this way they are able to provide higher returns to shareholders (Ciobanu, 2006). Customer satisfaction is increasingly considered as critical to achieving and increasing company performance, and it is important that customers are seen as a group of stakeholder organizations must take into account in its "strategic planning efforts" (Eklöf J. , Hellström, Malova, Parmler, & Podkorytova, 2016)

3.5 Financial performance

"What can be measured can be managed" (Coates, 1995), and most of the time, when it comes to company performance, the first thing that is considered is financial performance and, first and most importantly profitability, and this might imply that "measuring a firm's financial performance should be a simple exercise" because "this task involves money, which is measured in numbers, so it is expected that the greater the amount of money, the better the financial performance" (La Rosa, 2021).

The financial performance of a company is closely monitored by both internal users (such as shareholders, managers, and employees) and external users (including investors, creditors, and customers). This monitoring provides insights into how the company's financial management is conducted, the decision-making processes and methods employed in areas such as investment decisions, cost of capital, and dividend policy. It involves the selection, calculation, and interpretation of financial ratios and indicators that reflect the company's liquidity, solvency, the state of its assets and equity, and the efficiency with which they are utilized, and additionally, the performance of the company's shares on the capital market is considered (Subramanyan, 2014).

However, it is important to note that relying solely on financial performance indicators based on accounting information has certain limitations. Firstly, they do not encompass information that may not be explicitly presented in the balance sheet. Secondly, they do not guarantee future performance as they

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are based on past accounting information, which reflects decisions made in the past. Lastly, while these indicators may include some intangible assets, such as patents or trademarks, they predominantly focus on tangible assets. This omission is significant as many intangible assets, despite their influence on a firm's market value and profitability, are not adequately captured in financial reporting (Rothaermel, 2020).

Therefore, while financial performance indicators derived from accounting information are commonly used to assess a firm's performance, it is crucial to be mindful of these limitations and consider a more comprehensive perspective that encompasses both tangible and intangible assets, as well as other relevant non-accounting information, to gain a holistic understanding of a company's overall performance and future prospects.

4. Conclusions

Company performance should not be confined solely to financial results. It is important to consider non-financial indicators that can complement traditional metrics. Performance evaluation "should be approached in a multi-criteria way that encompasses economic aspects, customer satisfaction, quality, and personnel considerations" (Verboncu, Apostu, Gogîrnoiu, & Zalman, 2014).

Achieving global company performance requires striking a balance between various factors. This equilibrium is achieved through effective managerial performance, fostering innovation, investing in personnel training, ensuring customer satisfaction, and environmental protection (Albu & Albu, 2003).

Firm performance is a complex and challenging concept to define, "ambiguous and integrative" (Albu & Albu, 2003). The criteria used to evaluate performance have evolved over time, encompassing dimensions such as efficiency, effectiveness, and competitiveness. However, there has been a notable shift towards recognizing the importance of social and environmental considerations, thereby advancing the concept of sustainability.

Sustainability goes beyond simply being environmentally friendly; it entails responsibly utilizing resources to meet present needs while safeguarding the needs of future generations. It emphasizes the importance of "optimizing the present while protecting the future" (Albu & Albu, 2003).

In conclusion, the examination of global company performance holds perpetual relevance and significance for businesses across all sectors of the economy. In today's dynamic landscape, evaluating the success of organizations goes beyond a narrow financial perspective or prioritizing the interests of shareholders alone, but requires the inclusion of social and environmental aspects and non-financial indicators to foster sustainable, long-term performance.

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