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DETERMINING FACTORS OF ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE

Theoretical Article

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Abstract

Analyzing the current state of knowledge with respect to the three directions, this paper aims to identify the determining factors of economic, social and environmental performance and the manner in which the indicators reflected by these factors influence the overall performance of the organization, in order to identify the most important factors and indicators that provide a durable and sustainable growth of global performance. The emergence of the sustainable development and sustainability concepts has forced companies to reassess their approach of measuring organizational performance. If sustainable development consists of three components: economic prosperity, social equity and environmental integrity, all of which being closely correlated, the performance of a component is influencing the performances of the other two. A business can be defined as sustainable, if it manages to meet stakeholders' needs without compromising its future ability to meet its own needs.

Introduction

The new economic context in which commercial transactions are carried out, defined by its unpredictable and ever changing character, determines the transition from reactive, planning and then control-based thinking, then to a proactive, dynamic thinking, based on measurement-action-reaction. Therefore performance is measured not to control, but to drive and control.

Measuring economic performance stems from the need for action. The measurement tools and methods are different but complementary, however they have some common characteristics, among which the ability to be adjusted and used periodically, objectivity, strictness. The economic entity's performance measurement is carried out with the help of indicators, the indicator thus becoming an important decision tool, which checks whether the actions performed by the company are in accordance with the direction approved by its shareholders and directors. Therefore, performance measurement involves following a methodology in which the main directions for action are as follows: shareholders, customers, suppliers, employees, the local community.

A performance measuring system must, as a priority, follow:

- coverage area;
- clarity and simplicity - the indicators are clear and easy to understand;
- a balance between financial and non-financial indicators;
- adaptability - alignment to the entity's strategy
- causal relationships;
- stakeholders' needs.

A company's performance is useful in: forecasting its capacity to generate cash flows; in determining the way in which the company will use its resources; in order to assess the potential variation of the economic resources controlled by it in the future. In the current economic context, performance research reflects the need to render perfect its measurement and evaluation tools for the purpose of better reflecting the results obtained according to the requirements of the vested interest holders. Ascertaining, measuring, analysis and improvement of organizational performance plays a very important role within every company. (Demyen & Lala Popa, 2014.)

Specialized literature

Over time, the performance measuring and evaluation process underwent a series of stages and was carried out in various forms, thus in the period of the 1950s-1980s in assessing performance, the cost - value/ benefits pair was used, together with a number of assessment criteria such as: obtained results, competition, quality of products offered, various environmental and social values. Around the 1980s-1990s, performance was defined according to the level of achievement of the proposed objectives. In the 1980s, considerable efforts have been made in quality and productivity centers worldwide in order to understand the dynamics of enterprise performance. Thus, an overall perspective in performance management and measurement was achieved:

- quality and productivity improvements find their foundation in the fundamental mission stakes, in managerial orientation and practice. In other words, if there is no precise vision of the the desired quality, we cannot speak of improvement;
- attention must be focused on key services provided to customers more than on individual or group activities. In conclusion, an activity or a process has importance only to "deliver" a significant added value in order to satisfy the customer;
- the staff needs continuous training to ensure effective work and to encourage positive reinforcement;
- the study of operational processes provides a huge potential for improving quality and productivity;
- improved quality and productivity is possible only if the guidelines are from top to bottom, while the objectives and rules are established from the bottom up;
- progress groups must be able to be innovated; to have the expertise required and to evolve in a climate that is stimulating and conducive for improving quality and productivity.

Things have evolved in the interval 1990-2000 performance was defined in terms of the efficiency-productivity pair, and from then until the present the concept of performance has evolved towards a global approach - value creation including both financial and non-financial aspects (this includes mainly elements of an environmental and social nature). Despite all that, up to the present moment a consensus on the definition, methodology and performance models used at a general level was not reached, due to the widely differing management policies of companies, influenced in turn by legal regulations, instability within the company, etc. No model of indices and indicators to measure and evaluate all three dimensions of company performance, namely economic, social and environmental, was found. (Savin Mihai, 2012).

Because, in an economic entity, complex economic phenomena and processes are taking place, in order to measure and evaluate performance, company management uses a balanced indicator system, which contains both financial indicators and non-financial indicators. (Pantea, et al. 2014). The new performance measurement models made up of financial and non-financial indicators must meet the following conditions:

- to reflect the economic - financial reality of companies;
- to provide easy to understand, relevant, definite and measurable information;
- to highlight the company's objectives and strategy, the effectiveness of the activities carried out, the company's ability to adapt to market requirements;
- to provide viable recommendations that the company can apply;
- to show the satisfaction and motivation of employees as well as the organization's impact on the environment and the population.

Determining factors of organizational performance

The determining factors are the intangible elements that cause the occurrence of an effect, influencing the obtaining of certain results.

The performance of an organization is determined by:

- its level of consistency and stability;
- its ability to procure and utilize resources;
- its reputation and image;
- the synergy of the multiplication of specific determinants such as relationships with employees, communication, mission, philosophy and leadership style, recognition, the quality of organizational processes.

Over time, a number of determinant performance factors have been identified. Drucker has identified the following factors as crucial to achieving performance:

- Social responsibility;
- Customer satisfaction;
- Employee performance;
- Management performance;
- Internal productivity;
- Employee attitude;
- Management development;
- Operating budget;
- Innovation.

Sink considered that performance is determined by:

- Quality
- Efficiency
- Productivity
- Quality of life and work
- Profitability
- Innovation

Peters and Waterman (1982) instead listed the following as performance determinants:

- close to the consumers
- close to new forces
- close to operations
- productivity through new forces
- simplicity
- orientation towards action
- autonomy and entrepreneurship.

Starting from first principles regarding performance that appeared, according to which it pursued the attainment of objectives and up to the present day, the more a company is preoccupied, in addition to economic benefits, to also ensure the satisfaction of its employees and to obtain the recognition and appreciation of the local community, this is illustrated in Figure 1.

The identification of determinant factors is one thing, but determining their influences is something else entirely, because those procedures are complex and involve interpretations, sometimes it is even difficult, which is not enough to formulate a definitive answer.

However, grouping the main performance determinants into the four dimensions: social identity, organization effectiveness, legitimacy and reputation as well as fulfillment, we can better understand their interdependence and role in the level of influence.

Thus, it is useless to think that an organization's efficiency can be improved unless its social identity is strengthened. In the same way, the legitimacy and reputation of the organization as determined through the customers, shareholders and community perception can enhance the social identity level, but cannot create it.

Performance improvement involves a change of leadership values and this is a good opportunity to create a system of indicators that have their own organization's values, but who nevertheless exhibit quasi-coherent dimensions for all the actors who are currently and in the future subscribed to this organization's evolution. This system of indicators must be ingenious. The challenge is to provide the company leader and his team with the confidence in team teamwork for the results that follow. (Avram). Moreover, lately we cannot show businesses that can be profitable without being productive and which have a risk of reassessing performance based only on profit criteria.

Currently, investors are particularly interested in financial performance indicators, but have begun to also pay more attention to non-economic indicators, since they can provide important information about the economic entity's future performance and the leadership's credibility to successfully meet investors' expectations. Special accent needs to be placed on improving performance, on using an ingenious system of indicators, the transition to a more participative performance management, that highlights the creation of value and wealth to the stakeholders. In addition, the accounting information users' objectives require the economic entity's performance measurement indicators to be different. Summarizing the determining factors in table no. 1, as well as the most important performance measurement indicators, grouped by categories of users' objectives, by analyzing this annex we can observe that the performance of a company is perceived differently depending on the users' divergent interests. The new economic thinking is trying to move away from traditional analysis and introduces a number of new principles that lead to maximizing value for shareholders. Firstly, economic decisions are based, increasingly less on accounting budgets that may contain easily manipulated performance indicators and focus on strategies and control and action mechanisms aimed at maximizing the wealth of shareholders.(Savin Mihai, 2012).

Organizational performance indicators

Performance indicators - the management tools - the expression became common, but their understanding remains complex.

Given the complexity of the concept of performance, the indicators must comprise several aspects and fulfill several functions. Thus, one speaks of process or outcome indicators, or tracking indicators or progress indicators. Performance indicators fall under a philosophy of continuous improvement, like the one introduced by Deming, relying on the repetitive application of the following principles: “Planning - Execution - Control - Action". In fact, the indicators verify the extent to which the results obtained correspond to the planned objectives. From this point of view, measurement is a condition "sine qua non" of performance evaluation, but is not itself an end: we do not measure to measure, but to evaluate (to verify). In turn, the assessment is not an end in itself either, but a management tool. It is therefore the role of management to establish in advance the goal and the role of the measurement and evaluation, and therefore of the performance indicators

The performance indicators in its structure must capture, at the same time, the following aspects: the objectives of the company, its strategy, efficacy and effectiveness of activities carried out, the ability to adapt to the requirements of the market in which it operates. As a rule, a set of indicators used in assessing the overall performance includes the two major categories of indicators: financial and non-financial. Because, at the global level, the trend to report the three global performance dimensions became more pronounced, in the near future it will either be imposed through legal regulations, or it will be requested by the companies' partners. The most publicized standardization trends project is the Global Reporting Initiative (GRI), having as its main objective the development of a Reporting Guide in the field of sustainability. The Global Reporting Initiative was initiated in 1997, and starting in 2002 it became independent, being an official collaboration center of the Performance Indicators, Performance Management, Performance Measurement Systems United Nations Environment Programme (UNEP). GRI's mission is to develop and disseminate sustainable reporting principles that are applicable globally.(Pintea, 2011).

Economic performance indicators

In a traditional sense, a company’s economic performance is the ability to produce benefits for its owners, in particular, through the innovation of products and efficient use of resources. When we talk about this kind of economic performance in a business context, we usually understand it as a form of profit.

The definition of economic profit is the difference between revenue and the opportunity cost of all resources used for the production of the products sold.

When we refer to the company's economic performance, it can be easily quantified and reflected through indicators such as:

- profitability rates- represent a ratio of one result indicator (profit or loss) and an indicator reflecting an activity workflow (turnover, resources consumed) or a stock (equity, total assets). The profitability rate is a relative size that expresses the extent to which the capital as a whole brings profit. The indicators built according to advanced or occupied capital express mainly the investors' interests, while the indicators built on consumed resources mostly expresses the interests of the company's managers. The main profitability rates used in the economic and financial analysis of the enterprise are: commercial profitability rate, the profitability rate of resources consumed, economic profitability rate, the financial profitability rate.
- self-financing capacity- reflects the financial economic growth potential of the company, namely the internal financing source generated by its industrial and commercial activity, intended to ensure the financing of some needs of the current management; growth of the floating capital; total or partial financing of new investments; repayment of contracted loans; the remuneration of invested capital.
- rate of turnover - number of turnovers of the average stock of current assets (working capital) that take place to achieve the sales volume (turnover). The higher the turnover number, the more efficient the activity, with the same volume of current assets achieving a higher sales volume and higher profit.
- productivity is determined by means of the following formula: $P = B / F(i)$ where: P = productivity B = the economic goods obtained F(i)

= production factors. The level and evolution of productivity depend on many economic and extra-economic circumstances: quality of production factors used, quality of the organization and management of the economic activity, economic motivation of the holders of the factors of production and the extent to which this is done, natural conditions, social and psychological climate.

- product/service quality - all the properties and characteristics of a product/service which gives it the property to meet expressed or implied needs.
- organizational climate - is a result of employee perceptions, perceptions that exert a major influence on their behavior in a given period of time, representing a collective as well as individual interpretation of the company's culture. (Ticu, 2008).
- innovation - is the process through which a social and economic value is developed, as well as the process of implementing ideas to produce new improvement strategies, capabilities, products, services, or processes.
- market share - share which a company holds in a product’s actual (real) or potential market, at a given time.

The use and limitations of economic and financial indicators

In order to carry out a relevant analysis based on financial rates, the following issues must be considered:

- ➢ A point of reference is always needed, whether it is historical values, forecasts or calculated values for other companies with a similar activity
- ➢ Analysis based on a single indicator may lead to erroneous interpretations, the study of several rates in order to get an accurate picture of the financial position or performance of the company being recommended
- ➢ The use of end of the year balance values when calculating the financial indicators can lead to obtaining errors due to seasonal factors, therefore it is recommended to use average values (ex: End of the year stocks - Beginning of the year stocks/2)
- ➢ Financial rates are influenced by existing accounting limitations.

Social performance indicators

According to GRI, the company’s social performance indicators are divided into several categories, according to one of the following four aspects for whose assessment they are used: Labor Force, Human Rights, Society and the Product Responsibility (Avasilcăi, 2001).

Labor force :

– The total volume of the labor force according to the type of employment, type of employment contract and region;

– The total number and turnover of employees grouped by age, gender, region;

– The percentage of employees who joined collective bargaining agreements;

– The minimum length of the period of notice;

– Educational, training, counseling, prevention and control of the risk of serious illnesses programs, that support employees, their families or members of local communities;

– Career development programs;

– Rate of occupational illnesses, lost days of work and absenteeism, and number of work-related deaths;

– Management skills development and ongoing learning programs;

– Percentage of employees receiving regular career development-related assessments;

– Structure of the organization’s management body and classification of employees according to gender, age, minority group membership, and other indicators;

Human rights:

– Percentage and total number of significant investment agreements that include human rights clauses;

– Percentage of the company’s significant suppliers and contractors which have been analyzed in terms of the way in which they respect human rights;

– The number of hours allocated for training employees regarding human rights;

– The total number of accidents that have occurred as a result of discrimination and the actions taken in this regard;

– The identification of operations which could endanger the right of free association and collective bargaining, and the actions taken to support this right;

– Identification of transactions which present a significant risk of occurrence of child labor and the actions taken in order to eliminate child labor;

– Identification of operations that pose an increased risk of forced labor and the measures taken to eliminate forced labor;

Society:

– The nature, purpose and effectiveness of any program that manages and assesses the impact of the company's operations on the community;

– The percentage and total number of companies analyzed for risks related to corruption;

– The percentage of employees receiving training on anti-corruption policies and procedures within the company;

– Actions taken in response to cases of corruption detected within the organization;

– The organization's participation in public policy development and lobbying activities

– The total number of legal actions taken in the direction of anti-competitive behavior, anti-trust and monopolistic practices, as well as the final results of these actions;

– The monetary value of the financial fines and the total number of non-financial penalties received by the company for noncompliance with the laws and regulations in force;

Product responsibility :

– Stages of the life cycle in which the product/service's impact on the client's health and safety is evaluated in order to improve the percentage of product/service categories that are subject to them;

– Type of product/service information required by legal procedures, and the percentage of products and services which are the subject thereof

– The number of incidents resulting from noncompliance to the rules concerning the labelling and availability of information for products and services;

– Customer satisfaction-related practices, including results of surveys measuring customer satisfaction;

– Programs for adherence to laws, standards and codes related to marketing communications, advertising, promotion and sponsorship;

– The monetary value of the financial fines received by the company for noncompliance with the laws and regulations in force concerning the supply and use of products and services.

Environmental performance indicators

The environmental dimension of sustainability refers to the environmental impact on natural systems, including ecosystems, soil, air, and water. According to the Global Reporting Initiative, environmental performance indicators should reflect the performance of inputs and the performance of outputs. In addition, environmental performance should also include aspects of performance concerning biodiversity, environmental compliance, and other relevant information, such as environmental expenditure or the impact of products and services.

- Materials used, as volume or share;
- Percentage of materials used as input materials that are recycled;
- Energy consumption;
- Energy saved due to conservation and efficiency improvements;
- Initiatives for providing energy-efficient products or services and the reductions in energy requirements as a result of these initiatives;
- Initiatives to reduce indirect energy consumption and the reductions achieved;
- Total water consumed;
- Share and total volume of recycled and reused water;
- Description of the significant impact of the company's activities, products and services on biodiversity in protected areas and areas of high biodiversity located outside protected areas;
- Protected or restored habitats;
- Current strategies, actions and future plans for managing the company's impact on biodiversity;
- Initiatives to mitigate the impact of products and services on the environment and the level of mitigation of the impact.
- Percentage of products sold and their packaging materials that are reclaimed;
- The monetary value of the financial fines and the total number of non-financial penalties received by the company for noncompliance with the environmental laws and regulations in force.
- The significant environmental impact of transporting products, materials and other goods necessary for the organization's operations, and the transportation of the work force;
- Total expenses and investments intended to protect the environment.

Conclusions

The classic performance measurement indicators have the disadvantage that they provide information about the historical performance achieved by the company. These indicators do not take into account the cost of invested capital, but only highlight the results of its use. As a result, if we confine ourselves only to the use of classical indicators can encounter companies which obtain economic performance but which do not create value, but consume it, or even "destroy" the existing one. The creation of wealth for the company's investors must be permanently assessed, because the invested financial resources are the "blood" that keeps the economic entity alive.

The future direction of companies' performance reporting will be a mixed model that will make it possible to cumulatively meet three fundamental requirements at the microeconomic level:

- result obtained as a measure of the economic entity's performance;
- measurement result of the stakeholders' "wealth creation";
- highlighting social and environmental performance aspects.

Whether we are talking about economic, social or environmental indicators, it is certainly clear and easy to understand that one determines the other and the fact that managers have understood that they have to introduce social and environmental performance in their development strategy.

The identification of determinant factors is one thing, but determining their influences is something else entirely, because those procedures are complex and involve interpretations, sometimes it is even difficult, which is not enough to formulate a definitive answer.

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Tables

Table no.1 Performance measurement indicators

Users	Objectives pursued	Performance measurement indicators
Shareholders	- determining the enterprise value and the remuneration capability of invested capital; - shareholders' satisfaction indices; - the structure of the results; - the economic entity's financing; - the company's financing;	- net profit and rates built based on it; - indicators which express value creation (E.V.A; M.V.A); - return on invested capital; - cash flow; - gross margin of self-financing; - turnover; - net profit per share; - the course of action; - the rate of recovery of invested capital; - operational profit variation; - indirect expenses/net turnover; - variation in financial expenses;
Managers	Estimation of the strategic and tactical objectives and the degree of achievement thereof	- resource use indicators (costs); - result, efficiency, effectiveness indicators; - activity indicators (management); - indicators specific to sustainable development;
Creditors	Determining the company's ability to generate cash or cash equivalents	- liquidity indicators; - solvency indicators; - cash-flow indicators;
Employees	Determining the remuneration type and level, as well as assessment of stability; - legal and regulation requirements; - security, comfort, trust, fulfillment/achievement, esteem, affiliation needs - skill development; - human resource planning	- activity indicators; - efficiency indicators; - employee satisfaction index compliance with labor law, hygiene, safety, environment - profit-correlated bonuses; - remuneration adjustment to the cost of living; - equal opportunities; - the company's strategic vision; - education and training programs - the function's degree of description, social advantages;
Customers; Users/ consumers	Estimation of quality of production and stability assessment; - security and comfort needs; - affiliation needs; - market profitability; - innovation; - market knowledge; - size of the product range; - price; - positioning/communication;	- production quality indicators; - total quality indicators; - customer satisfaction index, - market share; - number of products led as a leader; - global image of managers; - brand image; - time to resolve complaints; - number of new, gained costumers; - lost costumers; - costumer evaluation result: - introduction time of new products; - brands that support the product advantages; - growth of turnover through customer loyalty;
Local community	- sustainable development assessment; - ethics and global image - involvement in community life;	- indicators specific to sustainable development; - relations with competent authorities - involvement in the national and local economy; - involvement in training and education; - support of sports and recreation activities - global image index; - support of medical and social actions; - health, environmental and labor safety protection
Economic entity	- information system; - processes;	- informational system performance; - accessibility of information; - number of outsourced processes - productivity as turnover per employee;

		- delays due to lack of resources; - learning ability; - operational excellence; - productivity; - market share; - number of highly qualified personnel;
Partners (suppliers)	- partnership relations with suppliers; - partners' performance;	- number of partnership agreements; - number of complaints and conflicts per partners; - partners' involvement in the company's activity - the partners' ability to adapt to future technologies; - ensuring the quality of products/services;

Source: Adaptacion M.,Niculescu, Financial diagnosis, 2003, p.46

Figures

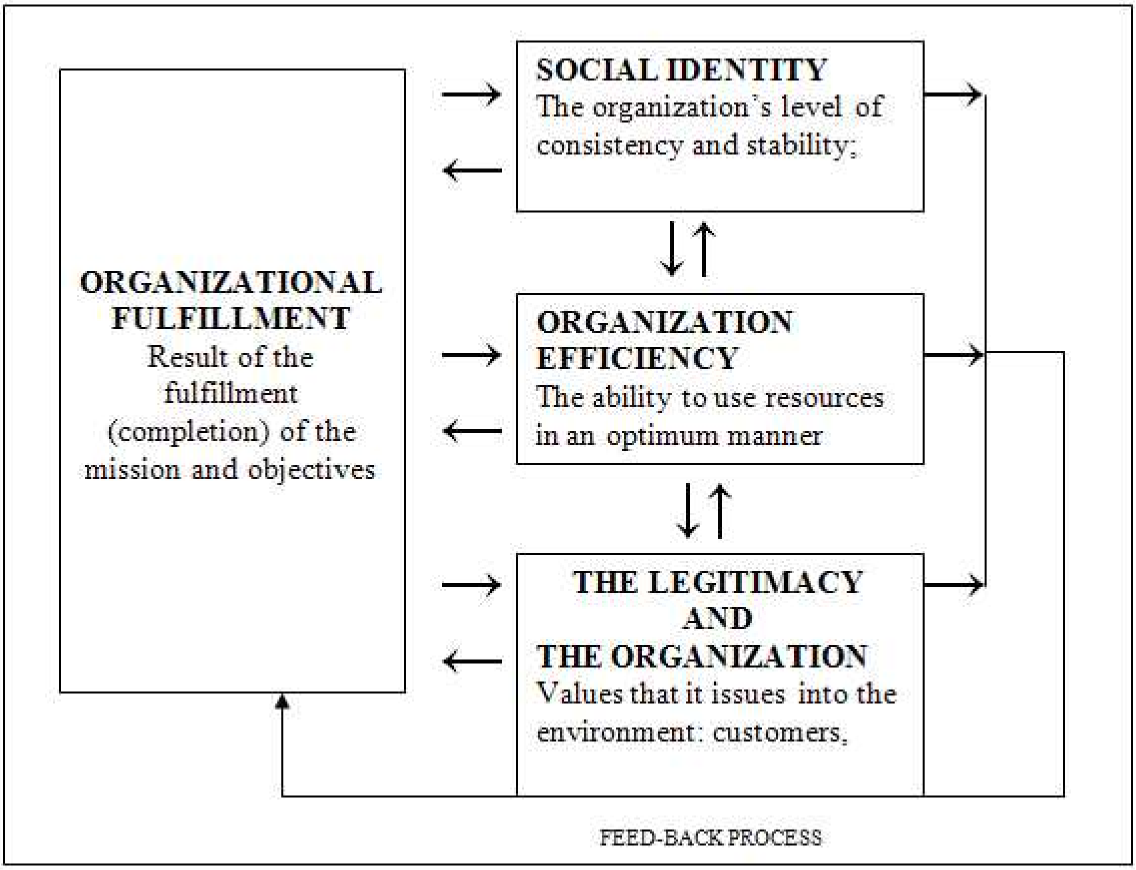

Figure 1. The four dimensions of organizational performance
Source : Avram Tripon, Human Performance management in organizations p. 5