THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 20, ISSUE 1(31), 2020

PERFORMANCE MEASUREMENT USING PERFORMANCE INDICATORS WITHIN THE COMPANY

Ph.D. Student **Ioana BUZDUGA**
"1 Decembrie 1918" Universitatea of Alba Iulia, Romania
ioanacb74@yahoo.com

Abstract:
The article presents the general framework for measuring performance at company level, after carrying out a thorough research of managerial accounting. Detailed objectives and how to measure performance as well as performance assessment using performance indicators presented as a study object of managerial accounting through management programmes treated as a single measure, representing return on investment. The article shall also include the assessment of financial performance using financial statements and cash flows situations. The study is theoretically carried out on a company. This article concludes with the authors' conclusions on the measurement and evaluation of performance at company level.

Key words: performance, management, indicators, evaluation, measurement.

JEL classification: M41

1. INTRODUCTION

The study shall include the general framework for measuring and evaluating performance using the performance indicators needed to achieve the objectives. Financial management programmes, treated as a single measure, represent the return on investment. The article also includes the assessment of financial performance using financial statements, namely: balance sheet, income situation, active and passive.

Part two of the article shall include a study on the situation of cash flows, both at company level using operational activities both with the direct method and indirect method. Cash flow situations can be studied through investment activities, financing activities, as well as by presenting formulas by representing indicators and calculating methods.

2. PROBLEM STATEMENT

During the 1990s, the balanced scorecad performance improvement method was known, namely: "The Performance Prism", "Results Based Management" and "Third Generation Balanced Scorecard". Kurtzman in 1997, it mattered that 64% of the companies surveyed measured performance from a number of perspectives in a similar way to Balanced Scorecards. (Theodor Nit, 2007).

Buorne aims to promote performance measurement to promote debates that conduct business practices and manage the human resources necessary for business performance. (Bourne M, 2013)

Another paper assesses the effect of performance measurement on performance produces contradictory results, showing that we do not always have the expected effect which leads to the proposal of a theoretical model of effects on performance. (Pavlov A, Bourne M 2011)
What we can say about measuring and managing performance is that they help target a business towarda profitable and viable future, while risk management means avoiding pitfalls that can affect the future business in business. The consequences of this research must also be taken into account. (Bourne M & Mura M., 2019)

The main purpose of a work comprising empirical research published in high-quality academic journals in accounting, operations and strategies on the consequences of performance measurement systems brings to know impact on people's behaviour, organisational capabilities and performance consequences. (Franco-Santos M, Lucianetti L, Bourne M ,2012).

Jan Kopia informs us that performance measurement can be achieved using management system standards, which are widely adopted by organisations around the world. The question arises whether or not these standards are beneficial for the organization. The main reason is that performance measurement is not fully understood or constantly developed, from evaluation to the level of calculation of levels of social or economic expectations known as the "Bottom Line Tribes". Balanced Scorecard (BSC) is a possible solution in measuring performance at strategic and operational and useful level for measuring influence Standards on management systems within organisations. Repeated research found that performance measurement using the BSC process taking into account the Management Systems Standards found that there is an improvement in organisational performance.

3.FINDINS

3.1. STRUCTURE

In order to measure a company's performance, we need to know its true image to find out if it is improving or deteriorating, so it is necessary to collect and maintain certain performance indicators. We also know that it must be a rule by which to select or deselect measures: the company's status and related objectives. If the performance indicators are to create an accurate picture of the company we can rely on, then the strategy is the tool we can rely on, so the strategy is the tool we use to guide our direction. The selection of objectives and measures is carried out as in the case of the construction of strategic objectives.

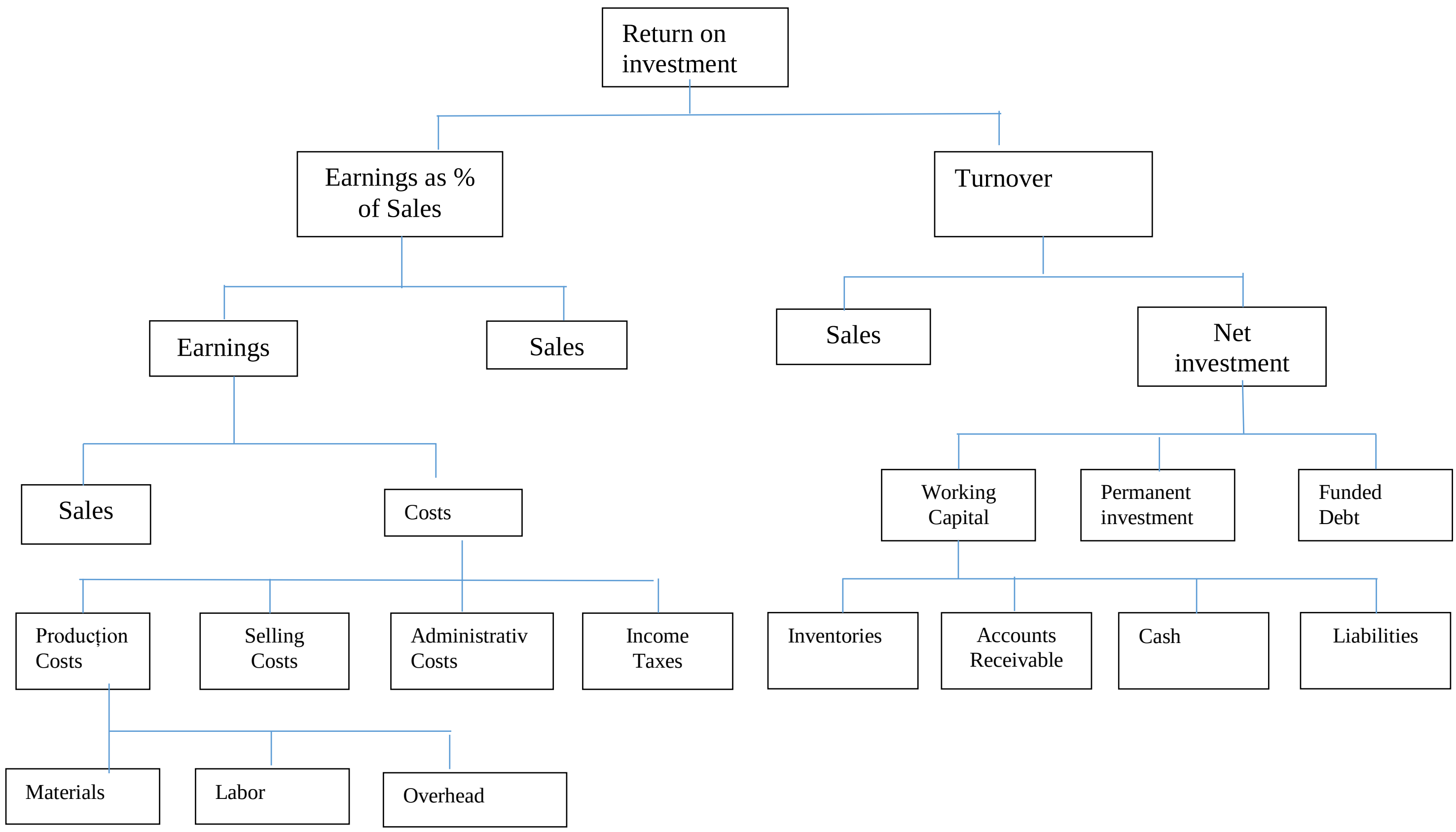

Figure 1. Return chart of investments

Source: Jean E. Cunningham, Orest J. Fiume, Real Numbers, 2003, pag. 39

The first most important thing an accountant has to take into account is to ensure that the identified objectives can be critically measuring. Experience teaches that when goals are important, people will do everything they can to achieve them, even if the result is not expected.

All this focuses on the objectives and not on the methods used to achieve them. Managers especially optimize only the piece they had control over, without worrying about the bigger picture. We know that values shape behavior and determine measures for each profession. Measures may be long-term or short-lived. For example, if prices rise, a mathematical value can be created to focus employees' attention on that issue for the entire period, managers put in a favourable light the performance measures that can be regarded as a Mathematics. Once a team starts exploring the many levels of the equation, some employees may be unable to see them resolve.

Financial management programmes treated as a single measure represent the return on investment or ROI. Since the ROI is currently an excellent example of the intention to capture many complex and interrelational events, thus creating a situation that few people can relate to their daily activities. The investment return graph demonstrates the complexity of this measurement, the illustration is rarely used, if ever, to help employees understand how to relate to ROI. However, most employees consider ROI to be a financial concept they don't meet every day. Some of the main measures of the world of making is that the ROI is studying the complex reflection of all people. Every day of the period being measured, in other words, ROI is trying to encompass everything in one number. It becomes clear that if we focus on measuring improvement for each activity – some improvements applied by people every day will help improve ROI. Employees can more easily relate to processes, because each person has a type of process every day. So we focus on improving work by highlighting the performance measures that are concentrated and which include more than ROI – final, the company constantly improves its processes, the results of roi will come. This focus on improving individual elements of processes, by eliminating our waste and increasing speed, has a particular impact, but only when we are not focused solely on the manufacturing process.

To measure performance it is necessary to use two values for the entire company, such as: the first value would be customer service in general and a customer service measured on each activity. It is apparent from the comparison of these measures that companies are trying to avoid the appearance of Make de Month syndrome, and expenses demanding huge amounts of sources towards the end of the month in a crazy scheme to reach the expected levels.

In 1991 Chief General Wiremold and Art Byrne presented employeeslides related to the key element of Alan Greenspan's anti-inflation campaign.

$$\text{Productivity} = \text{Profit}$$

Productivity gains allow companies to raise wages without rising prices, which in turn keeps inflation below wage growth, thereby increasing real income. However, productivity is a much-analysed concept aimed at improving production which in turn is considered an important factor in improving the economy. The business environment includes both physical and financial nature.

The physical nature of the equation focuses on the role of input units – such as the time required – in output units, which is the number of all activities. We can apply this basic idea to any process, from a computer to billing a customer. The physical nature deals only with the amount of entry and the amount of exit.

The financial nature refers to the determination of productivity by the relationship between the cost of production at the entrance and the exit price. It is preferable that the output price is higher than the production costs since the entry into production of the products.

Salaries being increased by four percent, and the company cannot sea sales prices by at least as much, has suffered a loss of price recovery. Once we multiply the quantities by prices we get the total income, in other words sales minus the cost gives us the profit. From the above you can study the profitability threshold.

Productivity for each element of the cost of activities will follow clear analysis of the resources consumed. The use of productivity leads to reduced causes of debris and redesign of products to use less material. Prices for raw materials lead to sales analysis in order to negotiate prices more competitively and to redesign products to replace less expensive materials, labour productivity can also be analysed separately from both quantity as well as the value of the price. Change can't just be done in accounting. Productivity cannot be improved through financial engineering.

The assessment of financial performance, investors, managers, employees, regulatory authorities and other stakeholders use the financial statements - balance sheet, income situation. Financial statements provide a lot of information that customers and stakeholders assess the past and future performance of a company. The four reports comprising related cash flows, as well as the owner's equity situation - summarize the transaction of the economy affecting a business. However, the amount of financial information available today at low cost or at no cost can be overwhelming or even intimidating.

The assessment of business operations for businesses is often complicated by the complexity of the accounting policies on which the financial statements are based. Therefore, users of financial statements frequently use a balance sheet analysis to manage this information overload and capture the best picture. This chapter will analyses the financial documents of the financial statements, introduce pros and cons and discuss how the report analysis can provide information related to a firm's business operations.

The basics of financial statements exploring information about the operations provided by the financial analysis will provide the possibility of reviewing the financial statements and basic relationships that are traditional to measure performance financial institutions of a company.
The balance sheet shows the financial position of a firm (assets, liabilities and owners is the end of the fiscal year or a shorter reporting period. This financial report obtained the fundamental accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

The addition or decrease on one side of the equation shall be offset by an equal value on the other side, which requires the balance sheet, i.e. the asset =liability. The bchain is also a financial situation downloaded on a given date.

Assets are economic resources controlled by a company. Entered in an interim fiche in the order of their liquidity, i.e. when they are expected to be converted into cash. Current assets consist of cash and other units, such as accounts receivable and the inventory that is expected to be cashless within one year or the normal operating cycle of the company. These assets are first on the balance sheet so that users of the financial statements can quickly determine whether an undertaking will have enough cash to cope with its obligations in the near future. Fixed fixed assets - sometimes referred to as production facilities and equipment - are those resources obtained for long-term use, to give land, installations, vehicles and machinery. Companies are also based on intangible assets such as goodwill, licenses, copyrights and patents to complement business strategy. These asset resources are unique in that they are a physical substance. As fixed and intangible assets are not expected to be converted into short-term cash, they are less liquid than current assets and are unported after them. The liquidity-based asset classification provides financial statements and equity that reflect claims on a firm's assets and determine how an undertaking intends to use its assets. investors.

Current liabilities that are those liabilities and bindings. Credits are the ones for which the payment is due after one year. The owners' capital shows the amount contained in business debts, plus all undistributed shares. Businesses we haven't distributed to the owners yet are winnings. Therefore, the owner's own capital is the remaining interest rate on debts that are deducted from assets. The owners' own capital therefore serves, as does the financial agent on the balance sheet. Large businesses often have many owners who have applied for their share by buying shares within the company. These owners are appointed shareholders.

Changes in equity may be affected by the statement of income, expenses and revenuegenerated from sales and services, expenses that may be influenced by rents, customers returning the products they buy. Expenses are the costs incurred by a company to produce revenue. Deducting products sold (or delivered services) from sales revenues make gross profit on the business. These are called operating expenses. (Gross profit minus operating expenses is equal to net income for loss). Net income (or loss) is foreseen to measure how its work has done for stakeholders during the business.

Cash flow situation

The cash flow situation is a main transaction of financial transactions that generate and consume cash. The cash flow at the company level provides impertinent information about operating, investment and transfers is a primary financial statement. The cash flow situation employs operational activities that are directly associated with the acquisition and sale of the company's points and services, i.e. the main activity of the company. Minimum net specifications of the bank's financing liabilities differ from cash flows and operating activities, as revenue decreases when paid. In summaries, the statement explains how the cash balance reported during the financial reporting period was changed. Therefore, flows provide main information about business transactions and cash flows. Cash flows from operating activities are directly associated with the purchase of products and services. A company's cash flows can be reported on state flows one of two ways: the direct method and indirect method.

The direct method shows how a company's operations generated and consumed cash. When using the direct method, companies generally report each of the following six main categories of operational cash flows: cash received from customers; cash paid to suppliers; and cash paid for salaries, other operating expenses, interest and taxes. Although the direct method is more difficult between the two methods to prepare, it is considered to be more informative than the indirect method.

The indirect method of preparation is simply a reconciliation of net income with operational cash flows. Net income shall be adjusted for all non-cash revenue and expenses required by the employment process. For example, depreciation expenses and fees are depreciations that must be added back to het income when calculating operational cash flows. Changes to current assets and liabilities also affect the reconciliation of the indirect method. Cash flows from investment activities (used by). Investment activities include cash flows related to the acquisition and sale of fixed (intangible or intangible) assets of a company.

Cash flow from investment activities

Investment activities include cash making charges related to the acquisition and sale of fixed (immediate or intangible) assets of a company. For example, when a company uses its cash to buy equipment based on operations for more than one fiscal year, this cash amount is an investment in the future of the business. A company sells a building it no longer needs, the proceeds from the sale are cash flows from investments.

Cash flows from financing activities

When companies lose or earn from creditors or shareholders (liabilities and/or contributed) or pay cash dividends to shareholders, they engage in financing activities. Receiving cash from a bank loan is a cash flow of financing, as is the cash received from the issuance of shares to shareholders. By contrast, cash dividend payments, shareholders finance cash outflows.

Representation and interpretation of indicators. Calculation methods

Return on capital employed

- Brut Margin = (Brut profit / Sales) × 100%
- Net Margin = (Net profit / Sales) × 100%
- Asset Turnover Ratio = Sales / Total Assets

- Dividend cover = Profit after tax / Dividend paid to the shareholders over the year
- Dividend yield = (Dividend per share/ Price per share) × 100%
- Earnings yield= (EPS/ Price per share) x 100%

EPS Earnings per share EPS = Profit after taxes after paying preferred dividends / number of shares in circulation;

Liquidity ratios The company's ability to meet its short-term obligations

-Current ratio = Current assets / Current liabilities;
-Quick ratio or acid test = (Current assets - inventories) / Current liabilities
-Raw material period = (Average value of raw materials/Purchases) × 365
-Days Sales of Inventory = (Average Inventory value /cost of goods sold) × 365 days
-Finished goods period = (Average value of finished goods/Cost of sales) × 365
-Receivables period = (Average receivables/Sales)×365
-Payables period = (Average payables/Purchases)×365 Gearing ratios Financial Indebtedness
- Gearing = (Long term debt/Shareholder funds) × 100%
- Gearing = (Long term debt/(Long term debt + Shareholders funds)) × 100%
- Interest cover = Profit before interest and taxes/Interest charge

4. CONCLUSIONS

Until now, there has been discussion about the need to develop values that would have a passive impact on profitability, to which employees may be linked in certain specific jobs. Given that we have now defined the attributes of a performance measurement system and recognize that different businesses can identify things to measure, we can provide a use that is not some kind of performance measurement menu. Just remember when you can read the following graph that each business should choose only to ensure what is essential to strategic goals.

The objective of measuring performance should be processes, not results. In organisations that manage the results of final behaviors that fall within the symptoms of problems by adding more value-added activities, distortion and results to the detriment of other areas. In most cases, the management of results is not carried out correctly, leading to erroneous results. In poorly organised companies, false financial statements are reached, leading to the management of results to process management and is supported by an intellectual system, from performance measurement, employees will be free to identify the defects.

REFERENCES

[1]. Theodor Nit, Scorecards – sau traducerea strategiei în acțiune, revista nr. 98, septembrie 2007;

[2]. Bourne M, Pavlov A, Franco-Santos M, Lucianetti L, Mura M (2013) Generating organisational performance: The contributing effects of performance measurement and human resource management practices. International Journal of Operations and Production Management, 33 (11/12) 1599-1622;

[3]. Pavlov A, Bourne M (2011) Explaining the effects of performance measurement on performance: An organizational routines perspective. International Journal of Operations and Production Management, 31 (1) 101-122;

[4]. Bourne M & Mura M. (2019) Performance and risk management, *Production Planning and Control*, 29 (15) 1221-1224;

[5]. Jan Kopia Masurarea performantei standardelor referitoare la sistemele de management utilizand balanced scorecard, Andreas Kompalla, Melanie Buchmüller și Bastian Heinemann, 2012;

[6]. Sorin BRICIU, Sorinel CĂPUŞNEANU, Aspecte ale normalizării contabilităţii manageriale din România la nivel microeconomic, Economie teoretică şi aplicată Volumul XVIII (2011), No. 3(556), pp. 57-68;

[7]. EVOLUTION AND PERFORMANCE ANALYSIS FOR WINE ENTITIES IN ROMANIA Dan Topor, Sorinel Căpușneanu, Alina Puţan, Annales Universitatis Apulensis Series Oeconomica, 14(2), 2012;
[8]. Jean E. Cunningham, Orest J. Fiume, Real Numbers, 2003, pag. 39.