

## ECONOMIC ENTITY PERFORMANCE APPROACH CONSIDERING THE RELATIONSHIP BETWEEN EFFICIENCY – PROFITABILITY – COMPETITIVENESS

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**Abstract:**

*Defined as being the degree in which a nation, on conditions of free and honest market, can produce goods and services that have to pass international markets' testing, succeeding concomitantly to maintain and increase the real income of its citizens: in this way, concurrency represents a challenge applied not only on nations case, but also on all the regions and cities/resorts of the world.*

*A nation's concurrency is influenced by the level of concurrency to each of the actors' level participating on national economy. In a different way said, on performing a nation's concurrency, all national economy sectors bring their contribution, and implicitly all national economy branches, respectively all the organizations within each branch.*

*Progress of every society decisively depends on the efficiency of the use of her own human, natural and financial resources. Measurement of efficiency -this meaning measurement of costs and returns -manifests as an objective requirement for every company. Profitability is a problem that concerns every economic company as the target of her activity is that of obtaining profit and carry out a profitable activity. Process of the economic activity aiming to obtain a profit as high as possible has to be based on a coherent economic theory that has the task of orienting the material, human and financial efforts of the company within the competition environment.*

**Key words:** Efficiency, Profitability, Productivity, Competitive advantage, Economic decision;

The objective of Michael Porter's paper, *Competitive Advantage of Nations*, is determination of causes and factors which lead to international success of companies specialized on certain branches, so as to theory to further extend over nations, also. Analyzing the situation of great international companies, the American economist makes a connection between their success on world level' certain sectors and nations among which Nation, production factors, technological, natural, human and financial resources proceed from, being constituted within a development matrix of companies, which using the national advantages, will distinguish on international level.

“The nations, says M. Porter, contrive in those industries which have valuable advantages to other nations and where innovations and improving come towards meeting international needs”. The assembly of factors and connections existing for creating a national matrix, able to launch companies on international level, has the name of “national diamond”. Connected to this, the determinants of national advantage are:

- factors of production (human, natural, material resources, scientific knowledge related to certain fields, volume and cost of capital etc.);
- the nature of request (the request structure on segments, the behavior of consumers, the anticipative needs of buyers);
- the connecting and supplying industries;
- the internal concurrency, structure and strategy of company.

All these individual factors form an extremely dynamic system, which continuously develops, the national “diamond” becoming thus a national “system”. The national advantages result even from this evolution, generating in every country a matrix of own development, due to multitude of considered variables. This matrix is responsible of developing the competitive national advantages, thus by concurrency of some national activity sectors.

Essentially efficiency expresses the capacity of the economic activity to use rationally the production elements of a company. This is a fundamental requirement for the economy and

permanently it has to guide the actions and economic decisions. Efficiency is perceived as an evaluation term, a value concept that is measured by the ratio between value of the obtained output and value of the input resources. The higher the economic or social effect is, under the terms of a certain economic effort, the higher the efficiency is minimization of effectuated expenses for the obtainment of a unit of returns has the same signification. Notice of costs and returns complexity with the help of a system of indexes involves foundation of the economic calculation on an ensemble of principles aimed to represent the theoretical- methodological base of economic phenomena and processes measurement. Beginning with the exigencies of economic processes and phenomena we appreciate that measurement of the expenses and returns of the company firstly implies true settlement of basic principles. Mainly this is referring to :

- consideration of the integral effort in all stages of the economic structure –it is a necessity generated by the fact that performance of every social –economic activity involves allotment, use and consumption of resources, reflection of effects complexity
- efforts and effects delimitation in time and space as well as their comparison, conversion of all efforts in economic effects ;
- compatibility of indexes that express the efforts and the effects ; consideration of a standard for profitability level appreciation, veracity of information regarding the costs and returns of the economic activity .

Within carrying on an economic activity, reflection of the integral effort as principle of efficiency measurement has to consider the primary elements of any economic deed : labor, natural resources, capital. Efforts and effects are differentiated not only according to their nature and mode of transformation from allotted resources in consumed resources, respectively according to content and express mode but according to the space and manifestation time, too, thus appearing the necessity of delimitation of efforts and effects in time and space and delimitation of the efforts from effects .

Basing on this delimitation of the effects and efforts in time and space there may be guaranteed the premises of comparison of the indexes that dimension these . Homogeneity aims to guarantee comparison of received and/or utilized resources with consumed ones this being determined by different categories of resources that have different functions in the economic activity, by the different modality of transformation of received resources in used resources and by the mode they participate in formation of the integral effort. In order to compare the economic returns with done efforts at the level of economy, branches, economic units as well as of the correlation settled in time and space between effect and effort there are used some value categories : price, profit, credit, interest these leading to producers' stimulation for the achievement of maximum returns .

**Profitability** is a problem that concerns every economic company as the target of her activity is that of obtaining profit and carry out a profitable activity. Process of the economic activity aiming to obtain a profit as high as possible has to be based on a coherent economic theory that has the task of orienting the material, human and financial efforts of the company within the competition environment .

Obtainment of a growing profit may be guaranteed by reduction of incertitude and risk assumed in the economic activity . If incertitude should not exist all elements that lead to profit achievement are known, the economic companies will have the certitude that incomes are higher than expenses and it will be registered the offer increase in comparison with the demand this assuring an equilibrium between incomes and costs and profit will be null . In reality the incertitude generates profits and risk existence and they do not become null due to competition . As in a world without incertitude profits and losses would not exist we may consider that profit or loss are a consequence of incertitude .

Therefore profit is not a payment that has to be done in order to obtain a resource but it is a rest remained after total costs are covered from incomes, it is the result of future forecasting done with higher accuracy than the other competitors did. It is an unwitting income and not a forfeited

one this determining every economic company to achieve a better anticipation of the circumstances of her activity .

In conclusion it results from those above presented that the requirements of economic efficiency are regarding maximization of returns concomitantly with expenses' minimization as well as optimization of labor, material and money resources' use .In fact criteria of economic efficiency should govern any field of the human activity including the social one, too. On the other hand profitability represents activity efficiency at the microeconomic level by comparing the financial returns-the profit-with the expenses effectuated in order to obtain the returns. Economic efficiency has a more complex content ,it reflects how much an activity produces positive economic effects per effort unit , achieved in the market by the ratio between demand-offer .

**Performance** is qualitative appreciation of a company being measured by economic-financial indexes of liquidity, creditworthiness, activity ( labor productivity, efficiency of assets use, etc), profitability ( rate of profit , relative and absolute profitability). Profitability may be defined as „ a state of competitiveness of the company reached by a level of efficacy and productivity that guarantee a durable presence in the market “. Thus according to the definition above mentioned performance claims simultaneous and complementary presence of the two „ingredients” but separately approached these are necessary but not sufficient conditions of performance .This is an important aspect as a global vision upon performance is possible only by correlation of the dynamic of the two indexes.

**Efficacy** defines the extent according to which the returns obtained by a company correspond to wanted performances. Therefore is measured by the comparison of the returns effectively obtained with the proposed returns. Economic efficacy is referring to the level or degree of fulfillment of economic targets settled for a period of time in order to be achieved by the company . In case that the target was 100% reached it is about maxim efficacy and on the contrary when it is partially reached we may speak about partial degrees of efficacy . In conclusion efficacy is a ratio between the effective effects and those proposed this showing the aptitude of a company to achieve successfully the proposed targets .

**Productivity** is the capacity of a production element of contributing to goods and services elaboration under the terms of maintaining a constant perfection level of the others production elements . The basic form of productivity recognized by economic literature is labor productivity but productivity does not refer only to live labor. Michael Didier affirmed in his work “Economie. Les regles du jeu /Economy. Rule of the game “that labor productivity is an important index but it is a partial one“. Productivity is the result of the ensemble of the production elements and their combination and it is not only the result of labor. Considering this the global productivity that expresses “the ensemble performance or global efficacy of the production elements” is determined at the microeconomic level as well as at macroeconomic level.

It may be asserted that a company characterized by performance is productive, too these being effects( results) . In the same time efficacy and productivity are causes that determine performance. If efficacy is intelligible by the level of satisfying the external exigencies - customers, state, suppliers, employees (on labor motivation and safety increase basis ), shareholders-, productivity is measurable by accomplishment of the expectations of the companies' internal environment .The tight connection between the internal environment and the external one justifies this double approach and invokes the following technical aspect: coherent judgment of an index that may be quantified (productivity) and quantification of the other one that is subjectively too (customers satisfaction degree) . Data sources necessary for the analysis of the results and performances of a company are: business plan , incomes and expenses budget, commercial statistics, synthetic and analytical accounting, other operative records data . There are equally useful some external information that have as sources statistical year books, laws and other normative documents, international statistics, market studies , etc.

In order to characterize the dimensions of the activity of the company, to appreciate the returns and measure her commercial performances there are followed the above mentioned indexes and any evaluation begins with complex investigation of these indexes in dynamic and in

comparison with settled targets , in total and for diverse specific structures . A pertinent judgment capable to point out the real situation requires correlation of above mentioned indexes and especially of the turnover with three essential elements of a market economy: inflation rate, position of the company in the market, prices and tariffs policy .

In conclusion, **performance** of the company involves knowledge of:

- a) targets, strategies and current policies of the company ;
- b) fulfillment degree of economic targets established for a period of time in order to be achieved by the company this meaning the reached degree of economic efficacy ;
- c) productivity level of production elements ,especially of labor productivity ;
- d) obtained performances reflected in the main economic-financial indexes: profitability, liquidity, creditworthiness , profit/share , investments redeem , owned market share ,etc.

Performance represent an economic category by which quality of the economic activity is appreciated by companies with indexes such as: turnover, added value, profitability, labor productivity, gross and net profit, etc .

The profit may not represent aim of the company but it is necessary in order to reach the targets. Generally the most powerful competitors :

- create value ;
- obtain competitive advantages and distribute optimally the created value;
- improve the ratio efforts/effects .

Obtainment of a superior performance claims fulfillment of all three conditions previously mentioned as it is possible that a company to carry out an efficient activity without obtaining any competitive advantage or certain goods/services to have a certain competitive advantage even if they belong to and are produced by inefficient companies. Wording differently it means that a company may be efficient but not competitive in the market and in this case we can not mention the performance at a global level or we can state that it is competitiveness at the level of the company but not efficient this leading again to the absence of performance .

**Competitiveness** of a company presumes a diagnosis or a critical inventory of her capacity respectively of strengths and weaknesses of all components of the company with special reference to the key elements of success and competition. She depends on good function of her components ensemble. In the existent circumstances when market elements are leaders of the system of variables that explain the results of a company , analysis of turnover is essential for the appreciation of company position within her field of activity as well as her position in the market ,her abilities to launch respectively to develop different activities in a profitable manner .

Depending on the turnover level it may be stated if the company is sufficiently important, if it is significant to compare her results with those of the sector, if her share market is negligible, thus strategic decisions being taken accordingly .

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