THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 13, ISSUE 2(18), 2013

PERFORMANCE MANAGEMENT COMPONENT OF CORPORATE GOVERNANCE IN THE CENTURY OF SPEED

Associate Professor Ph.D. **Florin BOGHEAN**
Stefan cel Mare University of Suceava, Romania
florinb@seap.usv.ro

Abstract:
The current paper encompasses both a global and a national perspective, taking into account the financial globalization process which impacts all companies from all over the world. This perspective is based on the effects that the globalization process has brought about. In this context, it mainly refers to financial globalization, with its positive and negative aspects. The positive side of globalization is that the financial markets have emerged, the commercial barriers have faded and, in some cases, have even disappeared, thus leaving room for the companies from almost any country to operate on this open market. On the other hand, as this standardization is being implemented, companies are facing some other complicated problems. Some of these problems come from the spread of panic, as is the case of some companies that face financial problems and, subsequently, panic easily spreads all over the world, affecting even companies that are not necessarily facing difficulties. This phenomenon creates a mass movement which can lead to a financial crisis, such as the one we are facing today. Any movement on the financial or on the political scene can easily shake the whole world. In this situation, the role of financial management is very important. In the future economic environment, the idea of greater risks associated with greater losses will disappear, as a more efficient financial management will eventually succeed in reducing such risks.

Key words: financial management, accounting, decisional process

JEL classification: H11

I. INTRODUCTION

Corporate governance translates by *people's art of running and organising a business*. As you can see, I have used the word *art*. Why? Because apart from technique, science and knowledge – which are all prerequisites of successfully running a business – it also takes something else: talent, vision, culture, courage and many other such qualities. Corporate governance has become a hot topic in the current business environment. The reason seems to be the fact that today's globalisation in the business world had led many **business owners to become more disconnected from the actual running of their business units.** In many cases, large business owners can no longer get **personally involved** in running their activities. The reasons are numerous, but mention must be made of some of these:

- extending their business beyond the traditional boundaries;
- the accelerated development pace and the increased complexity of their business;
- the amount of technical knowledge needed to ensure efficient and effective governance;
- the inability to simultaneously understand and assimilate the local peculiarities of the environment where their business is undertaken: culture, regulations, customs, etc.

Problems may occur for two reasons:

- an individual investor may lack the necessary stimuli to bear the costs related to the management's accountability to meet their obligations. therefore, the investor may try to manifest a free-rider behaviour while monitoring and executing the contracts warranted by other investors;
- **the methods used to compel and reprimand managers may be incomplete or completely lacking,** probably due to the requirement to observe property rights in that particular country. these two problems are usually correlated.

Management and the way it is conducted is not an end in itself, but a vital factor for an efficient and high yielding organization. Economic performance depends on the efficient management techniques applied by professionals. The final stage focuses on knowledge based management.

The role of financial management is to create a system of managerial relationships that help make the business more efficient. In the economic theories of the future, the traditional idea according to which a larger profit entails greater risks will eventually disappear, as more efficient management techniques will further reduce these risks, influencing the external environment factors (Boghean, 2010). Both entrepreneurs and managers believe that financial management is highly important since it focuses on the controllable part of the business, i.e. the one that can help maximize the profit.

Accounting has become a universal financial language, an instrument that enables the provision of useful business information that assists in the decision-making process of any business entity. The acquisition of the financial information entails the close observance of a business entity and of its specific activities as well as the processing of the data by means of the specific accounting language and methods, in order to meet the needs of the users. The processing and the employment of the financial information are specific activities of accounting and are directed at the production, collection, storing, processing and provision of financial data. In this respect, the operations range from calculating, analyzing and interpreting, classifying and using the information in the decision making process. Accounting has also become the language of business or an information system needed in order to meet the needs of business entities, an instrument used for the internal and external presentation of an organization, a link between the economic activity and the policy makers. Any fair and efficient decision is based on the close observance of the following steps: setting the desired goal, establishing the means and the methods used for reaching it, selecting the best option, applying it and, subsequently, analyzing the outcome. In this endeavor, the financial information provided by accounting is vital in order to make the most appropriate decision.

According to the general definition of financial management, it is a process which enables the planning, organization, monitoring and reporting of the financial resources of a business organization by completing its mission and by meeting its objectives (Trenca, 2007), as presented in Figure 1:

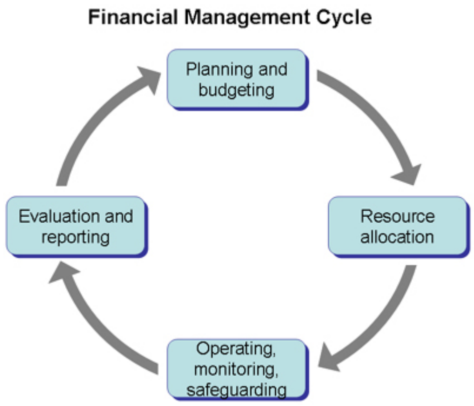


Figure 1. The financial management cycle
Source: www.who.int

The above figure leads us to believe that a company needs financial management for:

- the efficient management/allocation of resources;
- the more rapid completion of the mission/objectives of the organization;
- the performance of the necessary analyses to assist in making financial decisions;
- the financial planning, monitoring and evaluation of the activities;
- the detailed presentation of the financial position of the company;
- the sustainable development of the organization by setting objectives.

II. PERFORMANCE MANAGEMENT ON AN INTERNATIONAL LEVEL

Performance management is essential nowadays, as competition and leadership organizational methods are taking their toll. Even if it's part of the Human Resources department, this type of management is much more complex and more complicated, as it involves activities such as constant progress, feed-back and coaching for improved performance, as well as implementing employee training programs and performance related packages.

It is also a systemic process that can help improve the overall performance of the enterprise as well as that of the individuals that work in teams. Performance management focuses on outstanding results by communicating expectations, by defining roles and competencies and by setting the targeted and measurable results.

Performance management is both a strategic and an integrated approach that assists organizations in achieving the desired results by improving both the performance of teams as well as that of each individual. The concept of performance management has gained momentum at the beginning of the '80s, when higher standards have started to be implemented in quality performance as well. Performance management is a process that entails the communication between management and employees throughout one year. The process is constant and cyclic in nature (Armstrong Michael, 2009). A performance management system entails the following actions:

- the drafting of clear and precise job descriptions and of performance plans for employees that would include key results and performance indicators;
- the recruitment and selection of the right candidates by implementing an adequate selection process;
- the negotiation of responsibilities and performance indicators for measuring results, as well as the setting of the performance and productivity standards in compliance with the current regulations;
- the identification of the training and personal development needs by measuring the acquired results against the existing standards and the implementation of improvement and development programs;
- the quarterly discussion and assessment of the achieved results;
- the provision of an adequate compensation system;
- career development support and consultancy for employees;
- conducting interviews with employees who choose to leave the organization in order to enquire about their reasons to resign;

The concept of performance is critical for the success of a company and is one that cannot be looked over. However, it is rather strenuous, difficult to implement and is mostly disliked both by employers and employees. Moreover, the results are hard to measure, whether or not performance increases after its implementation.

According to the research conducted by World at Work, (Rhodes Marcia, 2010) 58 % of the surveyed organizations gave their performance management system a grade of C or below (A – extremely effective, B – average effectiveness, C – little effective, D – not very effective, E - ineffective). All these statements may be justified by the fact that people have changed, technology has advanced and, therefore, the interaction between people and technology is no longer the same. In order to face the current challenges, organizations have to assume a more complex performance management system.

People's expectations have changed, generations constantly develop and expectations are equally increased. Employees have taken on a more active role and they want to be able to monitor their own performance, with a double feed-back. Managers have changed as well, and they no longer control and order, but guide and provide a positive feed-back, thus inspiring and encouraging performance.

However, the most important change is visible in the field of technology, as scientific progress is quite accelerated. Recent years have revealed a need to simplify automation and concentrate information. Performance management will have to keep up with these changes, or risk failing to reach its main goal, i.e. that of increasing performance.

III. INTERNATIONAL EXCELLENCE MODELS FOR MEASURING PERFORMANCE

The first international prize for excellence in business, or EFQM (European Foundation for Quality Management) was created in 1992 at the initiative of 14 European companies (Popa Virgil, 2005). The underlying principles of the model state that the human resource is a prerequisite of high performance. The purpose of the award is to promote quality in European management in order to gain a higher competitive advantage and to support quality improvement activities. This European award is actually meant to increase the quality standards of multinationals in order to gain a competitive advantage on an increasingly global and competitive market.

Table 1 – Performance indicators per segments and perspectives

Management	Investors/Shareholders	Creditors
Operational analysis: •gross margin •profit margin • operating expense analysis •structural analysis •operating leverage •comparative analysis	*Investment rate of return:* •yield on net assets •return on equity •return on shares •cash flow per share •share price increase •total return for shareholders	*Liquidity* •general liquidity •liquidity value
Resource management •asset turnover •working capital management •stock turnover •receivables turnover •accounts payable turnover •efficiency of human resource use	*Profit distribution:* •dividend per share •dividend rate •distribution rate/undistributed profit •dividend cover ratio •- dividends/total assets	*Financial gearing* •gearing •financial stability •financial autonomy
Profitability: •net economic yield •gross yield •net assets yield •economic value added •economic profit •cash-flow yield •free cash-flow.	*Market performance* •cash-flow multiplication degree •market value/book value •stock price relative movement •net worth	*Debt service* •interest coverage ratio •debt coverage ratio •fixed costs coverage ratio •cash-flow analysis

Source: Erich A. Helfert, *Techniques of financial analysis, a guide to value creation*, McGraw Hill Companies, Inc., New York, 2003, p. 113.

The American equivalent of this European award is the Baldrige Award, initiated in 1987 for companies to be encouraged to adopt TQM (total quality management). This award is accepted worldwide and serves the same purpose as the EFQM award, i.e. to promote quality excellence and competition among American companies. This model focuses on results and objective, but the results rank lower in percentage as compared to the European model, 45 % respectively, as depicted in figure no.2.

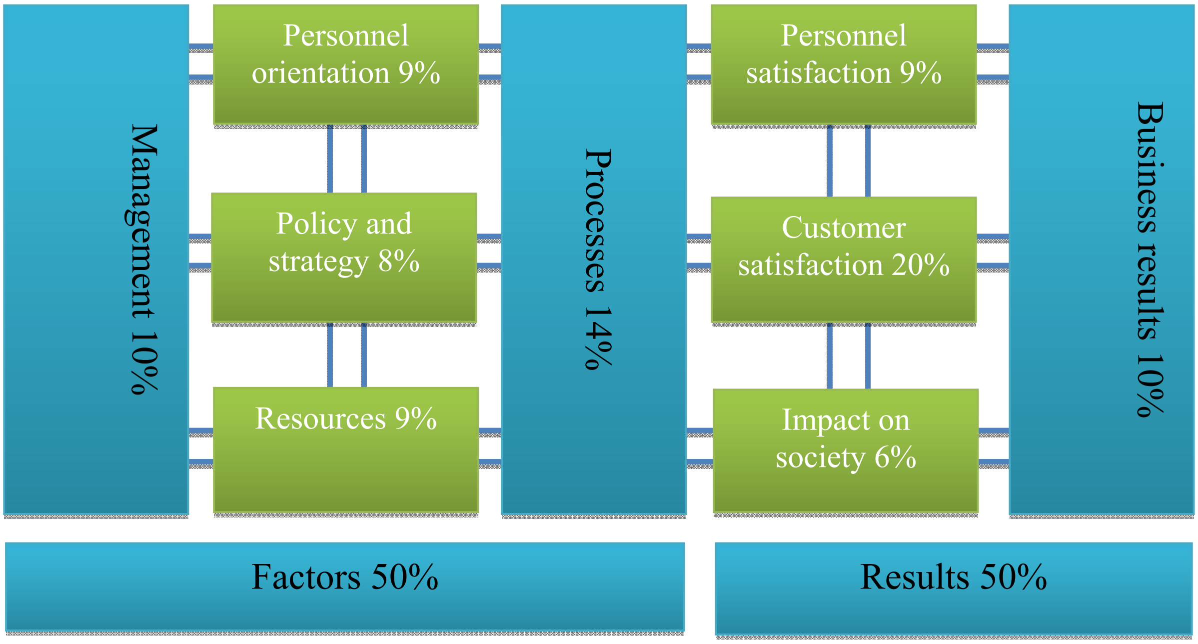


Figure 2: The Baldrige American business model

Source: Virgil Popa, *Managementul și măsurarea performanței organizației,* 2005, University Press, pp. 25

Many multinational companies believe they have reached the best performance. The managers of American companies, in particular, believe that their employees are motivated to get results, that they prefer to initiate various actions and that they put in all their efforts when they are granted decisional power.

In Asian cultures, however, and China in this particular example, social values dictate against such an approach. Individual performance is not taken into consideration; initiative at the workplace is seen as an insult to the manager, while honest feed-back is a taboo subject.

Developing countries thus force multinationals to consider all these cultural differences and to adapt to the particular circumstances of other countries. Performance is directly related to the survival of the company and, under the present circumstances, it is a rather difficult target.

IV. DIFFERENCES BETWEEN INTERNATIONAL AND NATIONAL FINANCIAL MANAGEMENT (1)

Four main differences between national and international financial management have been identified in time, as follows:

- the introduction of foreign currency;
- political risk;
- market imperfection;
- business opportunities.

The exchange rate is an additional risk for financial management, one that has to be carefully considered in an international environment. Exchange rate risks consist in the fluctuating prices of currency or in the exchange rate differences that can turn a profitable business into a rather inefficient one.

Political risks include any change in the economic environment of a country, in terms of taxation, contract and legal regulations. A government is expected to change the rules of the game at any moment and quite unexpectedly.

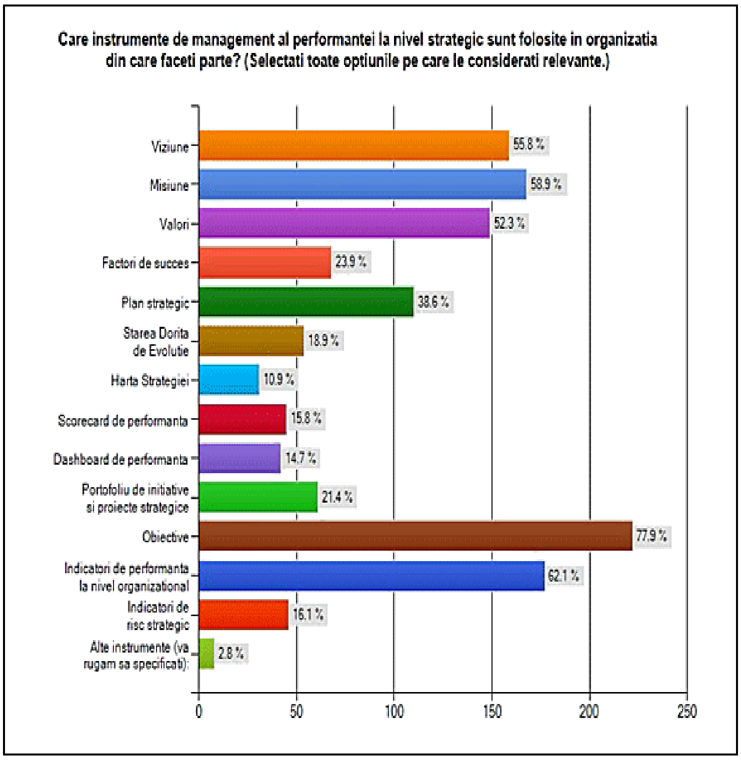
Market inconsistencies are reflected in the increasing differences between countries in the present economic circumstances and in an integrated global economy. The differences consist in the costs of transport, in the various legal provisions, such as VAT. These market inconsistencies force financial managers to make an additional effort in order to get the best opportunities, as compared to other countries.

The *implementation of business activities* in other countries that the country of origin increases the chances of gaining additional value. The different sets of opportunities bring additional benefits to investors, while risks are also equally brought along.

Just as in the case of national financial management, the purpose of international financial management is to enhance the wealth of the shareholders. This is not only the shareholder's purpose, but also the main interest of all the stakeholders, such as employees, suppliers, clients, etc. No goal can be reached without enhancing the return of the stakeholders or increasing the stock price.

There are also international initiatives, such as GATT (General Agreement on Trade and Tariffs), NAFTA (North American Free Trade Agreement), and WTO (World Trade Organization) that have promoted and have liberalized international trade. The existence of multinationals today is due to these international agreements that have negotiated the terms of international trade. Thus, the premises of international standards have been created, and the best business opportunities have equally been provided.

Financial management has become an integral part of all multinational companies – Multinational Companies (MNC). The lack of expertise in the field of international financial management can endanger market survival, since international financial markets have an entirely different form and different dynamics from domestic financial markets. A coherent policy of international financial markets can help an organization reach the same efficiency and effectiveness on all economic markets.



Graph no. 1: Performance management instruments

*Source: www.indicatorideperformanta.ro

The most used key performance indicators in Romania are related to sales, with a strong financial weight, examples including sales per client, average invoice value, average value per type of product or service, number of visits to clients in a certain time interval and number of active customers.

The results of the research conducted in the field in Romania during the past few years (Performance Management in Romania 2011; Balanced Scorecard in Romania 2010) and the rising interest in enrolling in professional training courses, conferences and Balanced Scorecard system implementation, prove that some companies have started to adopt a consistent approach in measuring performance.

VI. CONCLUSIONS

The financial performance of a business entity reflects its potential and financial stability and is established after analyzing a set of both quantitative and qualitative factors.

The objectives of the financial-accounting information for both internal and external use consist of providing accurate data that help the users understand the situation or know the economic facts in terms of an objective assessment that enables them to make decisions, as follows:

- Provision of information needed to make business decisions;
- Provision of information needed to measure the economic activity of the business unit;
- Provision of information needed to evaluate the real and the potential cash flows;
- Provision of information related to measuring and comparing the performance of the business unit;
- Provision of information about the efficient management of the resources of the organization;
- Provision of information on the business activities that can be described and measured.

Any business organization, whether large or smaller, is a system of financial relationships and cash flows that are activated and directed by management decisions.

The nature of the managers' information needs differs from one organization to another, depending on the type of activity. The type of reports required by managers also depends on the objectives they wish to reach; they are related to the completion of the management functions:

- protecting the assets of the organization;
- developing business plans;
- monitoring the activities of the organization, making decisions.

Financial management is as important as any production or marketing process. The lack of efficient financial management can easily cause the financial collapse of an organization, subsequently leading to insolvency and then bankruptcy. A company must always be aware of its costs and revenues, while each financial decision must be based on an analysis of both financial and non-financial indicators.

Using the financial information in the management process is a prerequisite of modern times. The increasingly complex issues organizations have to face put managers in situations they sometimes find rather hard to overcome. The indispensable means for solving these issues consist in the information that must meet the various knowledge needs of decision makers in all hierarchical levels of an organization. Information fuels decisions. It does not replace decisions but merely supports them, providing decision makers with data that they would subsequently use in making the right decisions.

ENDNOTES

(1) www.efinancemanagement.com, accessed on 14.04.2013

VII. REFERENCES

1. Armstrong Michael (2010), *Managementul Resurselor Umane*, 2009, 10th edition, Codecs.
2. Florin Boghean, *Contabilitatea in procesul de asistare a deciziilor,* Casa Cartii de Stiinta, Cluj Napoca.
2. Erich A. Helfert (2003), *Techniques of financial analysis, a guide to value creation*, McGRaw Hill Companies, Inc., New York.
3. Rhodes Marcia (2010), *Study on the State of Performance Management*, http://www.worldatwork.org, a report by WorldatWork and Sibson Consulting, October.
4. Popa Virgil (2005), *Managementul și măsurarea performanței organizației*, University Press.
5. Trenca I. Ioan (2007), *Fundamente ale managementului financiar*, Casa Cărții de Știință, Cluj-Napoca.
7. www.efinancemanagement.com