

## ECONOMIC PERFORMANCE AS THE BASIS OF SUSTAINABLE DEVELOPMENT

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**Abstract:** *Globalization and current economic changes bring new challenges for companies, industries and countries. The popularity of the concepts of performance and sustainable development is highlighted by the high national interest in these issues, similar to the policies through which the government aims to increase the performance of the national industry. The present paper aims to answer some questions regarding the analysis of company-level performance and the promotion of sustainable development. By linking the concepts of economic performance, global performance and sustainable development, a conceptual framework can be constructed to analyze the different approaches to performance. The analysis of ways to achieve sustainable development can be done from the perspective of performance. The competitive advantage of companies is based on their ability to achieve performances and to translate them into the level of sustainable development. The results of this article contribute to a better understanding of the correlation between performance and sustainable development at the level of the respective entities of the economy. The perception of business performance by all the categories involved undergoes a major change in the current period, the sustainable development already becoming a condition of survival.*

**Keywords:** *economic performance, global performance, sustainable development.*

**JEL Classification:** *P17, Q56.*

### 1. Introduction

The term performance has a Latin origin, "performance" having the meaning of completing a proposed activity. In English "To perform" has the meaning of performing an action that requires a certain aptitude and "Performance" reflects a sequence in which an entity reaches the set objectives. Within the set of definitions for performance in the economic field, it can be delimited: performance in relation to the level of achievement of strategic objectives, performance in relation to value creation, performance in relation to the efficiency and productivity of the entity.

The performance of the entity is found in a close relation with the way in which the managers manage its activity, by the way in which they procure their resources and the way in which they use them to obtain profit. The performance of an entity must be characterized by efficiency and effectiveness in achieving the strategic objectives and allow a sustainable presence on the market. In recent years, sustainable development has become a central topic, increasingly brought to the attention of the private environment, authorities and society. The implementation of responsible business in Romania has started to become more visible as a result of integration into the European Union.

### 2. The evolution of the performance concept

In the specialized literature we encounter a variety of definitions of performance, being unable to adopt a generally valid definition because of the particularities of each entity and the expectations of those involved. This is why a common definition would be subjective and variable. Performance is not a static concept and its management is a more complex process than its measurement. The concept of performance has experienced several stages in its evolution, of which we mention: in the 50s performance was related to costs and benefits; In the 1960s, the focus was on achieving remarkable profit margins, the basic idea being that a significant profit margin ensures future financing, not taking into account the efficiency of fixed capital; in the 80s the focus was on obtaining the profit in absolute size, not paying attention to the way of exploiting the assets; In the 90s, a key element in establishing the performance is the cost of capital and the cash flow that allow a

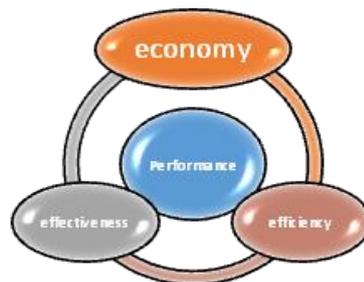
higher management of resources and risk. Everything related to the way the concept of performance has evolved can be recalled that the use of indicators that reflect the value creation process (EVA, MVA, CVA) in the USA in 1990 and in Europe in 1995.

The theories in the economic-financial field have been adapted to the economic reality, including new theories have emerged, the reason being that of the dynamics and complexity of the factors influencing the economic environment. Therefore, some economists approach performance from the perspective of the objectives pursued by the entity, referring to their degree of achievement, others regard it as a measure of the value created, while a last category considers performance in terms of productivity and efficiency of the activity.

### 3. Its performance and approaches

The performance of economic entities is a topic that raises a series of questions, controversies related to its measurement, evaluation and management. The concept of performance of economic entities, does not present a generally accepted definition in this regard.

In the specialty literature the concept of performance is associated with three notions: economics (procuring the necessary resources at the lowest cost), efficiency (maximizing the results obtained, starting from a given amount of resources, or minimizing the amount of resources for a predetermined result). and effectiveness (the results achieved to achieve the expected results).



The performance of the economic entity can be viewed from the perspective of the profitability that takes into account the results obtained and presented in the profit and loss account, results obtained after owning and using the factors of production ("comprehensive income").

Effectiveness can be regarded as the ratio between the achieved result and the objective to be achieved, regardless of the effort made and its minimization. Economicity is not related to the effect achieved, nor to the effort made, nor even to the objective to be achieved. It aims to conduct transactions, use resources and other economic operations at the lowest cost.

Performance in an entity involves improving and harmonizing the cost-value couple, not just what leads to cost reduction or value creation. The accounting result is regarded as the main indicator of the measurement of the financial performance of the entity. Through the calculation method it is oriented to the past, becoming a basis for evaluating the results of a process, in a past period of time, this obliging the inclusion of the concept of cost of capital in the performance approach. Without reaching the minimum level of the cost of capital repeatedly, investors will move to more profitable investments. Any investment must offer a remuneration that includes a risk premium. The level of the risk premium therefore depends on the risk that the investor assigns to this investment.

The performance represents a result in the field of economic, commercial management, which implies the efficiency, effectiveness and competitiveness of the companies. It is advisable to look at performance not just as a reduction of expenses and maximization of income, with the purpose of obtaining a profit. The reason is that there are cases in which the increase of the expenses can be generated by contracting new loans in order to make new investments, for the modernization of the manufacturing technology, the hiring of new employees due to the need to expand the activity, elements that reflect an economic entity. viable, in full progress. The directions of action, even if they focus more on achieving the performance from an economic point of view, nevertheless their influence is felt on the sustainable development as a whole. The increase of the expenses, as specified above, can be regarded as a direction of action, from the following perspectives:

- The increase of the expenses with the commissioning, with the depreciation, with the repairs, with the modernization of the machines, lead to the increase of the rate of return of the consumed resources, the condition being that these investments have a positive effect on the profit
  - Increased wage costs can lead to increased labor productivity
  - Reducing expenses is also an important aspect that can lead to increased performance:
    - Reducing the consumption of raw materials through their efficient use
    - Reduce electricity consumption by participating in different energy efficiency programs
    - Reduction of administrative and protocol expenses, through the efficient use of the entity's vehicles. Thus, it is possible to act directly on the performance by increasing the profitability (by reducing or increasing the expenses), respectively indirectly by increasing the productivity and efficiency.

From the variety of traditional and modern perspectives of the performance concept it can be systematized as follows:

A. Performance by achieving goals. Among the first to study organizational effectiveness were R. Tannenbaum and H. Shimdt, considering that performance represents the degree to which an organization, as a social system, with certain resources and means, achieves its goals (Tannenbaum and Shimdt, 1958). This implies that the reporting should be based on landmarks. The two made reference to achieving the objectives, focusing on labor productivity and net profit, as common goals for the entities. This approach has a high level of subjectivity and depends on achieving the objectives proposed by the entity, thus making the same level of performance differently appreciated. A similar approach has also G. Lavalette and M. Niculescu, who saw the performance as the achievement of organizational goals regardless of their nature and variety (Lavalette, Niculescu, 1999). The same approach to performance is also found by the definition proposed by another specialist: it is the performer who achieves his goals (Bourguignon, 2000). However, the achievement of goals does not always represent performance, they can be achieved at the expense of important aspects.

B. Approaching performance from the perspective of the value that the economic entity creates. Performance is all that, and only what, contributes to the strategic objectives of the entity, as well as everything, and only what, contributes to improving the value-cost couple, and not just what contributes to cost reduction or growth. value (Lorino, 2003). The value-cost couple can be optimized by reducing the costs, accompanied by the increase of the entity's value, both actions being necessary to be carried out simultaneously. According to this approach, the economic entity creates value only if the capital is paid at a rate of return higher than its cost. The importance of value creation comes from the fact that it actually leads to the achievement of performance, so that

achieving the goals without creating value cannot be considered performance. The overall performance of the enterprise is represented by all economic, social and environmental performances (Reynaud, 2003). Both financial and non-financial results contribute to the performance. This theory comes with an approach to new elements, namely the non-financial aspects. Even though the latter only highlighted the protection of the environment and the employees, this theory brought significant improvements on the concept of performance.

C. Performance from the perspective of the productivity and efficiency of the activity of the entity. Performance can only exist if it can be measured, and in no case can it be limited to knowing a single result. Thus, the obtained results will be evaluated by comparison with the expected results or with certain standard results (Bouquin, 2011).

This approach to performance focused on the efficiency, effectiveness, economics encountered in the literature as the three E's. Therefore, performance is seen as economics supplemented by efficiency and effectiveness, given that efficiency is linked to the increase of results per unit of resources, the economics of obtaining resources at a reduced cost and the effectiveness of the ratio between the obtained and expected results.

#### **4. Global performance through sustainable development**

The concept of sustainable development was born 30 years ago, in response to the emergence of environmental problems and the crisis of natural resources, especially those related to energy. Practically, The Stockholm Environment Conference of 1972 is the time when it is recognized that human activities contribute to the deterioration of the environment, which endangers the future of the planet. Sustainable development means meeting the needs of present generations, without compromising the ability of future generations to meet their own needs according to the World Commission for Environment and Development.

Entities must look at the concept of performance from a global point of view because the sustainability of the performance will be achieved only by establishing as the entity's goals social responsibility and environmental protection in addition to the financial ones. Financial indicators remain fundamental in an environment where profitability on the capital market is strictly profit or loss, this perspective generally involving actions that are focused on short-term results. Basically, a set of managerial tools composed only of economic-financial indicators available to the management of the entity would be incomplete.

There has been the transition from the concept of economic performance to the concept of global performance. Performance is paramount in the context of the current economic situation in which competition is tight, with non-performing entities even winding up. The global performance will take into account three aspects: the economic-financial performance, the social performance and the environmental performance. The performance measurement must be duplicated by elements established by the entity management regarding the design of the entity's future activity. The entities that identify and reduce the level of weaknesses and that detect the problems from the level of management, have the chance to face a market in which the competition has a high level.

The triple-bottom-line concept expresses the adoption, within the entity, of the three dimensions of sustainable development. Thus, competitiveness is achieved by highlighting the following objectives: an economic one (achieving wealth for as many as possible through optimum production and sustainable consumption), an ecological one (management and conservation of resources) and social (social equity). Lately, the research and business environment have increasingly studied the implications of social responsibility on economic benefits. Investors and other categories interested in the

performance of the entity, are attracted by the reporting that includes besides the financial side and the social component and the one regarding the environmental impact in which it operates. Sustainable development reporting is no longer just a communication exercise but also a tool to improve the performance of a company in the social, environmental and governance areas (ESG - Environmental, social and governance). The reasons for which sustainable development reports are used, respectively, are due to the fact that internal processes can be improved, they can be considered as tools for improving the performances in the social, environmental and economic fields, they can be effective tools in making commercial decisions, including by decide whether or not to use the products and services of a particular company.

Investors consider that the most important factor in increasing the confidence in a company is the data on its overall performance. The report on the sustainable development, is the main factor in the trust that the different categories have in the commitment of sustainable development assumed by a company. We are in a changing period, which requires transparency in the field of sustainable development, this process leading to an improvement in performance over time. Thus, it has never been more important for us now to understand the mindset of those who read and write reports. Changing the reporting mode leads to some information, some of them surprising even for the authors who created them.

The main impetus for sustainable development was represented by the multinational companies that implemented the organizational practices from the headquarters at the local level. Sustainable development involves the development of businesses that benefit the environment and / or communities, the products and services they provide, reflecting the responsibility that entities take on. As a result of its integration into the EU, Romania has experienced a development of the renewable energy and waste management industries, rural tourism and eco-tourism, as well as the marketing of organic or organic products.

A strong motivation to contribute to sustainable development was the opportunity to win the trust of customers. Sustainable development involves the integration of social and environmental concerns into the actions of the entities, voluntarily or imposed by legal regulations. To assume such a responsibility means that the entities fulfill more than the legal expectations, it means investing more in human capital, in the environment and in relations with other categories. All these elements, by increasing productivity, can enhance the competitiveness of an entity. The overall performance achieved by an entity reflects its competitiveness, achieved through a level of efficiency and efficiency that ensures a sustainable presence on the market. Investments to increase global performance are focused on strategic financial decisions, with economic entities increasingly pursuing two objectives: profit and social performance. Any entity tries to follow the proposed strategies in order to obtain the proposed results and to measure them, this being facilitated by the use of the key performance indicators (KPIs). The performance of entities should not be interpreted only using classical indicators, which derive from the specificity of accounting operations; a broader vision is needed, especially using other indicators, with a specific role, such as non-financial indicators.

## **5. Conclusions**

In assessing the performance of the entity it is appropriate to approach not only by quantifiable monetary factors, but also by non-financial factors, impossible to quantify monetary, whose aggregate effect reflects performance to a better extent. The evaluation of the performance of the entity plays a very important role in assessing and improving the efficiency of the economic activity. The importance of the performance from the three

perspectives mentioned in the present paper can be viewed under the ethical aspects, the relations with third parties, the protection of the environment and the positive financial results over a long period of time. Global performance appraisal initiatives promote transparency, fairness, accountability over their actions, ensuring the success path for large entities and being a good example for small and medium-sized ones, even for insolvent entities.

The importance of the concept of global performance as an essential component for the sustainable development of the entity comes from the synthesis of the results of the evaluation of the non-financial performances in the short term, long term and of strategic type, regarding the impact felt at the level of the clients and the other categories involved. Financial constraints, present economic conditions, changing consumer behavior, lead to the adoption of new management policies that will lead to sustainable development based on the economic performance at entity level.

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