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THE RELEVANCE OF PERFORMANCE INDICATORS IN THE DECISION-MAKING PROCESS

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Abstract
Financial performance often does not paint the complete picture of profit, and a sole focus on it would lead to the neglect of essential aspects for both the entity and society as a whole. Solely concentrating on a single indicator would be inadequate, especially considering the evolutionary era we are in and the opportunities and conditions (standards) intentionally followed to keep pace with desired growth rates and to avoid irresponsible practices and the associated risks they may generate. Additionally, any managerial decision must be based on a thorough understanding of the situation, which is not possible without complex investigations into financial performance that elucidate performance measurement criteria, evaluation indicators, and calculation methods. The purpose of this article is to highlight the importance of performance indicators in the decision-making process. This scientific endeavor is based on information derived from national and international specialized literature and practice.

Keywords: *financial performance, financial performance indicators, financial result, decision-making process.*

JEL Classification: *M41.*

I. INTRODUCTION

The financial performance of a company represents a measure of its overall activity. Typically, it focuses on the financial indicators resulting from the analysis of entities' financial statements. There is no unanimous opinion regarding the type or number of indicators that should be adhered to in order to evaluate the financial performance of firms. Therefore, specialized literature refers to various primary indicators, but at the same time, also encompasses indicators of different defining aspects, such as yields, margins, profitability, rates, the latter being calculated based on primary indicators. Performance is closely related to competitiveness, as "a competitive entity is efficient (capable of improving the ratio between results obtained and resources allocated) and effective (capable of meeting the expectations of all partners) at the same time" and "ensures a sustainable presence in the market" (Ciora, 2013, p. 203). Integrated performance measurement, by its nature, consists of multiple criteria with varying levels of importance (Baydas et al., 2024).

Thus, the measurement of financial performance can be conducted through various evaluation systems, considering both qualitative and quantitative aspects, expressed through effectiveness and efficiency. The focus can be placed on a single factor, omitting others, simply because it is the only measurable one, and opinions regarding the most reasonable performance indicators for the entity are diverse. There are numerous methods, and to choose the appropriate indicators, it is necessary to present their limitations, and the measurement criteria must correspond to changes occurring in the business model (Bădicu, 2015).

The concept of efficiency is the one that defines financial performance at the level of any entity, being expressed and quantified through several sets of indicators, such as: indicators focusing on production and sales activity; indicators facilitating the analysis of profitability, as well as indicators based on value creation, as evidenced in most approaches provided by specialists in the field: economic efficiency, production efficiency, and effectiveness (Parkitna & Gadek, 2023). As an indicator of the entity's activity efficiency, profit serves both for determining the result for financial and tax purposes, as well as for its utilization.

In addition to the traditional and modern indicators that describe the subject of performance, companies listed on the capital market also have stock market indicators. Their task is to define the company's position on the respective market, reflecting the gains brought by the company to its shareholders based on the evolution of the stock price. At the same time, the number of shares issued by a company, as well as the trading value of a share, express the capitalized value of the entity in question.

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One of the purposes of a company's existence is to maximize shareholder wealth, which can be achieved through an increase in firm value. However, this often creates a divergence of interests between the company and shareholders, whose lifespan is relatively shorter than that of the company. Shareholders often tend to focus more on short-term value and profit growth. Economic activity and development are often solely focused on short-term profits, often ignoring the economic, social, environmental, and other impacts. Therefore, global awareness of sustainable development encourages stakeholders to implement development by adhering to sustainability principles (Haryono et al., 2016).

II. LITERATURE REVIEW

Measuring performance has represented and still represents a reason for its study, which arouses the interest of many researchers, investigations proving to be numerous in this field. Although there is no universally recognized definition of performance, specialized literature attributes numerous meanings to it. We will refer to some of them further on.

Over time, performance has been measured either by the size of the entity, by profitability and profit obtained, or by treasury (Ștefănescu, 2005, p. 254). According to the general understanding, the term "performance" represents an outstanding achievement in a field of activity (The Explanatory Dictionary of the Romanian Language, 1998, p. 1172). From this definition, it follows that performance cannot be associated with just any result obtained, but only with an exceptional one. Exceptional: firstly, as distinctly superior to what was achieved in a previous management period; secondly, as superior to the results obtained by other entities, and thirdly, the exceptional achievement of assumed objectives. In the view of French economist Bourguignon, performance is not an observation, it is constructed (Busuioc, 2012, p. 172).

Porter (1986), when introducing the notion of performance, alludes to value creation. Given the increasing emphasis on sustainable development, entities are concerned with achieving long-term performance, the ability to create value, and meeting the needs of stakeholders (investors, employees, customers, communities, local development), as well as developing, promoting, and implementing concrete actions for environmental protection (Neascu & Geogescu, 2023).

The entity's performance is achieved "through balancing and interlinking four forces: the efficiency of production processes, satisfying shareholders and customers, the entity's capacity for growth and development, and the degree of innovation and utilization of opportunities" (model proposed by Kaplan & Norton) (Ștefănescu, 2005, p. 254). Thus, performance consists not only in measuring financial results but also in monitoring and managing the capacities of personnel, through their innovation and training, through continuous improvement of infrastructure, which leads to the high quality of products and services. Therefore, the quality of products and services can be difficult to measure and quantify; however, there are certain indicators that allow evaluation, for example: technical (degree of automation, digitization level, average waiting time, average number of breakdowns), environmental (operating condition level of facilities for purifying emissions of pollutants into the atmosphere), accessibility of services.

Niculescu & Lavalette (1999, p. 395) define performance through the balance between efficiency and effectiveness, while Achim & Borlea (2012, p. 498) propose a definition taking into account the relationships between society and stakeholders. Therefore, these two authors explain performance by the company's ability to create added value for stakeholders, to meet consumer needs, to satisfy employee needs, and, more recently, to care for the environment.

In specialized literature, we find a variety of studies that analyze the correlation between enterprise performance and capital structure. Margaritis & Pisallki (2010) analyzed the relationship between capital structure, ownership structure, and enterprise performance. Their results demonstrate that "a high level of leverage leads to the reduction of agency costs and inefficiency, thus improving enterprise performance," thereby supporting the agency cost theory. A higher leverage effect reduces agency costs, thus decreasing inefficiency and enhancing enterprise performance (Onaolapo & Kajola, 2010).

Other empirical studies, on the other hand, by Văidean (2014) and Banerjee & De (2014), using the return on equity indicator and the ratio of total liabilities to total assets, found a negative relationship between the equity structure and enterprise performance. Zeitun & Tian (2007), using data from 167 companies in Jordan over a fifteen-year period (1989 – 2003), found that capital structure has a negative impact on both the enterprise's performance indicators, in both accounting and market measures. Some authors (Majumdar & Chhibber, 1999; Rao et al., 2007) also confirm the negative relationship between financial leverage and performance. Their results further suggest that liquidity, age, and capital intensity have a significant influence on financial performance.

Brigham & Gapenski (1996, p. 1018) argue that an optimal capital structure can be achieved if there are tax shelter benefits, provided that an increase in the debt level equals the costs of bankruptcy. They suggest that enterprise managers should be able to identify the moment when the optimal capital structure is reached and strive to maintain it at that level. This is the moment when financing costs and the cost of capital are minimized, thereby increasing the value and performance of the enterprise.

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From an empirical perspective, there is a multitude of studies in the specialized literature that have analyzed the influence of determinant factors on firm performance. Panagiotis & Konstantinos (2008) examined the impact of key determinant factors on Greek firm performance during the period 1997-2008, using the least squares regression method. To evaluate firm performance, the authors used variables such as sales profitability or profit margin, asset profitability, and equity profitability as dependent variables. The empirical results showed that leverage effect, export activity, location, size, and effective management significantly affected the performance of firms in Greece. Prasetyantoko & Parmono (2008) conducted a study analyzing the impact of firm-specific factors and macroeconomic factors on firm performance. Dependent variables selected were asset profitability (ROA - Return On Assets) and market capitalization growth, while specific factors included liquidity and solvency. The results demonstrated that macroeconomic factors such as inflation and interest rates have a more significant influence on firm performance than company-specific factors.

The financial environment considers earnings per share as a highly useful indicator for measuring the performance of an entity (Feleagă, 1999, p. 360). By calculating this indicator, the level of net profit attributable to an ordinary share can be quantified. Thus, the indicator is of particular interest to shareholders and potential shareholders, who pay close attention to the return they could receive by investing. Therefore, the accuracy and relevance of investor decisions are conditioned by the integrity of the information regarding the earnings per share. The significance of earnings per share can be expressed in relation to the level of this indicator: high - it demonstrates investors' confidence in the entity's management, but in case of doubts, there is an estimation that there might be a possibility of asset transfer to another entity with more credible management, and low - it indicates a lack of confidence in the current management or management facing difficult-to-overcome issues. Additionally, it is based on historical costs, and thus, cannot form the basis of future forecasts, and profit can be influenced by the decisions of various entities regarding accounting policies (valuation and calculation methods) and capital structure at different entities (changes in the number of shares through issuance or buyback).

Islam et al. (2014) argue that earnings per share is considered the most important indicator in measuring enterprise performance, allowing for relevant comparisons over time and space. Recognizing the importance of the information that can be provided, publicly traded companies calculate this indicator in two main forms: basic earnings per share and diluted earnings per share. While Rotilă (2023) argues that the earnings per share indicator "does not provide the possibility of comparisons between all companies that calculate it due to the difficulties in interpreting the differences observed from one company to another, even when the comparison is made between homogeneous enterprises. Also, differences may arise from the different number of shares issued by each of these companies and the different categories of shares issued".

The explanation for the existence of various interpretations regarding performance is as follows: information users define the concept of performance differently, depending on their own interests. Thus, managers are interested in the overall performance of the entity, current and potential investors perceive performance through the lens of their investment returns, creditors express interest in the entity's solvency, customers are primarily concerned with the stability of the company, and employees are interested in the stability and profitability of the entity.

The study of specialized literature allows us to mention that achieving performance at the entity level involves, directly or indirectly, evaluating competitiveness, competitive advantage, efficiency, and effectiveness. Additionally, measuring financial performance can be carried out through various methods, which involve assessing the financial and economic consequences of historical managerial decisions regarding investments, operations, and financing. By analyzing the dynamics of performance indicators, the causes and factors influencing the entity's performance are sought (Albu N. & Albu C., 2003, p. 272). In this context, the consequences of decisions will occur over the years. Some decisions are very important, such as investments in expanding and improving infrastructure, in the information and billing system, or introducing a new range of products and services. And other decisions are part of the daily processes through which each segment is managed. Thus, the authors consider that, before making decisions, performance must be analyzed from the perspective of achieving positive results, which will create cash flows above the level of the invested capital cost. In fact, managers are responsible for the efficient allocation of resources, as they must evaluate profitability at the expected level and assess whether financing options have been chosen prudently and correctly (Helfert, 2006, p. 545). In this context, performance is the consequence of a comparison between results and objectives, and not just a simple observation of results.

The diversity of opinions regarding the notion of performance highlights the fact that its definition varies depending on the users of financial and accounting information, as presented in Table 1.

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Table 1. The relevance of performance indicators in the decision-making process

No. crt.	Users of the information	The significance of performance
1.	Creditors	Performance indicators are extremely relevant, as they assume a certain level of risk when borrowing money. Thus, • *In the short term*, they are interested in the liquidity of the entity, meaning its ability to meet short-term obligations, primarily concerned with the working capital or operating capital required to address liquidity needs generated by the core business activities. • *In the long term*, creditors must ensure the solvency and profitability of the entity, upon which the payment of interest and debt repayment depends. They are interested in the size of the debts, the possibility of repayment, the entity's self-financing capacity, as well as the profitability and usefulness of the loan granted. • *In general*, they are also interested in the financial structure of the entity, in the capitals used in current activities, which present the level of risk through financial leverage (meaning the ratio between debts and equity). The structure of the capitals attracted by an entity directly influences their cost.
2.	Owners, shareholders	Performance indicators are extremely relevant for owners and shareholders, as they are the ones who hold financial interests in the company and are interested in the success, profitability of their business, and the future of the entity, respectively, they are financially cautious;
3.	Managers	Performance indicators are extremely relevant for managers because they provide a clear and objective perspective on how activities and processes are unfolding within the company. They aim for annual results to reflect favorably on their competencies. From a managerial standpoint, they strive to improve weak aspects of performance;
4.	Investors	Performance indicators are extremely relevant because they provide investors with important data to make projections regarding future performance and perceive performance through the lens of their investment returns, evaluating through earnings per share;
5.	Employees	The performance indicators of a company can have a significant impact on employee satisfaction and motivation, directly influencing their professional and personal outlook. Therefore, they are affected by the certainty that the entity will continue to operate efficiently;
6.	Customers	Measuring and monitoring performance indicators are essential for companies to continuously evaluate and improve their relationship with customers and to remain competitive in the market. Thus, they are primarily interested in the quality, usability, and availability of the product and service;
7.	Competitors	Performance indicators allow competitors to establish benchmarks for their own performance. By comparing their own results with those of similar companies, they can identify their strengths and weaknesses and set realistic objectives for improving their performance. Thus, they are interested in the economic indicators of their rivals, such as cost structure, market share, net profit, and overall efficiency of the entity.

Source: developed by the authors

In order to effectively use performance indicators, it is necessary to understand their role in internal or external analyses, analyses conducted with the purpose of assessing the performance of an enterprise.

III. RESEARCH METHODOLOGY

The use of methods for analyzing and synthesizing specialized literature, along with various domestic and foreign research, has served as a guide in the development of this article, with current legislation and provisions of international accounting and financial reporting standards providing a solid foundation with firmly expressed and universally applicable ideas, impacting both national and international entities. The methods of induction, deduction, and descriptive research applied have facilitated a more detailed description of the essential characteristics of measurable performance in the decision-making process.

The major interests, along with the most commonly used methods of performance measurement across various segments, concerning management, investors, and creditors, are presented in Table 2.

Table 2. Performance indicators by segments and perspectives

Entity management	Investors / shareholders	Creditors
Operational analysis	**Return on investment**	**Liquidity**
❖ Gross margin ❖ Profit margin ❖ The result of the operational activity ❖ The net result	❖ Return on net assets ❖ Return on equity capital ❖ Earnings per share ❖ Cash flow per share ❖ Total return to shareholders	❖ General liquidity ❖ Liquidation value

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Entity management	Investors / shareholders	Creditors
❖ Analysis of operating expenses ❖ Structural analysis ❖ Benchmarking		
Human resources management	**Use of profit**	**Financial indebtedness**
❖ Turnover of assets ❖ Turnover of stocks ❖ Turnover of receivables ❖ Turnover of supplies ❖ Efficient use of human resources	❖ Earnings per share ❖ Dividend per share ❖ Distribution rate / non-distribution ❖ Dividend coverage rate	❖ The degree of indebtedness ❖ Financial stability ❖ Financial autonomy
Profitability	**Market performance**	**Debt service**
❖ Economic profitability ❖ Gross profit ❖ Return on net assets ❖ Added economic value ❖ Cash-flow profitability	❖ The degree of cash-flow multiplication ❖ Market value / book value	❖ The degree of interest coverage ❖ The degree of debt coverage ❖ The degree of coverage of fixed costs ❖ Cash flow analysis

Source: developed by the authors based on Helfert (2006, p. 545)

IV. CORPORATE PERFORMANCE INDICATORS

The significance of corporate performance constitutes the accounting criterion for evaluating the company's performance, which is represented by return on assets (ROA), return on equity (ROE), return on investment (ROI), and earnings per share (EPS) (Pouraghajan, 2012).

Profitability practically represents "the ability of an enterprise to obtain profit through the use of production factors and capitals, regardless of their origin" (Robu & Georgescu, 2000, p. 190), reflecting the efficiency of the entire economic activity. Measuring performance through the rate system represents a form of synthetic measurement of activity efficiency by evaluating the ratio of output to effort. In our opinion, profitability represents the essential condition for ensuring the success of an entity's business and is measured by achieving positive results through comparing financial effects with the financial efforts involved. One of the categories of rates that express the profitability situation or the entity's ability to generate profit is the category of profitability rates.

Profitability ratios, as performance indicators, can take several forms of expression, depending on how a performance indicator of effects or results obtained (profit) is reported relative to a global activity flow indicator (turnover) or the economic resources consumed to achieve that result (as effort indicators) (Vâlceanu et al., 2005, p. 432). In the overall framework of economic and financial indicators, profitability rates rank among the most synthetic indicators of enterprise activity efficiency (Gheorghiu, 2004, p. 320).

The simplest form of performance analysis involves relating the net profit obtained to the total volume of assets - economic profitability, or to the net asset value (equity) - return on equity. The economic profitability rate expresses, on one hand, the degree of remuneration of the capital employed in the entity's activity, and on the other hand, the way in which shareholders' risks are remunerated for the capital invested in the entity. In international theory and practice, the economic rate is known as ROA (Return On Assets) and is calculated both at the entity level and at the sector level (Vâlceanu et al., 2005, p. 432). ROA indicates the company's ability to generate income from its operations. It is obtained from the ratio of operating income to total investments. Therefore, the most appropriate indicator for evaluating the financial performance of an enterprise is return on assets (ROA), as it reflects the efficiency of the resources (assets) used. Obviously, the higher the net income for a certain amount of assets, the better the return.

We consider that the results of the economic profitability analysis are relevant and can be applied in the decision-making process for making spatial comparisons between entities in the respective sector, regardless of their size or form of ownership, measuring the ability of economic capital to ensure its renewal and remuneration as a factor of production, a renewal that should occur over a medium period of time. For entity managers, the results allow for an appreciation of the degree of asset allocation in the entity's activities, the efficiency with which available assets are utilized, and increasing the rate of economic profitability is an objective for managers to achieve, as only in this way can they capitalize on their capacities.

The return on equity (ROE) and return on invested capital are measures of total profitability for shareholders, while earnings per share measure each unit of investment's participation in the entity's profit over a certain management period. Although earnings per share is one of the most readily available results (if published), there are, however, some complications related to its calculation. Return on equity measures the overall profitability of the company in percentage terms for equity holders. It is derived from the ratio of net income to

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equity. In other words, ROE signals the enterprise's ability to reward the entrepreneur or shareholders who contribute risk capital to the company. (Venture capital is a financing tool generally used to support companies and promising small and medium-sized enterprises (SMEs). It has become a highly popular source for raising capital for new companies or enterprises that do not have access to capital markets, bank loans, or other credit instruments. Venture capital funds usually come from venture capital firms, whose money comes from a variety of sources, including private and public pension funds, endowment funds, foundations, corporations, and wealthy individuals, internationally. This type of capital does not necessarily take a monetary form: technical or managerial expertise, for example, can be considered as valuable intangible assets provided at the same time.) Comparing this ratio with the return on alternative investments is highly effective. "The value of return on equity must be at least equal to the profitability shareholders could obtain from alternative capital investments with the same degree of risk" (Fiori & Tiscini, 2020, p. 367). In practice, the value of the return on equity indicator provides us with information about the extent to which the enterprise creates value for shareholders, or more precisely, whether with the same level of risk, the enterprise offers a higher return than other opportunities. The return on equity (ROE) indicator does not provide a clear picture of the enterprise's performance because the low and negative value of the enterprise's equity generates distorted profitability indicators (Vieira, 2010).

From our point of view, the results of the analysis of capital profitability are relevant and can be applied in the decision-making process for evaluating the profitability status of capital at the sector level, as well as in the following situations:

- for entity managers, who assess the degree of capital allocation to shareholders in the entity's activities; the efficiency with which the entity utilizes capital in its operations; an increase in the capital profitability rate is an objective to be achieved, as only in this way can managers maintain their position and be supported by shareholders in creating future value;
- for shareholders/investors, who assess, based on its level, whether their investment is justified, i.e., the remuneration for the risks assumed for the invested capital. At the same time, shareholders decide whether they will continue to support the development of the entity by contributing new capital or by temporarily foregoing some of the due dividends.

ROI (Return On Investment) represents the profitability of investments. It is given by the ratio of operating profit to net operating capital investment. Ultimately, investment profitability is completely independent of any financial and tax considerations. Therefore, it expresses the profitability of investments made in the typical activities of the enterprise and must subsequently be divided into three components: a) remuneration of third-party loans; b) tax impact; c) profit of shareholders or members. The enterprise can compare its ROI index with that of its competitors to better understand the results of the investment profitability in its core business compared to that of other operators. If the value of the ROI indicator is considerably lower, even than the industry average, the company will need to investigate and seek the reasons for being in a crisis state.

V. CONCLUSIONS AND RECOMMENDATIONS

Evaluating company performance is an inseparable part of business management, without which it would be difficult to define the impact of business management decisions, the direction of its activity results, and the decisions that need to be made to improve outcomes. The study of specialized literature allows us to mention that achieving performance at the entity level involves, directly or indirectly, evaluating competitiveness, competitive advantage, efficiency, and effectiveness. At the same time, the assessment of goals achieved and the effectiveness of entity strategies are closely linked to consumer and shareholder satisfaction. For each objective, at least one performance indicator must be established. Consumer satisfaction constitutes an indicator of loyalty and purchase intentions. Due to this fact, their loyalty to the entity's products and services will increase, which, consequently, will lead to higher revenues.

Therefore, when selecting indicators, the perspective from which the analysis of entity performance is conducted should be taken into account. In this regard, reporting performance to shareholders involves selecting indicators relevant to investors in the capital market, while reporting to managers will encompass both financial indicators and qualitative indicators, which are equally important.

In our opinion, measuring performance from a managerial perspective constitutes a useful and necessary tool for managers, aimed at providing as comprehensive and overarching information as possible to highlight, evaluate, and improve various aspects of an entity's processes and activities, as well as affirming the extent to which the entity achieves its objectives and goals.

Any managerial decision must be based on a thorough understanding of the situation, which is not possible in the absence of a performance indicator system that informs management about the results obtained in all activities and processes of the entity. Through conducted research, the measurement of performance has been studied and substantiated according to some groups interested in the success or failure of a business. In order to obtain relevant data regarding performance, it is necessary to select and justify the indicators from the perspective of performance within each entity and to analyze them to determine the level of performance of the entity.

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