

Measuring The Performance of An Enterprise's Management Team

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Abstract

The question we are answering is: How do we evaluate the performance of an enterprise's leadership. There are two perspectives of evaluation and the criteria are diverse: What is the potential of management? What are management's results? Sometimes the answers intersect sometimes not. In this paper, we are proposing some benchmarks for evaluating the achievements of business management.

Key words: performance, management, leadership, criteria, evaluation

J.E.L. classification: M12

1. Introduction

Following a European-level research, Gates and Kulik highlighted the fact that three-quarters of the businesses surveyed changed their performance measurement system over the past three years and expect to continue to change them in the future. A study by the American Institute of Public Certified Accountants has highlighted the factors that cause businesses to consider reviewing the performance measurement system: lower profitability, strategy changes, shareholder growth, redesign of business processes, new technologies, new competitors, attracting/retaining employees (CIMA, 2002).

There is no doubt that recent changes require new performance measurement systems, especially if we take into account the fact that the traditional accounting system is becoming more and more outdated managing to enhance less and less the reality (looks only to the past and fails to predict future performance, the accounting system does not take into account intangible values that can account for most of the enterprise's market value, profit-only focused as the only performance indicator determines a tendency towards short-term orientation, performance determinations are unknown).

In this paper we aim to propose a new system of indicators for the performance management of an enterprise in terms of results that try to capture a better image of performance

2. Theoretical background

In literature, classifications of evaluation methods for management/leader performance assessment are various (Nicolescu, 2004; Novac, 2002; Pitariu 1994; Dunnette, 1976; McCormick *et al*, 1979). From our point of view, management performance assessment can be done from two perspectives, the one of potential (Bailesteanu *et al*, 2008) and the one of the results.

Regarding the specific criteria, in practice and theory, there are many evaluation criteria. To illustrate, in terms of human resources management, the performance evaluation criteria targets not only the results obtained in a past period but also the future potential of human resources. As such, setting performance benchmarks implies identifying those psycho-socio-professional characteristics of people that are relevant to achieving future outcomes and which ensure that the necessary tasks, competencies and responsibilities can be exercised. Specialized literature abounds in listing general principles or statements that are perceived as performance criteria. For example, in the opinion of "New Millenium Journal", the third-millennium manager's portrait, the successful manager, is characterized by (Verboncu, 2005, p.79): being able, through one action, to achieve

more goals; plan a few steps ahead; being able to anticipate every step of competition; to carry out the "battles" that he/she knows will win and to avoid those without success; try to make the most profitable alliances; be patient, make the most of his/her time; act exactly when the situation demands it; to know exactly what is to be gained and lost and to retain only the essence of unsuccessful experiences; not to bluff in critical situations; seek and exploit weaknesses, mistakes and omissions of competition; use speed and surprise elements as an advantage; spare resources and to use them only when necessary; to form alliances with rivals of its competition; to permanently monitor the activity in its field of activity; ensure that each member of his/hers team know their role perfectly and that they all have the conditions to succeed; to be in a permanent offensive.

However, in evaluating performance, such criteria are difficult to use (Siewert, 1991), being far from being benchmarks or rigorous tools for objective, multicriteria and comprehensive performance assessment.

In the legislation, we find some indicators of results such as (GR, 1994): profit rate, debt recovery period, inventory rotation, labor productivity, etc. and performance standards such as (GR, 1998): the quantity or volume of works expressed in units of measure specific to operations or activities carried out in a role; the quality, respectively the completeness and the correctness of the solutions presented in the job specific job; the cost and the employee's interest in limiting the operating costs of the institution (the ratio between the business volume and cost involved is relevant in this case); time, representing the execution time of the activities, especially for those activities for which no standard time can be established; the use of resources, the ability of the employee to use efficiently the resources made available to him/her through the specific activities of the job; the way to achieve the objectives, the ability of the employee to integrate into the team to which he/she belongs, how to make available his/her knowledge and experience to the team. Standards reflect the desired level of performance and highlight the extent to which the objectives, tasks and responsibilities assigned to the specific role holder have been met.

Also, various models of enterprise performance assessment are proposed that indirectly reflect management performance. They have diverse, financial, intellectual capital, etc. orientation. To list a few: MVA (Stewart, 1999), Balanced Scorecard (Kaplan *et al*, 1992), Six Sigma (Gupta, 2004), Intangible Assets Monitor (Sveiby, 2001).

3. Criteria to evaluate the performance of management team

Based on the specialized literature and own experience regarding the performance of top leaders in their business sectors, to evaluate the performance of the management team, we propose several criteria:

- growth rates:
 - turnover;
 - profit;
 - earnings per share;
 - dividend per share growth rate;
- business structure:
 - structure by customer type;
 - structure by product type;
 - structure by geography;
- asset management rates:
 - total asset rotation rate;
 - fixed asset rotation rate;
 - receivables rotation rate;
 - stocks rotation rate;
- credit management rates:
 - dept rate;
 - interest rate coverage;
 - coverage of fixed costs;

- profitability and rentability rates:
 - profit margin rate;
 - return on equity ratio;
- market valuation rates:
 - PER;
 - market value vs. book value.

Interpretation of indicators can be done according to the previous trends, or industry average, max or min.

Table no. 1 Interpretation - compared with the industry average

No.	Criteria	ENTERPRISE VALUE	Industry value	Performance		
				low	avg	high
1	Growth rates	...	...	...	...	...
2	Business structure	...	...	...	...	...
3	Asset management rates	...	...	...	...	...
4	Credit management rates	...	...	...	...	...
5	Profitability and rentability rates	...	...	...	...	...
6	Market valuation rates					

Source: Own contribution

Table no. 2 Interpretation - Temporal comparison

No.	Criteria	Performance\results		
		low	avg	high
1.	Growth rates			
1.1.	turnover	$r_{\uparrow CA} < 90\%$	$100 < r_{\uparrow CA} \leq 105\%$	$r_{\uparrow CA} > 105\%$
1.2.	profit	$r_{\uparrow p} < 100\%$	$100 < r_{\uparrow p} \leq 105\%$	$r_{\uparrow p} > 105\%$
1.3.	earnings per share	$r_{\uparrow p/a} < 100\%$	$100 < r_{\uparrow p/a} \leq 105\%$	$r_{\uparrow p/a} > 105\%$
1.4.	dividend per share growth rate	$r_{\uparrow d/a} < 100\%$	$100 < r_{\uparrow d/a} \leq 105\%$	$r_{\uparrow d/a} > 105\%$
2.	Business structure			
2.1.	structure by customer type	$I_{HH_1} < I_{HH_0}$ and $I_{HH_1} \in 0; 1000$	$I_{HH_1} \approx I_{HH_0}$ and $I_{HH_1} \in 1000; 1800$	$I_{HH_1} > I_{HH_0}$ and $I_{HH_1} \in 1800; 10000$
2.2.	structure by product type			
2.3.	structure by geography			
3.	Asset management rates			
3.1.	total asset rotation rate	$r_{AT_1} < r_{AT_0}$	$r_{AT_1} = r_{AT_0}$	$r_{AT_1} > r_{AT_0}$
3.2.	fixed asset rotation rate	$r_{AF_1} < r_{AF_0}$	$r_{AF_1} = r_{AF_0}$	$r_{AF_1} > r_{AF_0}$
3.3.	receivables rotation rate	$dz_{cl_1} > dz_{cl_0}$ and $dz_{cl_1} > 60$ days	$dz_{cl_1} = dz_{cl_0}$ and $dz_{cl_1} < 60$ days	$dz_{cl_1} < dz_{cl_0}$ and $dz_{cl_1} \leq 45$ days
3.4.	stocks rotation rate	$dz_{st_1} < dz_{st_0}$ and $dz_{st_1} > dz_{st_{ind}}$	$dz_{st_1} = dz_{st_0}$ and $dz_{st_1} = dz_{st_{ind}}$	$dz_{st_1} > dz_{st_0}$ and $dz_{st_1} < dz_{st_{ind}}$
4.	Credit management rates			
4.1.	dept rate	$r_{i_1} > r_{i_0}$ and $r_{i_1} > 66\%$	$r_{i_1} = r_{i_0}$ and $45\% < r_{i_1} < 66\%$	$r_{i_1} > r_{i_0}$ and $r_{i_1} < 45\%$
4.2.	interest rate coverage	$r_{ad_1} < r_{ad_0}$ and $r_{ad_1} < 20$	$r_{ad_1} = r_{ad_0}$ and $r_{ad_1} < 20$	$r_{ad_1} > r_{ad_0}$ and $r_{ad_1} < 10$
4.3.	coverage of fixed costs	$r_{c_f/r_{ad_1}} < r_{c_f/r_{ad_0}}$ $\S i$ $r_{c_f/r_{ad_1}} < 20$	$r_{c_f/r_{ad_1}} = r_{c_f/r_{ad_0}}$ $\S i$ $r_{c_f/r_{ad_1}} < 20$	$r_{c_f/r_{ad_1}} > r_{c_f/r_{ad_0}}$ $\S i$ $r_{c_f/r_{ad_1}} < 10$

5.	Profitability and rentability rates			
5.1.	profit margin rate	$r_{mp_1} < r_{mp_o}$ and $r_{mp_1} \approx 1\%$	$r_{mp_1} = r_{mp_o}$ and $r_{mp_1} \approx 10\%$	$r_{mp_1} > r_{mp_o}$ and $r_{mp_1} > 10\%$
5.2.	return on equity ratio	r_{pn/cp_1} < r_{pn/cp_o} and $r_{pn/cp_1} < 10\%$	r_{pn/cp_1} $\approx r_{pn/cp_o}$ and $r_{pn/cp_1} \approx 10\%$	r_{pn/cp_1} > r_{pn/cp_o} and $r_{pn/cp_1} > 10\%$
6.	Market valuation rates			
6.1.	PER	conjuncture	conjuncture	conjuncture
6.2.	market value vs. book value	$V_p / V_c \leq 1$	$1 < V_p / V_c \leq 1,5$	$V_p / V_c > 2$

Source: Own contribution

4. Conclusions

The proposed indicator system attempts to provide clear, measurable criteria for assessing the performance of an enterprise's management team in terms of results. It has the advantage of not being too large (lots of indicators) or too summative (an indicator) and attempting to provide a global picture of the performance of an enterprise's management team, more precisely in terms of the degree to which the objectives are met (growth, strategy, efficiency, risk etc.). The limits of the proposed model consist in the subjectivity of choosing these criteria, based only on the studied literature and interviews with the leaders of several enterprises.

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