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THE RELATION BETWEEN MANAGERIAL PERFORMANCE AND FIRM PERFORMANCE – SEVERAL CONSIDERATIONS

Abstract: *Managerial performance and firm performance are two concepts in a strong correlation. The more managerial performance is higher with both shareholders are pleased because managers leading firms such manner that they are able to increase their performance (financial, social and environmental). Achieving or maintaining a certain level of performance by the firms is possible in conditions which leaders performs in the management. Furthermore, managerial performance has a tremendous impact on firm performance.*

Keywords: *managerial performance, firm performance, performance managers, firm performance model*

JEL Classification*: M00, M21*

The lasted decades marked new directions in terms of thinking, concepts and management tools and require reconsideration of the firm efficiency criteria by outlining comprehensive strategies to ensure performance, building on the idea that performance it is not a state of fact of the company, it is a continues search.

Diversity of understanding the concept of ***performance*** demonstrates that it is defined differently by stakeholders according to their interests. Certainly managers are geared to overall company performance: investors / shareholders perceive performance in terms of return, expected rates, dividends received; employees are interested in individual and company performance;, creditors are interested by the solvency of firm; customers for stability (Stefanescu, 2005).

It has often been argued that managers of a firm may make decisions that conflict with the firm's goal to maximize shareholder wealth. When a firm has only one owner who is also the sole manager, such a conflict of goals does not occur. However, when a firm's shareholders differ from its managers, a conflict of goals can exist. This conflict is often referred to as the agency problem (Mandura and Fox, 2007).

Agency theory argues that management should be held accountable for their ***firm's performance*** and they should be replaced if performance is poor. A change of the board chairman is associated with poor firm performance (Firth, Fung and Rui, 2009).

Every stakeholder wants to earn a greater return on his investment. Every manager wants his group to perform more effectively. Every employee wants to know where he stands, to know how his performance "shapes up" (Sloma, 2000).

In this context, Michael Beer (2009) believes that *performance managers* are characterized by the following attributes:

Engage their organization in a learning process and connect authentically with people;

Have the will to change and transform the organization with a clear vision of what must be done;

Solicit and accept feedback on the barriers to change and to get a sense of the character of the organization as a whole.

All these attribute are taking into consideration by managers, according to Brown, Robinson and Caylor (2007), because they believe that a good corporate governance is associated with good firm performance.

On the other hand, Fred Nicklos (2008) believes that managers are responsible for obtaining and maintaining results. To achieve the results of interest, managers take action, they do things intended to obtain and maintain the results for which they are responsible.

The same author proposes a *model of managerial performance* – the *GAP – ACT* model (Goals, Actions, Perceptions, Circumstances, Targeted variables).

We will present this model of performance management with specific elements.

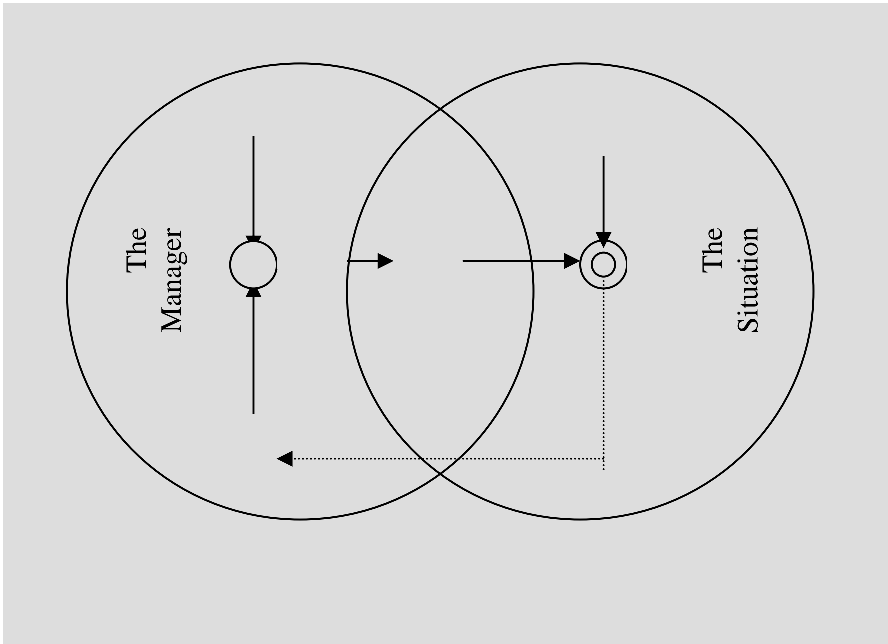

Fig.1. The Elements of Managerial Performance **(Nicklos, 2008)**

From the figure above we can deduce that if goals (G) and managers perceptions (P) are convergent they will act (A) as such to achieve the target variables (T) under certain circumstances (C) induced from the external environment of business.

If goals and perceptions are different creates a distance (d) until the managers will act towards the target variables. The closer are goals to the perceptions with both will act quickly, and performance management will be higher.

In other words, managers will seek to control variables by defining the target having like benchmark own perceptions.

Managers will continually compare their own perceptions about the target variables with own goals for these variables. If there are discrepancies it is necessary to act, but if not, no need for a complex action.

Management actions are best viewed as interventions (i) in the organization performance architecture. Managers change certain aspects of this architecture – financial, operational, behavioral, or a combination of the three – in order to bring together perceptions and goals.

But there are other factors that affect the target variables that managers try to control. And these circumstances require management action.

The approach of *firm performance* is a complex one because are many factors and variables that affect it, with less impact or more, but through their concerted and convergent action leading to desired results.

According to Beer (2009) *high performance firms* are able to show sustained performance because they achieve the following three paradoxical goals:

Performance alignment. Managing with their head, leaders develop an organizational design, business processes, goals, and measures, and capabilities that are aligned with a focused, winning strategy.

Psychological alignment. Managing with their head, leaders create a firm that provides employees at all levels with a sense of higher purpose, meaning challenging work, and the capacity to make a difference, something that people desperately need and want but often do not get in organizational life.

Capacity for learning and change. By keeping their egos in check, leaders of high performance firms are able to avoid defensiveness and resulting blindness.

Maintaining or achieving a certain level of *performance by the firms* that will survive the current financial and economic context must meet a set of four questions, which generally remain the same, but organizations need continually to find new answers to them.

According to Thorne, R., Hollowaz, J., (2008) the four questions are:

What factors does an organization see as crucial to its continued success, and how does it measure and monitor its performance in each of these areas?

What level of performance does the organization wish to achieve in each of these areas, and how does it go about setting appropriate performance targets?

What rewards (both monetary and non-monetary) will managers gain by achieving these performance targets (or conversely, what penalties will they suffer by failing to achieve them)?

What information flows are necessary for the organizations, to learn from its past experiences and to adapt its behaviour in the light of those experiences?

The first question is focused on performance measurement, not only in financial terms but also in operational terms. It is closely related to the strategies formulation and deployment, and also to the practice of business process management and operations management.

The second question is a traditional one but very important, reflecting the need to use management practices and benchmarking.

The third question tends to be overlooked by those who view performance measurement as an important part of human resource management. However, the interconnection between the two areas must be recognized to avoid many short-term counterproductive example guided by financial incentives, as seen in practice.

The final question emphasizes the relationship that must exist between issues such as the "learning organization", staff skills and emergent strategies.

For demonstrated the link between *managerial performance* of CEO and *firm performance* we present a study made by Muravyev, Bilyk and Grechaniuk (2009). We only want to present a possible model to demonstrate this link.

The outcome in their analysis can be represented by a dichotomous variable which equals to one in case of CEO dismissal between two adjacent years and zero otherwise. Because of the

binary outcome variable, they use the logic model to estimate the following CEO turnover equation:

$$Cit = \Lambda\,(\alpha + \beta * Performancet\text{-}1 + X\,it\text{-}1\gamma)$$

Where,

i indexes firms,

t corresponds to period,

Cit is a dummy variable for a change in CEO between years *t-1* and *t*,

Performancet-1 is a measure of firm performance in period *t-1*; the indicators of firm performance are ROA, ROS and labor productivity

Xit-1 is a vector of control variables that characterize firms and their managers, and

Λ is the cumulative density function of the logistic distribution.

The parameter of interest is *β*, which we expect to be negative.

Another author, Bob Frost (2008), goes further and proposes a *model of firm performance*. He assumes that *leaders are examined and judged by the performance of organizations they lead*.

Firm performance is given by the ability of managers to build an organization capable of sustained high performance and organization must excel from year to year. In this context, Peter Druker said that "*performance is the ultimate test of an organization*".

The *ability of an organization to perform* is influenced both by factors that can not be controlled, derived from the external environment, but also factors that can be controlled, including: *clear directions* for action, *effective execution*, and *efficient operations*. Any organization that based on the three factors is capable to achieve high performance and sustainable results from year to year. An organization without any of the three factors will tackle the long term.

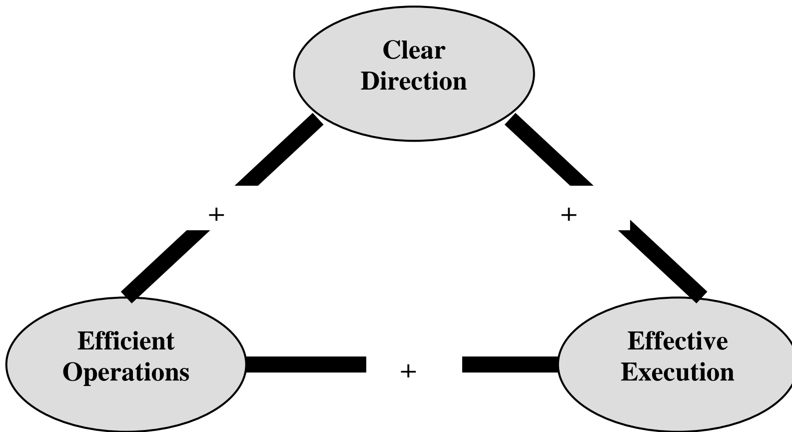

Fig.2. Firm Performance Model **(Frost, 2008)**

As we can see, in the literature exists a number of approaches and models of *managerial performance* in correlation with *firm performance*. Managerial performance and characteristics differ from one country to another, from one firm to another, down to the differences between the woman manager and man manager, as a criterion to identify the various methods of performance evaluation (Dafna, 2008).

In conclusion, between *managerial performance and firm performance* is a very strong connection. In order to increase managerial performance leaders dives their firm in correlation with shareholders, employees, creditors, and costumers goals. Achieve these goals shaping the premises for firm performance. Finally, we can say that the two concepts, *managerial performance* and *firm performance*, acts as an open system in which one is the input for other.

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