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ORGANIZATIONAL FINANCIAL DIAGNOSIS IN IMPROVING FIRM PERFORMANCE

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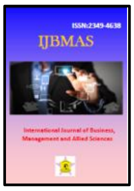

ABSTRACT

Organisational performance deserves diagnosis, Particularly financial. So diagnosis, in general and financial Particularly is to be done.

KEYWORDS: Organizational diagnosis, organizational development, organizational performance, performance measurement, performance measurement indicators, performance measurement systems

INTRODUCTION

The first condition necessary to improve and achieve business excellence is developing and implementing a system for measuring organizational performance. Therefore, any organization, whether it's a large multinational corporation or a small business must implement a system to measure performance because both the success and continuity of an organization depend on its performance. Performance measurement is necessary because it gives organizations the ability to determine whether objectives have been achieved, to assess their performance and develop future initiatives to improve their performance. Performance measurement and hence organizational performance has become a topic of growing interest both among academics and among practitioners especially since late 1980.

OBJECTIVES

The fey factors considered to have an impact on the performance of an organization are: customers (customer orientation), personnel quality and innovation Butler, D. (2006).

The model, which is the subject of this research, can be divided into three dimensions:

- External environment reflected by the following variables: competition, customers and suppliers;
- Internal environment reflected by the following variables: strategy, leadership, employees, quality, performance measurement, innovation and development and information technology; organizational performance reflected based on their results.

DISCUSSIONS

ORGANIZATION AND ORGANIZATIONAL DEVELOPMENT

Such a strategy is organizational diagnosis, the assessment of the current situation of an organization in order to identify the most appropriate interventions for development. The vast majority of managers or consultants use in conducting organizational diagnosis certain models to identify organizational traits used to achieve organizational diagnosis to identify certain traits organizational models that have proved essential in the past. A proper assessment of performance should be based on tools such as questionnaires, interviews, organizational diagnostic models, etc. Butler, D. (2006). organizational diagnosis process is influenced by three basic questions: What is diagnosed by the practitioner? For what purpose? and Using that system? Organizational diagnosis has two essential purposes. One is evaluating organizational failures and the second is the evaluation of the wellness of an organization.

ORGANIZATION'S RESULTS?

1. Force Field Analysis
2. The Leavitt's Model
3. Weisbord's Six Box Model
4. Galbraith's STAR Model
5. Nadler and Tushman's Congruence Model
6. McKinsey's 7S model
7. The "four quadrants" of Bolman and Deal
8. Burke-Litwin Model.
9. Freedman's SWAMP Model

These models have both common and distinctive features. The most obvious features of these are:

1. The vast majority of the organizational diagnostic models presented are based on open systems theory, therefore the external environment is presented as a separate category that influence the way organizations operate in five of the nine models.
2. Most models illustrated a number of variables that are in a relationship of interdependence. The most obvious example of this "cause and effect" relationship is the Burke-Litwin Model. Models which do not express an interdependent relationship are: Weisberg's Six Box Model and Bolman's four quadrants.
3. The model with the fewest variables is the Leavitt's Model which includes 4 variables and the model with the most variables is Burke-Litwin Model containing 12 variables. The remaining models indicate about 5-6 variables.
4. The key variables in these models can be divided into two categories: those defined in general terms such as Force Field Analysis and those based on well-defined theoretical foundations such as the Congruence Model. These models have a number of common variables, but with different importance indifferent models.
5. A singe model of organizational diagnosis includes performance as a separate variable (eg Burke-Litwin model).

Thus, organizational diagnosis highlights the risk of inaction giving aid to managers in identifying the most appropriate actions to respond to turbulent business environment. According to the authors Carton, R. şi Hofer, C. (2006). another risky situation is, as the external conditions worsen, managers act without carefully considering the effects of their decisions. These non-systematic actions have a low rate of success and may also result in a decreased recovery capacity of the organization. Thus, imitation of practices considered "hip" that provide quick resolution of fundamental issues may be an unnecessary waste of time and resources. Thus, in terms of financial accounting, in Clarke, D. şi Crosland, J. (1985). performance measurement systems have three different roles in an organization:

1. First, they provide a tool of financial management;
2. Second, they provide financial information on the overall performance of the organization, outlining its financial results;
3. Third, they are the means of motivation and control.

According to its financial performance is the main objective determination of performance measurement. From marketing perspective, Clarke, D. şiCrossland, J. (1985). believes that measuring performance means both quantifying and assessing the level of customer satisfaction and comparing the organization with other organizations starting from different market criteria. From a management perspective, believes that measuring performance is a necessary tool to highlight the extent to which organizational objectives were achieved and to provide information necessary to improve various processes and activities within the organization.

To regain the competitive advantage organizations have started implementing a number of new technologies and philosophies of production management: TQM (Total Quality Management), JIT(Just in Time), OPT (Optimized Production Technology). Implementation of these changes has revealed the shortcomings of traditional performance measures. Thus, they are inflexible, meaning that they have a predetermined format which is used in all departments even though the departments within the organization have their own characteristics thus the indicators used by a department are not necessarily relevant to other department.

High cost because it requires a large amount of information Thus, the period after 1990s, on performance measurement, is characterized by awareness regarding the need to update and improve organizational performance measurement models. were among the first who have realized this need to update for in order for performance measurement to remain relevant. Their opinion was shared by who think that the performance measurement system must be dynamic so that performance measures remain relevant and reflect continuously the most important aspects of their business. In recent years we observed an increase in organizations' expectation regarding the performance of these systems. Ciobanu, A. (2006*).*

The importance of performance measurement results from its five key attributes

- monitoring: measuring actual performance;
- control: identify and attempt to reduce the difference between the planned and actual performance;
- improvement: identifying opportunities for improving the current situation;
- coordination: providing information for decision making and facilitating internal
- and external communication;

motivation: encourage continuous improvement of workplace behavior have identified, based on a study, the following difficulties encountered in general by companies in the process of performance measurement:

(1) Linking performance indicators to strategies, business objectives and budget. One of the most significant challenges of performance measurement process is to focus the organization on critical indicators and generate the desired behavior at each organizational level. In general, organizations consider to be very difficult to correlate the performance indicators with the budget goals and strategies. Failure to achieve results result in the usefulness of the performance measurement system. While achieving these correlations is considered critical according to the survey conducted by APCQ (2004) more than 40% of the analysed companies have this ability

(2) Identifying the categories of indicators considered critical in determining the situation of a given company. In many cases, because of the lack of time or insufficient information, organizations are content to use general indicators. Each organization must identify its own set of indicators that best reflect the vision, mission, values and objectives.

(3) Ensuring a balance between financial indicators, non-financial, those that regard the past and those that regard the future. Usually managers are tempted to assess the organization in terms of financial results.

In conclusion, we assert that effective performance measurement process plays inessential role. Theoretically, any performance measurement indicator can be used as atoll to control it. However, no matter how good an indicator is that it will lose its attributes if it is not used effectively to implement actions to improve performance. A performance indicator is a variable that can be expressed both quantitatively and qualitatively. a measure of performance is a variable used to quantify the efficiency and effectiveness of actions. This definition is further developed by which includes a qualitative element because different stakeholders value differently the same result which be quantified. Performance indicators capture the characteristics and results in qualitative or quantitative form.

A performance indicator must be based on a data set or a documented process and be fully understood to convert data in indicators. To interpret an indicator it is necessary to compare it with a predetermined goal. The objectives must be clearly established for each performance indicator and must be a challenge for employees to achieve higher levels of performance Cummings, T. (2004).

These performance measurement systems have several advantages compared with traditional ones Cummings, T. (2004) are based on organization strategy, unlike traditional measures which based on

- outdated accounting systems; are simple, accurate and easy to use, unlike traditional measures that are often
- difficult to use; do not have a fixed format (depends on needs) as opposed to traditional measures
- ones that have a fixed format; the main purpose is to improve performance unlike traditional measures whose
- principal purpose is to assess performance; they change over time if necessary unlike traditional measures which not change
- over time; they support continuous improvement unlike traditional measures which prevent continuous improvement.

METHODOLOGY

The key elements of the model are:

1. Structural issues relating to firm size (employment), age (years), and purpose.
2. Dimensions (variables) used to evaluate the sampled firms. These dimensions fall into two categories:

– External environment reflected by the following variables: competition,
customers and suppliers.

– Internal environment reflected by the following variables: strategy, leadership, employees, quality, performance measurement, innovation and development and information technology.

3. Organizational performance reflected through their results.

The objectives of this model of organizational diagnosis are:

- The analysis of the sampled firms using the model variables.
- Dividing organizations, based on survey results in two categories: successful organizations and unsuccessful organizations.
- Analyse attributes of both types of organizations.
- Testing a number of 4 empirical assumptions about how organizations measure performance:

Hypothesis 1: *Organizations focused on differentiation strategies use in the performance measurement process in a bigger proportion no financial indicators compared to organizations focused on cost strategies.*

Hypothesis 2: *The frequency of use of non-financial indicators in the performance measurement process is directly proportional to the size of theorganization.*25

Hypothesis 3: *The biggest the degree of utilization of information technology the*
more important are the non-financial indicators in the performance measurement process.

Hypothesis 4: *Firms operating in a business environment characterized by an increased level of uncertainty use more frequently non-financial indicators compared to firms that have to operate in a lower level of uncertainty.*

CONCLUSIONS

THE MAIN CONTRIBUTIONS OF THE STUDY

The main contributions to the field through our research fall into three categories:

1. Theoretical contributions embodied in enriching literature in this area by: clarification of the concept of organizational development, presenting its evolution over time and highlight its role in the process of organizational diagnosis; clarification of the concepts of performance and performance measurement by highlighting both the key performance indicators identified in academic literature and in practice, and the main performance measurement systems; presentation of the chronological evolution of the performance measurement process by illustrating the main stages identified over time; presentation and comparative analysis of the key organizational diagnostic models that were found both in literature and in practice; highlighting the role of an organizational diagnosis today. Daft, R. (2000).
2. Empirical contributions through the empirical study based on a model of diagnosis and performance. The results of this study allow: the identification of the main aspects concerning the practices of companies surveyed that are crucial for improving their performance; a classification of organizations, based on survey results in two categories successful and less successful organizations; an identification and analysis of performance attributes that distinguish successful from the least successful firms; the identification of a relationship between practices and performance of these firms; other identification of those factors that influence the performance measurement process; other identification of a relationship between the frequency of use of performance indicators and the success of organizations.
3. contributions for the Romanian business environment: of The results of this research can be used to identify strategies and guidelines that can help to improve performance especially for those companies located in the last 30 percent of the ranking, according to the indices that reflect the practices and the results registered by the sampled firms companies focused on differentiation strategy tend to use more often non financial indicators compared with firms oriented toward cost strategies.Information technology has also proved to have a significant impact on the process of performance measurement, demonstrating the existence of a positive relationship between the degree of the use of information technology and the importance of non financial indicators in the performance measurement process.

The relationship between the degree of perceived uncertainty and the importance of financial indicators we identified the following:

- Firms that perceive a high level of uncertainty regarding demand, the behavior of competitors and government regulations tend to make greater use of non financial indicators compared to firms that perceive a low level of uncertainty regarding the issues listed.
- Firms that perceive a high level of uncertainty regarding the price of raw materials, production technology, availability of raw materials, trade union actions tend to use to a greater extent only those no financial indicators included in the market variable (market share, customer satisfaction, customer loyalty, employee satisfaction, labour productivity, delivery time of orders, order processing time, number of days of delay, scrap rate, the rate of returned products, the number of markets we serve, developing new products, compliance with the environment).Emilia, R. (2003).

We believe that this study is an essential contribution to the organizational performance literature because it allows a better understanding of the performance measurement process and the factors explaining the use and no financial indicators and the balance between the two categories.

CONCLUSIONS REGARDING THE PERFORMANCE MEASUREMENT PROCESS

Companies that seek to compete with industry leaders have to review and improve how they measure performance. Therefore, another objective of our study was to conduct deeper analysis of the process of performance measurement in manufacturing Romanian firms by identifying the factors that influence its progress and also by identifying its influence on the performance of firms. Deming, W. (1986). The results show the following:

– The performance measurement process is influenced by firm size: as the firm size increases, no financial indicators are becoming more important in the process of performance measurement.

– Firms oriented toward a strategy of differentiation use to a bigger extent no financial indicators compared to firms oriented toward a cost strategy.

– The performance measurement process is also influenced by the degree of utilization of information technology: the greater the degree of information technology utilization, the most important the no financial indicators in the performance measurement process.

– Business uncertainty has an impact on how companies measure their performance: firms that face a high level of uncertainty tend to use to a scale non financial indicators compared to firms operating in a less uncertain business environment. To identify the relationship between performance measurement process and the results of the companies surveyed we used canonical correlation analysis that allows the identification of the relationship between two sets of variables. The results show a strong relationship between the three performance variables (total, financial and no financial)and the frequency of use of no financial indicators in the performance measurement process. These results underline the need to improve the performance measurement process for those companies that wish to increase their market success. These results have increased value because in this study only 55% of all companies surveyed and 18% of companies ranked in the last 30 percent considered a priority the improvement of the performance measurement process. Thus, our study shows a significant positive relationship between process of performance measurement and the financial and no financial results registered by the analyzed firms. The frequency of use of performance indicators has an impact on performance. The results indicate a strong relationship between the measurement frequency of all nonfinancial indicators and the indicators of profitability and overall performance and financial performance.

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