



## VIEWS OF CEOs ON FIRM PERFORMANCE

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### Abstract

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*Researching the managerial perspective of performance can contribute to a better understanding of firm performance, and offer a valuable contribution to research on objective performance measurement. The aim of this article is to examine how managers evaluate firm performance and which factors, in their opinion, have the biggest influence on performance. We particularly wanted to investigate the influence of top management and owners on firm performance.*

*We conducted a qualitative study among the CEOs of some of the most successful Slovenian firms. The results show that CEOs connect positive performance with long-term growth and satisfying the needs of key stakeholders (employees, customers and owners), but short-term positive financial performance represents the basic foundation. The second most important factor is a united top management, capable of generating new ideas and acting as a role model to employees. This can lead to a higher degree of engagement by employees and a better understanding of the firm's goals. Owners can contribute to a positive firm performance with their active, strategic and long-term orientation, and with their ability to set clear goals and to trust top management in the long run. Another important factor that influences firm performance is the ownership structure. In the opinion of CEOs, dominant and private ownership has a more positive impact on firm performance than dispersed and state ownership.*

*The present research findings provide several examples of good and bad practice, and highlight opportunities for further research, from an in-depth study of individual factors of firm performance to the search for a more comprehensive model of performance factors, based on a larger sample of CEOs and other managers.*

**Keywords:** *firm performance, performance factors, CEOs, owners, Slovenia, successful firms*

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### 1. INTRODUCTION

Managers play a key role in influencing firm strategies and performance (Gerbing, Hamilton & Freeman, 1994). Considering this, understanding their perceptions of the business environment is equally as important, if not more so, as business environment analysis (Hutzschenreuter & Kliendienst, 2006), and can provide us with more accurate information on the strategic orientation of a firm. This hypothesis is supported by a large amount of research in the field of managerial cognition (Arzenšek, 2011).

Researchers argue that the main problem associated with managerial perception is strategic myopia. Strategic myopia refers to a limited respon-

siveness to changes outside the manager's predominant mental model (Day & Nedungadi, 1994). It is often the key reason for business failure of a firm (Lane & Klenke, 2004). This provides yet another reason why managerial perception and managerial mental models require more systematic study; in particular from the perspective of performance and the factors driving managerial opinions and views.

We believe that there are three aspects of managerial perception of firm performance that require investigation. Firstly, it is necessary to study their explicit perception of performance, i.e. to understand when they think a firm is successful. Secondly, it is important to investigate the influence of firm performance factors that are considered key by managers. And thirdly, there is a need for a more detailed inves-

tigation into the influence of owners on firm performance. Considering that the main criterion for choosing managers for our study was the financial performance of the firm, we expect that a number of the findings will serve as examples of good practice.

The factors that influence firm performance are well-researched, both generally (e.g. Lumpkin & Dess, 1996; Voss & Voss, 2000; Chow, 2006) and individually. General concepts are undoubtedly important for researching a wider perspective of performance factors; however, we are more interested in research that focuses on the influence of top management and owners on firm performance. Existing foreign (e.g. Gerbing et al., 1994) and national studies (e.g. Bogataj, 2006; Bužinel, 2007; Hrovat, 2008) have found a positive correlation between top management performance (leadership competences) and firm performance. In addition, the findings of studies investigating the influence of ownership structure on firm performance both outside Slovenia (e.g. Nellis, 1999; Megginson & Netter, 2001) and in Slovenia (e.g. Simoneti et al., 1998; Prašnikar & Gregorič, 1999; Prašnikar & Svejnar, 2000; Hrovatin & Uršič, 2002) indicate that owners assert a very important influence on firm performance.

The aforementioned research has focused mainly on objective performance measurements, thereby neglecting the subjective perception of performance as provided by managers, particularly CEOs (presidents of management boards and directors-general). As far as the Slovenian research in this field is concerned, there is a lack of a comprehensive overview of factors that influence firm performance, as well as an in-depth analysis of opinions and views behind individual factors of performance. In addition, we aim to fill a gap in the methodology, as existing research into firm performance has not comprised only top management respondents; top management respondents have only represented a proportion of previous samples. We believe that a precisely selected sample of CEOs, i.e. excluding (other) members of management boards, and members of middle and lower management, can provide an important added value to our research.

This paper investigates the influence of top management, owners and other factors on firm performance, as perceived by CEOs. We aim to deter-

mine and describe the CEO's perception of firm performance; which factors they believe influence firm performance the most; and how top management and owners influence firm performance. Particular attention is paid to revealing the reasons behind individual opinions and views, and factors driving them. The general aim of the research is to contribute to a more comprehensive and in-depth understanding of the managerial perception of performance. We expect that the answers provided by the CEOs will serve as examples of good practice for other firms and managers that did not participate in the study. For this reason, we strive to avoid making generalizations from our findings and thus present our results in the managers' language.

## **2. LITERATURE REVIEW**

### **2.1 Construct of firm performance**

Firm performance is a multidimensional construct, studied by different schools. Despite many theoretical and empirical studies, the definition of performance often remains unclear (Marc et al., 2010). In general, it is associated with the measurement of the performance and efficiency of business activity and decision-making in a firm (Waggoner, Neely & Ketmerley, 1999). Measuring performance is "a process that helps firms with formulating, implementing and changing their strategy, with the intention of satisfying the needs of their stakeholders" (Verweire & Van den Berghe, 2004: 7). Performance is also linked to setting objectives, developing strategies and implementing actions. Business processes and activities must be coordinated with the firm strategy and focused on those critical activities that lead to competitive advantages and the long-term growth of the firm (Marc et al., 2010).

Models of performance measurement can be divided into financial and non-financial (Marc et al., 2010) or into financial and marketing models (Venkatraman & Ramanujam, 1986). The financial models are linked with sales growth, return on assets, profitability, cash flow and other financial performance measures, while the marketing models are linked with market position, market share, product quality and customer loyalty (Venkatraman & Ramanujam, 1986; Coates, Davis & Stacey, 1995).

Traditionally, managerial performance measurement has focused mainly on financial performance (Anthony & Govindarajan, 2001; Berry, Broadbent & Otley, 2005; Marc et al., 2010). In the 1980s, several researchers criticized financial performance measures in terms of e.g. their one-sided perspective, lack of strategic focus, creative limitation, neglect of customers and competitors, and the time-delay accompanying financial performance measures that consequently fail to provide timely and relevant information to managers (Marc et al., 2010). As a result, the importance of non-financial performance measures became apparent. Recently, due to the integration of financial and non-financial performance measures, the balanced scorecard system has become more established (Kaplan & Norton, 2000). The system distinguishes four groups of performance measures: financial performance measures, indicators pertaining to customers, indicators pertaining to internal business processes, and indicators pertaining to learning and growth.

Also important for our study is a division of performance measures into objective (including indicators obtained from secondary sources), and subjective measures (including the subjective judgment of managerial performance). The authors report consistency between the two approaches, and recommend their simultaneous use (Venkatraman & Ramanujam, 1987; Dawes, 1999).

Research conducted by Marc et al. (2010) demonstrated that large Slovenian firms understand performance as following the firm strategy, achieving the goals of the owners and other stakeholders, increasing or maintaining the market share, and staying competitive in the market. For large Slovenian firms, the key measures of performance are financial, such as income and profit growth, liquidity, cost control etc., while non-financial measures, such as customer satisfaction, relations with suppliers, innovation orientation and organizational learning, remain neglected.

Our study aims to identify the subjective criteria used by CEOs to evaluate firm performance. Accordingly, the first research question is:

*RQ 1: What are the criteria used by CEOs when evaluating firm performance?*

## **2.2 Factors of firm performance**

In contrast with managerial perception of performance, performance factors are dealt with more explicitly and specifically. In the previous section we aimed to establish what managers consider to be good firm performance. In this section, however, the objective is to study which factors are, according to CEOs, key for firm performance. We assume that CEOs have a considerable influence on performance.

Previous research (Gerbing et al., 1994) has shown that the top management has a relatively strong influence on firm performance, mainly due to their influence on firm strategies and decision-making processes. The latter finding is supported by studies that have measured the influence of managers' strategic, market, entrepreneurial or innovative orientation on firm performance (e.g. Lumpkin & Dess, 1996).

Research in Slovenia explicitly studying the influence of managers on firm performance, has focused on a variety of aspects, including management (Bogatjaj, 2006; Bužinel, 2007; Hrovat, 2008), and presented findings displaying a positive correlation between management and firm performance.

Top management is only one of the factors that influence firm performance. From a wider perspective, firm performance is also influenced by environmental and organizational factors (Lumpkin & Dess, 1996); characteristics of the sector, the organization and the product, and the firm's strategic position (Voss & Voss, 2000); and human resources (Chow, 2006).

The second research question aims to identify the factors that CEOs consider to be the most relevant for firm performance:

*RQ 2: According to CEOs, which factors have the greatest influence on firm performance, and what is the influence of top management on firm performance?*

## **2.3 Influence of owners and ownership structure on firm performance**

Existing research has studied the connection between ownership structure and firm performance

by considering three key aspects of ownership: private and state, internal and external, and dominant and dispersed.

Private ownership is regarded as more successful than state ownership (Hrovatin & Uršič, 2002). Some of the most frequently mentioned reasons are inefficient control and lack of profit orientation of state firms (Alchian & Demsetz, 1972); factors which are also linked with the differences between the goals of top management in the two types of ownership structure (Shapiro & Willig, 1990). The goals of state firms are often linked with political decisions (Boycko et al., 1996). On the other hand, the research also highlights various problems of privately-owned firms, from higher costs to downsizing (Nellis, 1999).

Advocates of internal ownership emphasize the positive effects of employee participation in decision-making and profit sharing (Jones & Svejnar, 1982), especially concerning employee motivation, conflict resolution and the employees' identification with firm's goals (Nutti, 1988). Employee participation also helps to increase productivity, decrease absenteeism and create better conditions for learning, and all these aspects together have a positive impact on a firm's competitiveness (Estrin, Jones & Svejnar, 1987). Nonetheless, internal ownership has its weaknesses. They are mainly linked with the free-rider effect, which is a particular problem in large firms with a low level of control over decision-making (Jensen & Meckling, 1979). In addition, studies have found a low level of investment orientation and flexibility of such firms; both aspects having a negative influence on potential external investors (Aghion & Blanchard, 1998; Hrovatin & Uršič, 2002).

The weaknesses of firms with an internal ownership structure simultaneously constitute the strengths of firms with external ownership. While many studies (e.g. Barrell & Holland, 2000) show positive effects of external ownership on firm performance, a few studies in this field (Earle, Estrin & Leshchenko, 1994; Anderson, Young & Murrell, 1999) have not found a positive correlation between the two. One of the possible reasons for this, mentioned by some authors, is the phenomenon of ownership dispersion, which often has a negative impact on firm performance (Anderson et al., 1999). Researchers share the view that internal ownership

makes sense only when internal owners act as though they are external (Hrovatin & Uršič, 2002).

Empirical studies into ownership structure of Slovenian firms have demonstrated that firms with dominant and largely external ownership are more successful (Simoneti, Jašovič, Rems & Rojec, 1998; Prašnikar & Svejnar, 2000; Hrovatin & Uršič, 2002). On the other hand, firms with internal ownership can also be successful, provided that the managers act and perform as would external owners (Prašnikar & Gregorič, 1999); some researchers point to the considerable influence of the continuity of traditional management structures that took advantage of benefits accumulated in the past (Hrovatin & Uršič, 2002). Differences between Slovenian firms with internal owners and those with external owners largely became evident at the outset of privatisation, while later – as a result of structural changes in firm ownership – these differences became less marked (Hrovatin & Uršič, 2002).

In our study, we are mainly interested in the ways in which owners can contribute to a better performance of the firm, while considering the variation in different types of ownership. The third research question is thus:

*RQ 3: To what extent and in which ways do owners influence firm performance?*

### **3. METHODOLOGY**

Qualitative research was conducted as a part of the doctoral research into strategic orientation of CEOs. The research period was from 21 May 2014 until 23 July 2014. The research sample was composed of CEOs from some of the most successful firms in Slovenia, according to net profits in 2013. We sent an invitation for participation to 80 CEOs, selected from a list of the 300 most successful firms by net profit in 2013 (database AJ PES 2014), and compiled on the principle of heterogeneity, as we wanted to obtain as diverse a sample as possible in terms of type of business, firm's reputation, strength of competition, export orientation and type of ownership. The plan was to obtain 15 to 20 willing participants. We received 31 answers (39% response rate): 17 CEOs decided to participate (21% response rate),

while 14 decided not to participate (18% response rate). Those who decided not to participate stated that a lack of time or a business trip abroad influenced their decision. After prior agreement with CEOs willing to participate, in-depth interviews were conducted, lasting 54 minutes on average. The longest interview was 1 hour and 17 minutes, while the shortest was 23 minutes long. Fifteen CEOs consented to interview recording, while two refused. Transcripts were made of all recorded interviews.

By including additional criteria (other than the performance criterion) we obtained a relatively varied sample. Nine of the CEOs (presidents of management boards) manage a public limited firm, and eight CEOs (directors-general) manage a private limited company. Sixteen of the 17 respective firms are large, the remaining one is of medium size. Three participating firms have more than 1,000 employees, five firms have between 500 and 999 employees, six firms have between 250 and 499 employees, one firm between 200 and 249 employees, one firm between 100 and 149 employees, and one firm between 10 and 19 employees.

The 17 firms each represent a different production and service sector. The nine production firms represent the following sectors<sup>1</sup>: manufacture of pharmaceutical preparations; manufacture of electrical and electronic equipment for motor vehicles; forging, pressing, stamping and roll forming of metal; powder metallurgy; manufacture of bearings, gears, gearing and driving elements for mechanical power transmission; manufacture of hollow glass; manufacture of bread, fresh pastry goods and cakes; production of feeds; manufacture of electric motors, generators and transformers. The eight service firms represent these sectors: service activities incidental to land transportation; wireless telecommunications activities; transmission of electricity; distribution of electricity; retail sale in specialized stores, cosmetic and toilet articles; transshipment; interurban and other passenger services; other information technology and computer service activities.

Ten firms operate on business-to-consumer and seven firms on business-to-business model. Eight firms in the sample are distinctly export-oriented,

while the other nine are focused on the Slovenian market. The majority owner of three firms in the sample is the state; eight others have a majority domestic (private) ownership; five have a majority foreign ownership; and the ownership of one company is mixed (partly state and partly domestic private).

Three firms in the sample rank among the top six most successful firms in Slovenia according to net profits in 2013 (database AJPES 2014), and six firms rank in the top 50 most successful firms in the same list. The other eight firms represented by the CEOs participating in the research rank lower in this list (down to 300), but still meet the requirements of the most successful firms in Slovenia in 2013 according to net profits (i.e. net profit of these firms is still higher than 1 million EUR).

Sixteen CEOs participating in the research are male and only one manager is female. Two managers are foreigners, and the other 15 CEOs are Slovenes. All of them have a university degree; three possess a PhD and one a Master's degree. There are ten engineers and seven economists among participating CEOs.

In two cases, the CEOs themselves did not directly participate in the research; the interviews were conducted with board members who have been working with the respective CEOs for years and answered the questions on their behalf.

## 4. RESEARCH RESULTS

### 4.1 Perception of performance

The interviewed CEOs have different views on firm performance. Some CEOs consider financial results to be the key measure of performance, while others put more focus on long-term growth and balanced development, the latter being closely connected with the satisfaction of all three of the main firm stakeholders: customers, employees and owners. The CEOs also emphasize a large importance of qualitative factors that influence performance, such as customer satisfaction and employee satisfaction, as well as the need to consider both financial and non-financial factors of performance.

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1 Standard Classification of Activities (SKD), Statistical Office of the Republic of Slovenia.

The first group of CEOs points out that a firm cannot be successful without a good financial performance. Financial performance is usually measured with profit, which is also a condition for good qualitative performance results (*"Without profit there is no investment; without investment there is no development; if there is no development, there are no new products and no happy customers."*), with the CEOs also listing cash flow, return on capital and other financial performance measures. One of the CEOs warns that even behind non-financial plans there are always financial reasons: *"A firm must be healthy in order to be able to pay bills and salaries. That is number one priority."*

Certain CEOs associate performance with growth, which is linked with business expansion (*"Success means that the firm is growing. If we do not expand in our business, we can close down in a flash."*) or with generating knowledge (*"Growth does not mean only an increase in business, but also an increase of knowledge in the firm that can be sold one way or another."*).

Important for the CEOs is not only absolute but also relative performance (*"Success means that we are the best according to certain criteria, in addition to financial criteria, which are measurable and are important in our sector."*).

The second group of CEOs in particular emphasizes the importance of a comprehensive overview of firm performance. They consider long-term growth and sustainable development to be particularly important, and also associate this with meeting the needs of all three of the key stakeholders (owners, customers and employees), and also other stakeholders (*"Stakeholders are important, as the firm does not exist for the sake of it, but functions in a certain network, an ecosystem"*). Business environment is considered very important by certain CEOs: *"The environment must accept you, see you as something positive, support you and breathe with you. For this reason, you need to invest something back in the environment."* Some CEOs also emphasize the cooperation with other firms and institutions (*"A firm cannot survive on its own nowadays; it needs to cooperate with suppliers, institutions, universities."*).

Some CEOs particularly emphasize the importance of non-financial performance measures that

positively influence firm performance in the long term (*"We believe that everything comes around. Most non-financial benefits came to the firm with financial performance and then strengthened it."*). Other CEOs emphasize the importance of awards and recognitions, which can also be an important performance measure, and of following set values (*"For me, success also means following culture and values that we have set for ourselves."*). The CEOs that put more emphasis on qualitative factors of performance at the same time point out that firm values need to be communicated to employees, which is not an easy task.

In relation to qualitative performance measures, the CEOs also consider customer satisfaction and employee satisfaction to be important, with more importance being attributed to the latter. Rather than employee satisfaction, some CEOs attribute importance to the progress of employees and their involvement in firm activities (*"The greater the level of employee involvement, the more successful the firm."*). Employee satisfaction is closely linked with job security (*"It is important to guarantee that the firm has long-term foundations, and to ensure that the products are genuine, that there are no substitutes, that the whole thing will not end in two years."*). Another evidence of a firm being successful is its appeal as an employer (*"Are we an attractive employer, do people fight to work for us? This can be a measure of firm performance."*).

The CEOs also point to some other indefinable factors, such as a good feeling (*"It is also important that the employees are involved in the production of products that are interesting and useful. That they feel good at work, that they are motivated, that they learn."*) and positive attitude (*"The first sign of a successful firm is when people come to work happy and that they enjoy in what they do."*).

Furthermore, the CEOs emphasize the importance of combining both financial (quantitative) and non-financial (qualitative) performance measures, which need to complement each other and be balanced.

Our research findings complement some of the existing research in this field. Interviewed CEOs emphasize the dominance of financial performance measures (Anthony & Govindarajan, 2001; Berry et

al., 2005; Marc et al., 2010), but they also warn about the growing importance of non financial aspects of performance (Kaplan & Norton, 2000). Also important is a comprehensive overview of performance from the perspective of meeting the needs of the three key stakeholders: owners, customers and employees (Verweire & Van den Berghe, 2004; Marc et al., 2010). In addition, the results of this research complement the study conducted among larger Slovenian firms, which see performance mainly as following firm strategy and achieving the goals of owners and other stakeholders, and prefer financial measures of performance (Marc et al., 2010).

#### 4.2 Factors of firm performance

The results of the research show that according to the CEOs, the key factor influencing firm performance is human resources, i.e. employees, and within this group top management, which needs to act in coordination with the owners. Top management plays a number of roles, namely: leading by example, monitoring the firm operations, preparing the long term strategy and vision, and acting as the main decision-maker, a motivator for the employees, and an integrator of all key firm stakeholders. The CEOs emphasize the key importance of unity amongst top management, its responsibilities, and acting in coordination with the owners. Of particular importance according to the CEOs is the president of the management board or the director-general who is synonymous with the firm and is the person by whom the firm is identified, especially in a symbolic sense. Some CEOs also stress the importance of the sector and business environment, which depends on the nature of business activity.

The CEOs point out that a firm can deal with deficiencies in the external environment by having good and satisfied human resources. For CEOs, human resources are the key competitive advantage of the firm (*"When we compare ourselves with others with similar equipment and a similar product, we can find a competitive edge in the people employed."*). The requirements for this are employee involvement in firm activities and team spirit (*"Performance depends on the involvement of everybody in the firm, not only top management."*). In addition, the CEOs stress that employees need to be goal-oriented (*"It is important*

*that the employees understand firm's goals, accept them as their own, and start to act with the intention of fulfilling these goals. If the entire system operates in this direction, then this is a definite guarantee for the firm's success."*).

In addition, the CEOs argue that, as part of human resources, top management has the most profound influence on firm performance. When asked to estimate this influence as a percentage, their answers ranged between 30 and 100 percent; the majority of the 17 interviewed CEOs estimated the influence of top management to be around 70 percent. Only one CEO estimated the influence of top management to be low, at 10 percent.

According to the CEOs, top management must know how to motivate other employees and constitutes the group that *"knows how to communicate to the employees the path that the firm should take"*. One of the CEOs compared top management to the role of a conductor in an orchestra (*"If you have a good orchestra, they will know how to play something even without a conductor. But they will not learn any new pieces."*).

Management plays a key role for many reasons. It acts as a role model for the employees (*"If we don't work in that way, then we cannot expect that our co-workers will be any different"*), and is also key from an operational perspective (*"The team and finances you have at your disposal need to be optimally used and that is the only task of the top management."*) and a monitoring perspective (*"Management has a major influence on performance by regular monitoring of the results, and by coordinating firm activities."*).

The CEOs also emphasize the importance of focus and of honouring agreements (*"Top management must be focused and must do what has been agreed, and monitor everything transparently and regularly. It must not, on top of everything, deal with a hundred distracting things."*), which is closely linked to the relationship with firm owners and consequently stability (*"If top management has clear goals and expectations from the owners, then it can perform well. However, if top management has its hands full with its existence, privatisation or something else, then it is not focused on the business and cannot be successful."*).

Associated with this is also the function of top management from the perspective of its responsibility and long-term orientation (*"Top management needs to create conditions for long-term and balanced operation by considering all stakeholders, from both financial and non-financial aspects."*).

According to the CEOs, top management is also very important for generating ideas and visions (*"Other than classic methods of work that every CEO needs to master, it is much more important that the CEO generates positive ideas in the firm, which other members of top management accept as their own."*). In order to be able to implement their ideas among other employees, top management needs to be internally united (*"It is essential that top management shares a vision and that the managers are dedicated to common interests, that they trust each other, support each other and are determined to achieve the goals. And the others will follow."*). The CEOs also warn that division of top management can be fatal for the firm (*"Two vectors that go in different directions, give a smaller resultant than the vectors that go in the same direction."*). The CEOs emphasize the importance of unity once the decision is made, while a heterogeneity of views before during the decision-making process is most welcome (*"When thinking about the solution, we want heterogeneity, but after the decision is made we want unity; the decision must be supported also by those who do not agree with it."*)

The CEOs say that top management must act as a team, which also allows for the eventual replacement of the president of the management board (*"Management is important, it needs to be a complementary team. Everything must not depend solely on one person. Atmosphere in the firm needs to be such that even if the top person is replaced, everything is still proceeding as planned."*).

Some CEOs attributed a considerable level of importance to the president of the management board or the director-general who is the most exposed person in the firm (*"President of the management board is synonymous with the firm. (S)he is the person that the firm is identified by, especially in the symbolic sense."*), also in terms of connecting and integrating people (*"President of the management board has a certain task, (s)he knows how to prop-*

*erly direct top management and employees."*). Or, as exemplified by one of the interviewed CEOs: *"The key to success is focus, focus is the responsibility of the management, and focus of the management is the responsibility of the person in charge of the management."*

Some CEOs consider the influence of the sector to be minimally important (*"You need to adapt to the sector. If something has surprised you, then you didn't work well enough."*) and consider human resources to exert the main influence on performance (*"You can live in every sector, only everything needs to fall into place. And people take care of that."*). On the other hand, one of the CEOs said that the sector is one of the most important factors influencing performance, as in his opinion many firms in emerging sectors *"would not have been so successful if they had operated in the construction sector"*. Also, in relation to this, another CEO emphasized the key role of the firm's strategic position in the market (*"Proper strategic positioning in the sense that you do not work outside your strategy and capacities."*).

The role of the business environment is considered to be more important especially by the CEOs of state-regulated firms (*"Important are political decisions that affect the legislation. If the state or the EU changes the laws that directly affect us, then this factor can become key."*). Similarly, other CEOs from regulated sectors argue that their influence on firm performance is less marked than in normal firms. In these sectors, CEOs mainly influence the firm's internal performance (*"My influence on the business results is smaller, but as far as the satisfaction of employees, who indirectly influence everything else, and customer satisfaction is concerned, my role is very big."*).

One of the CEOs described the Slovenian business environment as repressive (*"The business environment does not help us in being better than others, as it is not stimulative. The conditions are the same for all, but we do not play on this field, we play outside it."*).

These findings support the findings of certain foreign (Gerbing et al., 1994) and Slovenian (Bogataj, 2006; Bužinel, 2007; Hrovat, 2008) studies that confirm a strong positive correlation between top management performance and firm perform-



ance. Most CEOs consider that other factors of performance are less important, for example organisational factors (firm type and structure), and characteristics of the sector and business environment (Lumpkin & Dess, 1996; Voss & Voss, 2000; Chow, 2006). Is the influence of top management on firm performance really as profound as suggested by our research? This merits investigation by obtaining an objective evaluation from respondents other than those in top management.

#### 4.3 Influence of owners and ownership structure on firm performance

The CEOs estimate that the influence of owners on firm performance is considerable. They distinguish active and passive owners, stating that it is important that firm owners are active, strategic and dedicated to firm goals. They need to communicate clear goals and expectations to top management, and most of all they need to trust top management in the long-term, which also ensures stability in the firm. If the owners, like top management, are capable of long-term strategic thinking, then their role can exert a very positive influence; however, their role will have a negative impact if they are pursuing short-term interests.

All interviewed CEOs agree that owners have a major influence on firm performance. In distinguishing between active and passive owners, CEOs understand the former to be focused on firm business, and the latter to be interested only in financial performance measures. More beneficial for a firm are active or strategic owners who can ensure the right amount of stability and credibility for the firm. The CEOs also attribute a considerable importance to owner responsibility (*"The owners have to be responsible long-term, ensuring or enabling the balance of investments and demanding profit at the same time, while also monitoring firm operations."*), including in terms of their relationship with top management (*"The owners must not interfere in the work of top management. They especially must not interfere in operational decisions."*).

The owners can make a considerable contribution to firm performance by clearly defining goals (*"If owners set clearly defined goals for top manage-*

*ment, then the whole story goes in a positive direction."*) and by approving accepted decisions. Disagreement between the owners and top management concerning goals can pose a serious problem, especially in terms of long-term plans for the future (*"Somebody who thinks only one year ahead cannot discuss the strategy and corrective measures for 5- to 10-year period."*).

The CEOs also emphasize the fact that a continuous change in firm strategy by owners can negatively impact on the firm (*"If ownership is changing all the time, it is difficult to convince top management and employees what is right. This causes certain basic confusion about long-term goals."*). Directly connected to this is the damage that can be caused by dispersal of ownership (*"If ownership is dispersed, then the owners are interested only in financial performance measures, i.e. profit. This often results in short-term interests that hurt long term interests."*). Of greater importance is the role of the owners during a crisis (*"During a crisis it is essential that the owner is capable of recapitalizing the firm, if needed."*), with some CEOs referring to a domestic situation (*"The main problem in Slovenia is that we have firm owners incapable of recapitalization."*). The CEOs who are also owners of their firms emphasize the importance of being committed to the firm (*"We had a common interest and quickly grew as a result of that."*).

The CEOs in charge of firms with a majority foreign ownership have varied experience with foreign owners. For example, one of the CEOs reported a complete direct control from the owner (*"The owner has a complete control over the firm business and determines the strategy. His opinion must be always considered in full."*), whereas another CEO mentioned that the owner's influence is indirect (*"Our owner does not know the local market. His main concern is if the business is going as planned. If we achieve the expected results, he has no questions."*). The third CEO reported a positive influence of active and strategic orientation of a foreign owner (*"The owner gives us a certain business framework, but a lot of freedom within it. The rules are very clearly defined. This freedom gives you various options, and at the same time following the rules enables you problem-free living."*).

The CEOs of state-owned firms warn about the passiveness of the state as a firm owner (*"The state as the owner has a very small direct influence on our business; however, its indirect influence is much bigger. But because the state does not have any strategy, everything is rather uncoordinated and we have additional costs."*); of the short-term financial nature of the ownership (*"We are a public limited firm and the profit can be paid out in dividends or invested into the development of the firm. The state wants that the profit is paid out in dividends, and consequently we must take a credit for investments. This is an example of a negative influence of the state owners."*); and of some form of alienation of the state as an owner (*"The state could have a greater influence, if they listened to our suggestions and worked in symbiosis. They appear alienated and are too heavily influenced by our politics."*).

One of the CEOs emphasizes a great importance of family ownership, especially in terms of long-term orientation of family owners (*"Family owners are more interested in long-term stable growth than in a profit."*), which is also linked to their values (*"Values of family owners are slightly conservative. They never risk too much, they are interested in stable growth."*).

The results of our study indirectly support the hypothesis that private ownership is more successful than state ownership (Hrovatin & Uršič, 2002), with the latter resulting in less efficient control and a lack of profit orientation (Alchian & Demsetz, 1972), as well as a difference in internal goal orientation (Shapiro & Willig 1990) and the susceptibility of the influence of politics on the decision making process (Boycko et al., 1996). The CEOs in our study also mention frequent passive and short-term orientation of the state towards its firms. The CEOs that are in charge of firms with a majority foreign ownership emphasize several positive effects of such ownership structure on firm performance, thus supporting the findings of previous research in this field (e.g. Simoneti et al., 1998; Barrell & Holland, 2000; Prašnikar & Svejnar, 2000; Hrovatin & Uršič, 2002). The CEOs also confirm the hypothesis that dispersed ownership often has a negative impact on firm performance (Anderson et al., 1999) and that the firms with dominant ownership are more successful (Hrovatin & Uršič, 2002). They also agree

with the finding that firms with internal ownership can be successful if CEOs behave and act as external owners (Prašnikar & Gregorič, 1999).

According to recent developments in Slovenia associated with the predicted sale of the state's share of some Slovenian firms (among which two firms are represented in our sample), we support this statement by one of the CEOs: *"My primary goal is that we work according to our plans and it doesn't matter which new owner will come. In any case, the change in firm ownership should not compromise our business."* CEOs and firms that work in an optimal way are therefore not afraid of new owners.

## 5. DISCUSSION

This research demonstrates a possible conceptual framework for studying managerial perception of firm performance, which differs from approaches used by previous research in this field. By using a qualitative method we took an in-depth look into the factors that influence firm performance. The opinions and views of CEOs on factors that determine firm performance differed, while offering a systematic overview of the topic of study.

The underlying message of the research results materializes into one basic idea: which factors, attitudes and activities lead to positive firm performance, while taking into account the three key factors of performance, namely top management, employees and owners.

CEOs associate a positive performance with long-term growth and by satisfying the needs of key stakeholders (employees, customers and owners), but identify the fact that short term positive financial performance represents the basic foundation. A greater guarantee of positive performance is provided by a united top management, capable of generating new ideas and acting as a role model for employees. This can lead to a better engagement of employees within the business process and a better understanding of firm goals. Owners can contribute to a positive firm performance with an active, strategic and long-term orientation, and with the ability to set clear goals and to trust top management in the long run. Last but not least, the ownership structure

can also have an important impact on firm performance. In the opinion of CEOs, dominant and private ownership has a more positive impact on firm performance than dispersed and state ownership.

The CEOs' responses were in many ways expected and also in accordance with the findings of previous research in this field. One unexpected result is the relatively high agreement between the CEOs of a positive correlation between top management and firm performance; this observation needs to be objectively investigated. The idea of a positive correlation between united and inspiring top management, employee engagement, and satisfied customers and owners, can be further connected with a wider concept of an integrated management approach (e.g. Rucci et al, 1998; Kenett and Lavi, 2013). The results of our research also raise some considerations that are specific either to a particular sector or ownership structure or to the Slovenian business environment, which is also a reflection of the reality of the current situation in Slovenia in this field.

Our research findings highlight opportunities for further research, including an in-depth study of individual factors of firm performance, and the de-

velopment of a more comprehensive model of performance factors that could be applied to a larger sample of CEOs and other managers.

The main limitation of this research is its limited sample size and representation for use in qualitative research, meaning the results cannot be generalized to implicate the views of CEOs of the most successful Slovenian firms. Also worth pointing out is the criterion for sample selection (net profit) employed in this study, since net profit is not the only firm performance measure, and has been argued to represent statistical rather than longitudinal data.

An additional important value of this research is through highlighting examples of good practice. The opinions and views of the CEOs, which were intentionally presented in their original form, can serve to provide valuable ideas and solutions for all Slovenian CEOs, and the firms of which they are in charge. Certain hypotheses offered by the CEOs in this study are limited to a specific sector or business activity. However, we can also extract some universal hypotheses that apply to all firms, regardless of the sector, competitive position, ownership structure and size.

## EXTENDED SUMMARY / IZVLEČEK

Raziskovanje uspešnosti s perspektive vrhovnih ravnateljev lahko prispeva k boljšemu razumevanju uspešnosti gospodarskih družb in pomeni pomembno nadgraditev raziskav na področju objektivnega merjenja uspešnosti družb. Namen prispevka je raziskati, kako vrhovni ravnatelji ocenjujejo uspešnost in kateri dejavniki po njihovem mnenju najbolj vplivajo na uspešnost gospodarskih družb. Pri tem smo se še posebej osredotočili na vpliv vrhovnega vodstva in lastnikov na uspešnost gospodarskih družb.

Izvedli smo kvalitativno raziskavo med vrhovnimi ravnatelji nekaterih najbolj uspešnih gospodarskih družb v Sloveniji. Vprašani vrhovni ravnatelji povezujejo uspešnost gospodarske družbe predvsem z dolgoročno rastjo ter zadovoljevanjem potreb ključnih deležnikov podjetja. Pri tem tem večinoma opozarjajo, da pozitivni finančni rezultati predstavljajo ključni temelj poslovanja, tudi na dolgi rok. Nadalje na večjo uspešnost poslovanja vpliva tudi enotna uprava, ki je zmožna generirati nove ideje in delovati kot vzor zaposlencem. Slednje vodi k boljšemu vključevanju zaposlencev v delovne procese in delovanju skladno s cilji družbe. Na uspešnost poslovanja gospodarske družbe po mnenju vrhovnih voditeljev pomembno vplivajo tudi lastniki, in sicer z aktivno, strateško in dolgoročno naravnanoostjo, kar med drugim pomeni, da so zmožni postaviti jasne cilje in zaupati upravi na dolgi rok. S tega vidika je vloga lastnikov lahko zelo pozitivna, če so sposobni vsaj tako dolgo strateško razmišljati kot vodstvo, lahko je pa tudi zelo negativna, če zasledujejo zelo kratkoročne interese. Pri tem igra pomembno vlogo tudi lastniška struktura. Vrhovni voditelji ocenjujejo, da dom-

inantno in privatno lastništvo bolj pozitivno vplivata na uspešnost gospodarske družbe v primerjavi z razpršenim in državnim lastništvom.

Odgovori vrhovnih voditeljev so v mnogočem pričakovani. Pri tem nekoliko izstopa relativno velika enotnost vrhovnih voditeljev glede izražene pozitivne povezanosti med delovanjem vodstva in uspešnostjo gospodarskih družb, kar bi bilo smiselno preveriti v okviru objektivne raziskave. Rezultati poleg tega prispevajo nekaj izstopajočih idej, ki so specifične bodisi z vidika določene panoge ali lastniške strukture bodisi z vidika značilnosti slovenskega okolja, s čemer odsevajo tudi določeno realnost trenutnega stanja v Sloveniji na tem področju.

Rezultati raziskave pomembno nadgrajujejo obstoječe raziskave na tem področju, in sicer po eni strani s poglobljeno raziskavo vzrokov, ki stojijo za določenimi mnenji in stališči vrhovnih ravnateljev, po drugi strani pa tudi z vidika celostnega pogleda na tematiko proučevanja uspešnosti gospodarskih družb v slovenskem prostoru. Tako prvi kot drugi vidik ponujata možnosti nadaljnega raziskovanja, prvi z vidika poglobljenega raziskovanja katerega od specifičnih dejavnikov uspešnosti gospodarskih družb, drugi pa z vidika iskanja širšega modela dejavnikov uspešnosti gospodarskih družb, ki bi bil lahko preverjen tudi na širšem vzorcu populacije vrhovnih in drugih ravnateljev.

Pomembno dodano vrednost raziskave vidimo s perspektive dobrih praks. Mnenja in stališča vrhovnih ravnateljev, ki smo jih namenoma predstavili v originalni obliki, lahko ponudijo nekatere dragocene ideje in rešitve za slovenske vrhovne ravnatelje in gospodarske družbe, ki jih vodijo. Nekatere teze, ki so jih vrhovni ravnatelji podali, so vezane na določeno panogo oziroma specifično dejavnost. Med njimi pa so tudi take, ki jih lahko vzamemo za univerzalne in veljajo za vse gospodarske družbe – ne glede na panogo, konkurenčno pozicijo, lastniško strukturo ali velikost.

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