Aspects Regarding the Analysis of the Performances of a Society

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Abstract
The performance is important in any activity and especially in the economic field. In this article I presented aspects regarding the approaches existing in scientific literature relating to the performance of a company. Various economic actors see the performance based on their interests. The managers are interested by the overall performance of the company, the investor perceive the performance through the investment profitability, the employees and customers have an interest in the establishment of the company and the creditors are considering the solvency and liquidity.

Keywords: economic-financial indicator, performance, profitability, profit.

1. Introduction
Financial diagnosis of a company constitutes “financial health” of business and is carried out through the economic analysis and of financial indicators. Economic analyzes show the link between the results obtained and the resources consumed highlighting the links between causes and effects. [1]

The analysis is a method of knowledge that is based on the decomposition of the phenomenon, of the whole in its components, after which is studied each component, are established causal relationships and draw the conclusions about future activities. [2]

The analysis of the performance of a company (commercial companies) plays a decisive role in establishing the strategy to follow.

In economic literature can be found several meanings related to the performance, the subject being amply developed.

In a general sense, the performance expresses either the result of an action, the notion being associated to the positive result of it’s, either is associated to the success in a field; also, the performance can be seen as an action that leads to the success.

The performance can be considered as representing an excellent position resulted through a continuous effort, realized in a competitive frame, commensurable by various methods.

The performance represents the achievement of objectives proposed. It can be positive, if the objective is to obtain profit and negative, if the proposed objective is to obtain lost. The accounting result is considered the main indicator to measure the financial performance of the company. [2]

The performance indicators are necessary to pursue the achievements of the strategy and strategic objectives, this representing the feedback of the strategy. The performance indicators must serve to the assessment of the economic value, of creating value and of the future earnings potential. [3]

Overall economic and financial indicators rate profitability is among the synthetic efficiency indicators of business activity. The profit rate of return reflects the results of trading in all stages of the economic circuit. [4]
Theoretically, the aspects related to the performance are reflected in a very extensive, national, international, printed or electronic bibliography.

2. Profitability analysis

Profit analysis can provide information on absolute profitability of the enterprise. Both for internal diagnosis as well as for external users of information on the company, knowledge capacity to produce absolute profit is not sufficiently representative. As a result, it is necessary gross weight comparison with other sizes, especially sizes effort to obtain expressing the gross mass, away thus return rates that, in terms of analysis, have a higher information capacity. [5]

Evaluation of managerial decisions on the profitability of a company in most cases is measured by comparing the profits obtained during the two periods. In the situation of an increase of the profitability is considered that the decisions taken by the management were the adequate ones.

The analysis of the profitability of a company should be centered necessarily by the measurement of a set of indicators, from which the profit has a subsidiary role. The profit earned, calculated as the difference between revenues and expenses registered by a company has the role to measure the performance achieved by it during a given period. To measure it they are the following possibilities:

- Gross margin, calculated as the difference between revenues from the sale of goods and services and their cost. The cost of goods and services includes a part of the expenses registered by the company meaning the direct costs and a part of indirect costs, meaning those that can be allocated directly to goods or services sold;
- Operating profit calculated as the difference between the gross margin and all operational costs, known under the name of profit before interest and taxes it defines the excess generated by the operation activity;
- Gross profit represents profit before tax (taxes) and after deducting the expenses with interests;
- Net income, which represents profit after the deduction of income tax. [6]

It is important to underline that the indicators regarding at profit which I described have the disadvantage of the lack of comparability between the various competing companies, because the accounting results obtained are influenced by financial policy of the company (figure 1) regarding on:
- depreciation of property
- recognition and capitalization of intangible assets,
- the administration method of stock
- recognition of expenses for impaired assets, etc.[7]

![Figure 1. Financial policy of the company](image-url)
Accounting measuring instruments of the profit present significance for banks and financial institutions because the profit does not include also the capitals provided by the shareholders.

The approach limits of the performances based strictly on profitability analysis has imposed a treatment system of the information capable of delivering to the manager the data necessary data and appropriate to financial decision-making.

Financial indicators reflect the synthetic situation of the performances achieved by the company in a particular period of time and in a particular business context.

The analysis of the performances of a company should not be limited only to financial data, but must include economic information and information about the competitive environment. This information is required to develop forecasts.

The analysis of the profitability of a company should be focus on measuring of a set of performance indicators as we outlined above. These indicators capture the size of performances reported to the volume of business generated. For example, return rates:
- Return rate of sales;
- Return rate of turnover (which express the profit generated per each sales unit);
- Return rate of assets (which express the profit made on each resource consumed) etc.

The return rate is calculated as the report between an indicator of results (a measure of the profit) and an indicator reflecting a workflow (net turnover, resources consumed, etc.) or a "stock" (personal capital, total assets, etc.).

The assessment of the profitability is based on the calculation of some profitability indicators presented in table 1.

Profitability indicators presented, expresses the efficiency of resource consumption (capitals, assets) and sales effectiveness. The values registered in the case of a company for these indicators calculated for a period, are compared with the past performance of the company and with the medium values of business field from which the company is a component part.

There are several types of financial indicators under the form of rates, namely (figure 2):

A. Liquidity indicators: Overall liquidity and immediate liquidity
B. Risk indicators: Indebtedness degree and interest coverage;
C. Activity indicators: Speed of stock rotation; the number of days of storage; the rotation speed of flow - customers; the speed of rotation of credit - suppliers; speed of rotation of total assets.
D. Profitability indicators: The return of engaged capital; Gross margin from sales. [8]

To analyze the trend and structure of the sales are taken into account the following quantitative and qualitative elements:
- the quantity of products delivered and services rendered
- the number of customers, the classification and their share in total sales;
- the number of sales outlets, presentation and retail space capabilities;
- the medium number of personal serving the commercial activity;
- the prices and discounts police;
- the special offers police, promotions;
- the police of granting the loans - client. [8]

To these elements, is added the analysis of the overall context of business environment and local context of the market in which the company operates, meaning the competition, the demand level for products and services.

The cost of the capitals incurred is another important aspect that must be analyzed. The cost of capitals raised by a company from external suppliers of capitals is shown in the profit and loss account of the company (interest and expenses).

The cost of capitals provided by shareholders is not presented explicitly in case of the financial statements and of the profit and loss account. [9]

For a relevant analysis of the performances realized by a company, it is necessary to consider also the cost of capitals provided by shareholders. To determine this cost are necessary additional information that we don’t usually find in the financial statements of a company.

<table>
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<th>Table 1. Profitability indicators</th>
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<td><strong>Commercial return rate</strong></td>
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<td><strong>Return rate of assets</strong></td>
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<td><strong>Financial return rate</strong></td>
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Shareholders are those directly interested by the increase of the enterprise value, because they invest capitals subject to risks. [10]
Remuneration of shareholders is the dividends and surplus value created by the company.
Also important is the analysis of "cash flow".
In the situation in which the company records difficulties with liquidities and delays in payment of debts, are analyze the liquidity indicators, and the accent will be put mainly on the cash flow statement, rather than on the analysis of profit and loss account.
The assessment base the most relevant is presented by the future cash flows rather than the profit.
The difference between profit and cash flow is: cash flow (the cash) can "buy" goods and services, and "profit" that is not resulted in cash can not provide the purchase of goods and services.

Investors want in most cases cash, not profit. Thus, the evaluation of investment projects and of the strategic decisions about the future of a business is based in most cases by analysis regarding the evolution and structure of cash flows.
Lenders are interested in short-term by the liquidity of the company (its ability to deal with short-term maturities) and main by the necessary of floating capital or working capital to meet the liquidity needs arising from the operation process. [10]
On long term, lenders are interested by the solvency and profitability of the enterprise. For these aspects depends the payment of interest and repayment of debt. The size of debts, repayment ability, capacity of self funding of the enterprise, and profitability and usefulness of the loan granted are the information that presents interest to creditors.

Lenders are interested also by the company's financial structure, by the mix of capitals used in the development of current activities, which represents the level of risk by financial leverage (meaning the ratio between debt and own capitals). The structure of capitals raised by a company directly affects and theirs cost. [10, 11]
“Expenditure and revenue budget” presents important aspects that must be noted.

Figure 2. Types of financial indicators
In achieving budgets, estimation of the projections on various provisions for future activity, uncertain customers, guarantees, etc. must be made realistically based on previous experience. [12] Estimated expenses must be included and properly estimated, based on the achievements from past periods and future expectations, taking into account:

- Provisions for risks and expenses related to guarantees granted to customers, commercial disputes etc.
- Change of the currency exchange rate;
- The evolution of macroeconomic factors and of the tax regime applicable to the industry filed in which the company operates;
- The evolution of the competition environment and the appearance of some companies/competing products;
- Other risks that may result in costs for the company. [12]

In developing budgets may appear also major risks. The most common of these is the smaller size, what generate the lack of liquidities and a too high degree of debt to banks. The second risk is the excessive size of funds assets. It determines unnecessary blocking of some availability, which could be used with greater efficiency, changing their destination.

It is important to mention also the wrong decisions of the management of a company in budgets creation. [12, 13]

Tracking the performances of short-term in order to increase company’s image, can be a damaging practice with undesirable results for the company. This is achieved through measures such as:

- capitalization of some expenses when they have not the character of some assets and must be registered as expenses,
- underestimating costs (registration as expenses in advance of some expense belonging to the period),
- changing of evaluation policy of stocks with the purpose to influence the expenses with products sold,
- handling the policy amortization in order of amortization expenses,
- failure to comply the provisioning policy regarding stocks or customers,
- failure to record the provisions for risks and expenses related to the products sold,
- capitalizing the expenses with interest when the accounting standards do not allow this. [14]

A error of management may arise in the situation in which, in order to decrease the costs for the current period are turning to drastic cuts of the training expenses, personal layoffs, reductions of investment in research, etc. Reductions in this case will have an adverse effect on the results of the medium or long term, even if on short term will lead to the increasing of the profit obtained.

The solution to avoid these errors is the develop under-budgets: the budget of sales, marketing budget, production budget, the budget of administrative expenses; all these under-budgets are integrated then into a company's consolidated budget.

3. Conclusions

We can conclude underlying that in analyzing the performances of a company there is no universal recipe for success that can be used in all cases and that because each company is unique and faces with some problems, that to be solved, require different solutions and methods.

In order to analyze the business profitability are developed multiple economic analyzes aim, in particular, the analysis of sales and expenses. During these analyzes, identifies and assesses the influence of all internal and external factors of the company that show the action on the “objective of the analysis” and highlights the relationship between efforts and effects.

The budget should not be seen or used only as a tool controls, but rather as a tool that helps us to find the way to a goal, to signalize when we wrong, and as far as we depart from the realities that company faces to can make the necessary adjustments.

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