EMPIRICAL ANALYSIS OF FINANCIAL ACCOUNTING INFORMATION RELEVANCE OF ROMANIAN LISTED PHARMACEUTICAL COMPANIES

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Abstract: *Financial reporting aims to provide financial and economic information about a company, which is useful for internal and external users, in order to provide the basis for business decisions. The business area needs to pay close attention to the information in financial reporting, whether it belongs to the entity's internal environment or the external environment, to use the information as efficiently as possible. Financial information most frequently is used through the analysis conducted on indicators calculated with the help of the summary and reporting documents for the financial year. This paper aims to analyze the main factors that make a significant contribution to the relevance of financial information. To achieve our target, we have carried out an empirical analysis of panel data on a sample of five pharmaceutical companies listed on the Bucharest Stock Exchange. The period considered was five years, since financial years were included in this period, which had been conducted under similar conditions, but also surprised a financial year in which most of the areas of activity suffered. The data were collected based on the companies' annual financial reports. The present study confirms that both the net income and the comprehensive income of the year have a substantial impact on the relevance of the financial accounting information. In addition, according to the present study, the main drivers of the relevance of financial information are ROE (Return on equity), ROA (Return on assets), profit margin rate, and LEV (leverage).*

Keywords: *financial accounting information, pharmaceutical industry, net income, comprehensive income, panel data.*

JEL Classification: *M41, C23.*

1. Introduction

Financial information is intended to assist users to base their economic decisions on analysis. The authors Işfănescu et. al (2002) agree with this concept, considering the information as the raw material upon which the analysis is based and providing the elements necessary for the management of the entity (Laval and Ştefea, 2018). All the information on which the economic and financial analysis is based comes from internal sources, as well as from outside the company. Munteanu et. al (2014) agree that the accounting system is a privileged source of information, useful in any strategic or financial analysis. Therefore, financial information is provided by the analysis through the calculated indicators, using the following summary and reporting documents: balance sheet/statement of financial position, profit and loss

account/statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements.

Accounting harmonization requires that financial reports are provided to users in the most efficient and functional format to be as easy to observe the position and financial performance of the company as possible. The accounting standards also expressly state that the financial reports must provide the necessary data faithfully in such a way that the financial position, financial performance, cash flows, and other accounting statements are complete, neutral, and error-free (Tișcenco and Bădicu, 2021; Cosmulese and Hlaciuc, 2019). In an increasingly competitive business environment, measuring company performance is a constant management concern to improve market position and attract new investors. Thus, the performance of companies is the most relevant indicator when it comes to benchmarking within the same industry, the field of activity, or across sectors of activity. Investment in manufacturing is currently increasing. However, assessing the performance of companies becomes more important for managers, shareholders, investors, creditors, and stakeholders, but also competitors in the same industry (Hada, 2020).

In this work, we have chosen to look at the pharmaceutical industry because it is a key area of activity that has grown increasingly in recent years to treat and maintain human health. The progress of science in medicine has also led to progress in the pharmaceutical market, and we, therefore consider it an interesting area to analyze. The central focus of the study is on the relevance of financial accounting information from the perspective of the net and comprehensive income examined on BSE pharmaceutical listed companies. In the light of this, we are seeking answers to the following research questions:

RQ1: To what extent is the relevance of financial information influenced by the comprehensive income of the company? What about the net income per share?
RQ2: What are the main drivers of financial accounting information relevance?

2. Theoretical background and literature review

In the economic field, performance is generally the achievement of organizational objectives, as a quantity of everything that contributes to the achievement of strategic objectives, and over time, the assessment of companies' performance was a widely debated issue in the attempt to find the best measuring tool (Ban et. al, 2020). Biddle and Choi (2006) consider that comprehensive income is a very crucial indicator because it features both net income and other elements of comprehensive income, generating greater usefulness for stakeholder decision-making. Also, the authors of Gazzola and Amelio (2014) believe that in recent years, comprehensive income has been among the most essential indicators of the company's performance, and is higher than net income in the economic market (Pervan and Bartulović, 2014).

The accounting system appreciates profit as a degree of performance or a benchmark for the calculation of indicators relating to the efficiency of the company's management. The profit is calculated by the difference between income and expenses, but these items are subordinated to capital and capital-keeping elements. Therefore, the fair value measurement of indicators in the entity's financial position,

as required by IFRS, has led to the establishment of the financial statement of the comprehensive income (Firescu, 2015; Bunget et. al, 2009; Pordea and Dumitrescu, 2021, Nobes and Stadler, 2015).

In recent years, there has been increasing progress on indicators in terms of financial management, as well as directing company strategy toward value creation. The purpose is to link the business performance translated through the current or previous cash flow to the market value of the entity as well as to the relative level of costs of the joint actions. There are several ways in which shareholder value creation can be expressed, but at the level of this work, we are looking at profitability indicators. These indicators constitute the traditional profit measurement model, which is related to the capital invested. These are earnings per share (EPS), return on investment (ROI), return on assets (ROA), and return on equity (ROE) (Tache, 2007).

Some developers could define performance as a positive difference between revenue and expenditure. But performance is also closely linked to two other elements: efficiency and productivity. Thus, one of the most important concepts of performance – profitability, is influenced by the actions of the company's managers, while having an impact on labor productivity and economic efficiency. (Vesa, 2018; Albu and Albu, 2005; Ștefea and Pelin, 2009). The share price and income per share are partly and simultaneously affected by the return on assets, but also by the added economic value and return on equity. The existing management and organization theories emphasize the links between the return on assets, the return on equity, the value-added, and the price of shares, the changes of which also affect the net result per share (Purnamasari, 2015; Tamuntuan, 2015). The effect of accounting information on earnings per share (EPS) was observed in the light of five types of financial indicators. Based on the results, it was noted that the market rate (PVB), the return on equity (ROE), the leverage ratio (LEV), and the cash flow from operations/sales have a considerable influence on the profit per share (Consler et. al, 2011). It can be noted that return on equity, financial ratios, equity liabilities, cash flow from operating activities, and book value significantly affects the earnings per share. They indicate that from an investor perspective, financial indicators play a significant role in investment decisions (Taani and Banykhaled, 2011; Popa et. al, 2009).

The results of this study are in line with the authors of Pop (2020) and Aqel (2021) that from the perspective of the investor the impact of the net income per share does not differ from the comprehensive income per share, both of which have a significant association with the share price trend, leading to greater value relevance for investors. Furthermore, the authors Păşcan (2014) as well as, Mironiuc et. al, (2015) claim that comprehensive income is a relevant indicator of the company's performance. In addition, the ROE, ROA, and leverage are influencing factors in the relevance of the financial information. The business area needs to pay close attention to the information in financial reporting, whether it belongs to the entity's internal environment or the external environment, to use the information as efficiently as possible. To assess the relevance of comprehensive income as well as net income,

the usefulness of financial statements when provided to the public needs to be verified, not least, the identification of elements/indicators requires an impact on the relevance of financial information. According to this idea are also the authors Mironiuc et. al. (2015).

According to Marchini and D'Este (2015), Morais et. al (2018), Schaberl and Victoravich (2015) results, also due to the reporting requirements related to the comprehensive income statement of listed companies, as well as from the perspective of the empirical study carried out in this paper, is worth to investigate the relevance of the accounting information throughout net and comprehensive income. Based on these indicators the stakeholders can make optimal decisions. Therefore, we made the following assumptions:

H1: Financial accounting information relevance is affected by the comprehensive income per share.

H2: Financial accounting information relevance is affected by the net income per share.

H3: ROE, ROA, and LEV indicators influence the relevance of financial accounting information.

3. Research methodology and design

Through the theoretical part studied and mentioned above, we considered relevant the analysis of the main determinants showing significant action on the relevance of the financial information of the pharmaceutical industry companies listed by the Bucharest Stock Exchange, because it has been an area of activity that has undergone some changes directly. We used a sample of 5 companies tracked over a 5-year horizon, 2016, 2017, 2018, 2019, and 2020 developing panel data models. The period under review has been selected to follow the evolution of the relevance of the information, both a time frame in relatively constant (similar) business conditions, but also covering a financial year in which most business areas have changed. Among the pharmaceutical companies listed on BSE, MedLife was eliminated because the revenues of this company, for the analyzed period were obtained mainly from medical services provided.

The five companies analyzed are among the most representative BSE listed companies in this industry, thus each having a significant share of the Romanian market, which is differentiated in various aspects: Antibiotice S.A. is the only one of the five most state-owned companies and is claimed to be the leading global producer in the production of the active Nistatin sustenance, as well as the main drug supplier of the Romanian hospitals; Ropharma S.A. ranks fourth, among pharmaceutical chains at the national level with a market share of over 7%; Farmaceutica Remedia S.A. is also an important chain of pharmacies, focused on complex services (sales, import, logistics, etc.) and is predominantly owned by Romanian individuals; Biofarm S.A. is one of the main producers of medicines and food supplements; Zentiva S.A. is mostly owned by foreign entities and is focused on the production of

medicines, both domestically and abroad, with 40% of the turnover being made up of exports.

The selected financial indicators as well as the formulated hypotheses are based on the study of the literature on the topic of financial accounting information relevance related to comprehensive income.

4. Data collection and statistics

The financial data were collected from the annual reports of the companies surveyed, and from the BSE records. The analysis uses financial accounting information on five pharmaceutical companies surveyed over the period 2016-2020 and applies panel-specific regression analysis to highlight the main drivers of the relevance of financial information. A breakdown of the variables used in the proposed models is given in Table 1.

Table 1: Description of variables used in the study

Nr.crt.	Description of the variable	Variable type	Calculation formula
1.	Price / share	Dependent	The average market price determined for each year
2.	Net income/ share	Independent	Net income for the year / Average number of ordinary shares
3.	Comprehensive income for the year/ share	Independent	Comprehensive income/ Average number of ordinary shares
6.	Return on equity	Independent	Net income/ Equity
7.	Return on assets	Independent	Net income / Total assets
8.	Leverage	Independent	Total debts / Equity
9.	Profit margin rate	Independent	Profit/ Turnover
10.	Net turnover	Control	Natural logarithm of turnover
11.	Company size	Control	Natural logarithm of total assets

Source: Own processing

To answer research questions and test the hypotheses, several regression models were developed as follows:

$$Pr\_act_{it} = \alpha_0 + \alpha_1 \cdot Rez\_net\_act_{it} + \alpha_2 \cdot marimea\_firmei_{it} + \varepsilon_{it}$$

$$Pr\_act_{it} = \alpha_0 + \alpha_1 \cdot Rez\_global\_act_{it} + \alpha_2 \cdot marimea\_firmei_{it} + \varepsilon_{it}$$

$$Pr\_act_{it} = \beta_0 + \beta_1 \cdot ROE_{it} + \beta_2 \cdot control\_var_{it} + \beta_3 \cdot vechime\_list\_BVB_{it} + \sum_{t=2016}^{2020} \gamma_t \cdot (year)_t + + \varepsilon_{it}$$

$$Pr\_act_{it} = \beta_0 + \beta_1 \cdot ROA_{it} + \beta_2 \cdot control_{var_{it}} + \beta_3 \cdot vechime\_list\_BVB_{it} + \sum_{t=2016}^{2020} \gamma_t \cdot (year)_t + \varepsilon_{it}$$

$$Pr\_act_{it} = \beta_0 + \beta_1 \cdot levier_{it} + \beta_2 \cdot control_{var_{it}} + \beta_3 \cdot vechime\_list\_BVB_{it} + \sum_{t=2016}^{2020} \gamma_t \cdot (year)_t + \varepsilon_{it}$$

$$Pr\_act_{it} = \beta_0 + \beta_1 \cdot rata\_marjei\_profitului_{it} + \beta_2 \cdot control_{var_{it}} + \beta_3 \cdot vechime\_list\_BVB_{it} + \sum_{t=2016}^{2020} \gamma_t \cdot (year)_t + \varepsilon_{it}$$

where:
control variable as appropriate, company size, net turnover, and length of listing on BSE;
i = 1...5 represents the 5 companies in the sample;
t = 1, 2, …, T represents the period (period 2016-2020);
α_i are the parameters of the model;
Pr_act represents the relevance of the companies' financial accounting information;
ε_{it} are model errors.

5. Discussion of results

The impact analysis tested under hypotheses H1 and H2 aimed at estimating two regression models on panel data, in which the impact of net income per share and comprehensive income per share on the relevance of financial accounting information as a variable was measured. The company size as a control variable was measured by the logarithm of total assets. In both models, the hypothesis of fixed effects was accepted based on the results of the Hasman test (Table 2), for which the probability of the test is less than the significance threshold of 1%. The empirical results highlighted the positive and statistically significant impact at the 1% threshold, both the net income per share and the comprehensive income per share, leading to the validation of hypotheses H1 and H2. It also had a significant impact on the relevance of financial information and the size of the company, even if at a significance level of 10%. Both models are statistically valid with Fisher test probabilities below the 1% threshold, and the degree of determination in the models is very high at over 95%.

Table 2: Empirical results of the influence of net income per share and comprehensive income per share on financial accounting information relevance

Dependent Variable: PRET_ACTIUNE
Method: Panel Least Squares
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.642099	4.399637	-1.509693	0.1485
REZ_NET_ACTIUNE	1.473938	0.478989	3.077187	0.0065
MARIMEA_FIRMEI	0.377919	0.221007	1.709986	0.1045

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.959501	Mean dependent var	1.025300
Adjusted R-squared	0.946001	S.D. dependent var	1.230041
S.E. of regression	0.285833	Akaike info criterion	0.564677
Sum squared resid	1.470608	Schwarz criterion	0.905963
Log likelihood	-0.058466	Hannan-Quinn criter.	0.659335
F-statistic	71.07548	Durbin-Watson stat	2.483796
Prob(F-statistic)	0.000000		

Correlated Random Effects - Hausman Test
Equation: EQ01
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	28.173128	2	0.0000

Dependent Variable: PRET_ACTIUNE
Method: Panel Least Squares
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.519570	4.276917	-1.524362	0.1448
REZULTAT_GL_ACT	1.527939	0.458850	3.329931	0.0037
MARIMEA_FIRMEI	0.370283	0.214880	1.723203	0.1020

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.961755	Mean dependent var	1.025300
Adjusted R-squared	0.949007	S.D. dependent var	1.230041
S.E. of regression	0.277763	Akaike info criterion	0.507397
Sum squared resid	1.388739	Schwarz criterion	0.848683
Log likelihood	0.657533	Hannan-Quinn criter.	0.602055
F-statistic	75.44239	Durbin-Watson stat	2.249042
Prob(F-statistic)	0.000000		

Correlated Random Effects - Hausman Test
Equation: EQ02
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.237350	2	0.0001

Source: Own processing in EViews software

The analysis of the H3 hypothesis, which states that ROE, ROA, profit margin rate, and leverage are factors influencing the relevance of financial information, showed that all indicators considered, ROE, ROA, profit margin rate, and leverage, show a significant impact on the relevance of financial information to a significance threshold of 10%. If profit rates and profit margins lead to an improvement in the relevance of financial information, leverage has the opposite impact. Also, the size of the company influences in a statistically significant way the variation of the relevance of the financial information at a significance threshold of 10%, except for the first model, in which it does not show a significant effect. The BSE listing age of selected companies does not have a statistically significant impact on the change in the relevance of the financial information, the probability related to the t-test being higher than the significance threshold of 10%.

The models are statistically valid in the sense of the Fisher test, and the empirical results of the Hausman test showed the existence of random (random) effects, the probability of the test being above the 10% threshold. The degree of determination in the models is around 36%, approximately 36% of the variation of the financial information being explained by the rates of profitability/rate of profit margin but also by the size of the company.

Table 3: Empirical results of the main determinants of financial accounting information relevance

Panel 1

Dependent Variable: PRET_ACTIUNE
Method: Panel EGLS (Cross-section random effects)
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25
Swamy and Arora estimator of component variances
White period standard errors & covariance (no d.f. correction)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.658651	5.954498	-1.454136	0.1607
ROE	0.873673	0.480865	1.816880	0.0835
MARIMEA_FIRMEI	0.421976	0.284996	1.480638	0.1536
VECHIME_BVB	0.061378	0.044736	1.371989	0.1845

Effects Specification		S.D.	Rho
Cross-section random		1.698149	0.9631
Idiosyncratic random		0.332410	0.0369

Weighted Statistics			
R-squared	0.227667	Mean dependent var	0.089414
Adjusted R-squared	0.117334	S.D. dependent var	0.341784
S.E. of regression	0.321107	Sum squared resid	2.165300
F-statistic	2.063447	Durbin-Watson stat	1.665150
Prob(F-statistic)	0.135736		

Correlated Random Effects - Hausman Test
Equation: EQ05
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.596171	2	0.7422

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	13.94126	10	0.1757
Pesaran scaled LM	0.881293		0.3782
Pesaran CD	0.505426		0.6133

Panel 2

Dependent Variable: PRET_ACTIUNE
Method: Panel EGLS (Cross-section random effects)
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.64522	5.192653	-2.242634	0.0358
ROA	3.409534	1.266833	2.691384	0.0137
MARIMEA_FIRMEI	0.566735	0.234063	2.421291	0.0246
VECHIME_BVB	0.059202	0.127914	0.462831	0.6482

Effects Specification		S.D.	Rho
Cross-section random		1.541580	0.9633
Idiosyncratic random		0.301087	0.0367

Weighted Statistics			
R-squared	0.369022	Mean dependent var	0.089216
Adjusted R-squared	0.278882	S.D. dependent var	0.341714
S.E. of regression	0.290179	Sum squared resid	1.768283
F-statistic	4.093883	Durbin-Watson stat	1.968724
Prob(F-statistic)	0.019550		

Correlated Random Effects - Hausman Test
Equation: EQ05
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.505929	2	0.7765

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	16.53973	10	0.0852
Pesaran scaled LM	1.462328		0.1437
Pesaran CD	1.775605		0.0758

Panel 3

Dependent Variable: PRET_ACTIUNE
Method: Panel EGLS (Cross-section random effects)
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.436150	5.250180	-1.606831	0.1230
RATA_MARJEI_PROFITULUI	0.019771	0.007423	2.663439	0.0145
MARIMEA_FIRMEI	0.402218	0.230400	1.745736	0.0955
VECHIME_BVB	0.065038	0.141500	0.459630	0.6505

Effects Specification		S.D.	Rho
Cross-section random		1.707308	0.9699
Idiosyncratic random		0.300657	0.0301

Weighted Statistics			
R-squared	0.364693	Mean dependent var	0.080498
Adjusted R-squared	0.273935	S.D. dependent var	0.338804
S.E. of regression	0.288693	Sum squared resid	1.750222
F-statistic	4.018294	Durbin-Watson stat	2.339084
Prob(F-statistic)	0.020906		

Correlated Random Effects - Hausman Test
Equation: EQ05
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.361980	2	0.8344

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	18.11421	10	0.0531
Pesaran scaled LM	1.814393		0.0696
Pesaran CD	0.504338		0.6140

Panel 4

Dependent Variable: PRET_ACTIUNE
Method: Panel EGLS (Cross-section random effects)
Sample: 2016 2020
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25
Swamy and Arora estimator of component variances
White cross-section standard errors & covariance (no d.f. correction)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.73221	5.781080	-2.029416	0.0553
LEVIER	-0.202317	0.026341	-7.680756	0.0000
MARIMEA_FIRMEI	0.580955	0.345780	1.680128	0.1077
VECHIME_BVB	0.076162	0.116352	0.654583	0.5198

Effects Specification		S.D.	Rho
Cross-section random		1.902924	0.9702
Idiosyncratic random		0.333265	0.0298

Weighted Statistics			
R-squared	0.227592	Mean dependent var	0.080058
Adjusted R-squared	0.117248	S.D. dependent var	0.338665
S.E. of regression	0.318192	Sum squared resid	2.126173
F-statistic	2.062571	Durbin-Watson stat	1.730693
Prob(F-statistic)	0.135858		

Correlated Random Effects - Hausman Test
Equation: EQ05
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.143403	2	0.9308

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	22.03381	10	0.0149
Pesaran scaled LM	2.690841		0.0071
Pesaran CD	1.216047		0.2240

Source: Own processing in EViews software

Conclusion, limits, and future research

Through this paper, we aimed to highlight the essential elements of financial reporting in terms of the relevance of financial information, both theoretically and

practically, by exploring it from the perspective of Romanian pharmaceutical listed companies. The relevance of the financial accounting information analyzed through net and comprehensive income was examined by designing hypotheses that were statistically tested. The first and second assumptions proved to have a statistically positive and significant impact, the proposed assumptions being thus valid, the relevance of the financial information is influenced by both the comprehensive income per share and the net income, per share. Regarding the third hypothesis, it can be said that ROE, ROA, profit margin rate and leverage indicators have a very significant influence on the relevance of financial information. Equally, the size of the company has a strong influence on the relevance of the information, however, the listing age at BSE does not influence this feature.

This paper also presents some research limitations, such as the analysis of a small sample of companies, being only five entities in the pharmaceutical industry listed on BSE. This study can be extended to other industries such as manufacturing, information and communications industry, etc. within the BSE, following the indicators related to the relevance and accurate representation of the information. Also, in future works, we intend to analyze the topic of this study over a longer period.

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