

THE INFORMATIONAL SUPPORT CONCERNING THE CONCEPT OF FINANCIAL PERFORMANCE, EARNING POWER AND PROFITABLENESS WITHIN AN ENTERPRISE

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Within the conditions of free enterprise, achieving certain performances by the enterprises will determine the managers to take decisions as concerns the efficient managing of the material, human and financial resources, as well as assimilation of the systems and modern management methods in order to assure the economic viability of the products within competition conditions. The financial performance of an enterprise is measured mostly by means of the benefits and of their elements, which are achieved upon basis of the existing resources. Starting from a wide approach of this concept, the performance's parameters express the quality of managerial activity, including simultaneously all the other economical concepts of efficiency, productivity, increasing, steadiness, profitableness, thus reflecting the past results that were achieved, as well as the future possibilities of developing an enterprise.

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Recognizing the increase of incidence's sphere related to an enterprise's activity to interests owners, including investors (within corporate stock, loans, other credits), customers, employees, with an extension over the communities, within the context of globalizing tendencies, assuming a complex approach of the analysis specific to its²²⁵ performance. The performance includes the ability of having an access to resources, of allocating and using them in an optimal way, in order to assure enough remuneration for covering the risk assumed and of justifying the interest, on the line of a future lasting development. The performance relies therefore, in the efficiency and efficacy with which the resources are consumed (the effort) and the results generated (the effect), able to assure and develop the sphere of interests. In order to express the performances of an enterprise, the concept of "competitiveness" will be also taken into consideration.

The performance can be defined as "a state of competitiveness of an enterprise, reached by a level of efficacy and productivity, assuring a lasting presence on the market". As noticed from the above mentioned definition, the performance requires the simultaneous and complementary presence of the two "ingredients" which represent necessary conditions, but not enough for the performance²²⁶. This thing is important, because a global vision over the performance might be possible only by correlating the dynamics of these two indicators.

Therefore, an enterprise showing performance is both efficient and productive, these being the effects (the results). In the same time, the effectiveness and productivity are causes that determine the performance. Among the main objectives of each accounting system, measuring the performances plays an essential part.

The performance can be defined as the manner of representing the increasing value of a business among two moments, the value for a business representing the increase of the selling price of the business between two elements, plus the earnings had by the investor for other utilisations. The value included within the selling final price is given by the net assets improved and existing in

²²⁵ Petcu, M. - *Analiza economico-financiară a întreprinderii*, Editura Economică, București, 2003. p. 311.

²²⁶ Andronic, B.C. - *Performanța firmei*, Editura Polirom, Iași, 2000, p. 25.

balance at that moment, as well as the goodwill elements achieved by the enterprise and that will generate the future benefits²²⁷.

Another vision of the performance can be expressed in the future, this being given by the difference between the amount of potential future earnings that might be accomplished within a time horizon, reasonable for the nature of business, plus the residual value of the business, less the initial investment.

Discussing the performance²²⁸ concept within accomplishing and presenting the financial situations, in accordance to IASB, it is assumed that the earnings meaning is actually the variation of the net asset during the reporting period of time, and on short and mean term, one might expect that both IASB and FASB to direct towards modifying the benefit and loss account, so that to offer the complete result. Nevertheless, the concepts of performance and measuring the revenue have been changed over the years, and the modality of current reporting is yet focusing over the revenue and expenses made. Both the reporting entities and the analysts go towards to identify within the reported earnings those elements which seem to continue in the future, as long as the price of stock holdings depends upon these.

The French author Didier Noye²²⁹ considered that performance consists on reaching the aims given in convergence with enterprise's directions, where performance is not a simple observation of a result, but contrariwise, the consequence of a comparison between the result and the objective.

Professor Stefan Bunea started, within the acceptance of performance concept, the following considerations²³⁰:

- *performance means success*. The performance doesn't exist by itself, being dependent upon the manner of representing the success accomplished by different categories of users, for the accounting information.

- *performance is the result of the activity*. Contrary to that previous, this concept doesn't keep the value analysis of the external users. Measuring the performances is understood as "the ex-post evaluation of the achieved results".

- *the performance is activity*. In this way, the performance is a process and not a result that appears at a certain moment of time.

Reported to these concepts, one might understand that performance is defined by the users of accounting information related to their own objectives.

Performance is not a state, but a process, its content becoming almost secondary by reporting to the own dynamic, where this attitude is also translated in practice by the financial analysts behaviour, which evaluate the titles by multiples of the net profit observed, but also of that anticipated. Two of the concepts that dominate the modern management of the organisations are the value and performance²³¹.

To measure the performance means to appreciate the value, and to now the causes of the value means to "translate" the performance. Performance cannot be expressed but an equilibrated assembly of complementary parameters, sometimes in contradiction, which describe the results and processes of reaching these results²³². The managers administrate the future and report

²²⁷ Diaconu, P. - Cum fac bani contabilii? Evaziune fiscală, paradisuri fiscale, Contabilitate creativă, Editura Economică, București, 2004, p. 18.

²²⁸ Epstein, B., J., Mirza, A., A. - IFRS 2005, Interpretarea și aplicarea Standardelor Internaționale de Contabilitate și Raportare financiară, Publishing House BMT, București, 2005, p. 55.

²²⁹ Didier, N. - Manager les performances, INSEP CONSULTING Editions, Paris, 2002, p. 6

²³⁰ Bunea, Șt. - Macroeconomie și politicromie în proiectarea politicilor contabile ale întreprinderii, Editura Economică, București, 2006, p. 146.

²³¹ Albu, N., Albu, C. - Instrumente de management al performanței, vol. II, Control de gestiune, Editura Economică, București, 2003, p. 96.

²³² Bourguignon, A. - *Revue française de gestion*, august, 1995, citat de Albu, N., Albu, C., *Instrumente de management al performanței, vol. II, Control de gestiune*, Editura Economică, București, 2003, p. 98.

constantly the present to it²³³. The process of management can be defined reporting to time: before the action, as directing, in the progress of the action, as adjusting and after the action, as evaluating the performances in order to achieve useful instructions.

The concept of performance (results) is marked by the economical and political system, and also by the ways of managing of an enterprise, and the dominating factor within a company wishes its measuring, depending upon its own interests. These elements represent the “subjective” aspects that influence the definition and measuring the result (the performances).

The accounting practice and theory have imposed certain conventions, principles and concepts that offer to the definition and measurement of the performance an objective basis, taking into consideration the economical and political context, specific to any accounting system²³⁴.

A result doesn't represent anything if is taken into consideration by its own, because it cannot be separated by means, activities and objectives: the performance represents the assembly of elementary logical steps of the activity, starting from intention to the effective result.

A total acceptance of performance is offered by IAS1, meaning that of global performance. Within this vision, the “boundaries” of the accounting result are over fulfilled, here being included the “differences” of re-evaluation, the differences of conversion, earnings or latent loss over the financial instruments, the earnings and actuarial loss related the allowances, the effect of changes as concerns the accounting methods and corrections of the fundamental²³⁵ errors.

The development of an enterprise is usually the resultant of factors mixing: the achieved financial resources, the products and their services, the conditions of the external environment, as well as the capacities of the managerial team. There are certain reasons within the managers' view that justify the development²³⁶, such as:

- a developing enterprise is a healthy enterprise;
- a developing enterprise offers the impression of an efficient management;
- a developing enterprise assures the perennality (deficiencies within a strategic field of activity cannot endanger the existence of the enterprise, the performances of the other fields counteracting the negative effects).

In this way, achieving of performances on enterprise level assumes, directly or indirectly, the re-evaluation of the competitiveness concepts, thus determining interdependency between performance and advantage, meaning competition-competitiveness-efficiency-effectiveness.

The main activity of an enterprise's management consists in increasing the competitiveness and efficiency of the enterprise, the management being the basic vector to the economical growth, and according to Peter Drucker's words, “the main way of economical development”.

The effectiveness designates reaching the aims, objectives and standards of an enterprise, establishing a measure where outputs respect the requirements of customers and citizens.

The effectiveness is directly influenced by the enterprise's environment, the efficiency is used during evaluating the enterprises' performances, and competitiveness of the enterprise and its success during time depend more upon the effectiveness rather than efficiency²³⁷.

The financial performance shows the level where the enterprise has accomplished the objective on the benefit's²³⁸ line realisation. The economic theory considers that for any enterprise, this objective assumes the maximisation of the benefit. Although, there are managers that wish to achieve only a satisfying benefit. Recognizing the maximal point of the benefit is an extremely

²³³ Bouquin, H. - *Contabilitate de gestiune*, traducere și studiu introductiv Neculai Tabără, Editura Moldova, Iași, 2004, p. 45

²³⁴ Minu, M. - *Contabilitatea ca instrument de putere*, Editura Economică, București, p. 96.

²³⁵ Ristea, M., Lungu, C., Jianu, I. - *Ghid pentru înțelegerea și aplicarea Standardelor Internaționale de Contabilitate, Prezentarea situațiilor financiare*, Editura CECCAR, București, 2004, p. 226-267.

²³⁶ Petcu, M. - *Creșterea întreprinderii și echilibrul financiar*, Revista Contabilitate și informatică de gestiune, nr. 9/2004, Editura ASE, București, p. 165.

²³⁷ Molodoveanu, G. - *Analiză și comportament organizațional*, Editura Economică, București, 2005, p. 268.

²³⁸ Malciu, L. - *Cererea și oferta de informații contabile*, Editura Economică, București, 1998, p. 50.

subjective operation. From this reason, it is assumed that an enterprise has accomplished the objectives on the line of creating the profit, when the stockholders are contented.

In order to evaluate the profitability, the users are using information from the benefit's account and loss. But, this information does not fully completely the needs. Therefore, certain digits, even referring to the past, have an estimative value. It's about the attenuations, commissions and evaluation of stocks.

The performance of an enterprise aims especially to the possibility of it on achieving the benefit. From here, it results the potential dimension of the resources that the enterprise will own and control in the future. If the variation of capital is had in view, the same indicator will compare the modifying of capital between the moment of starting and ending the financial exercise, taking into consideration the mark "+", the capital reimbursements and with mark "-" the potential capital's contributions.

The benefit is frequently used as a measure of performance or as basis of reference for other indicators, such as earning power of the investment or the action result.

The analysis directed towards the economical-financial performances study of an enterprise, the evolution and their perspectives provide information useful to managers, but also to the external partners interested by the future results of an enterprise.

The relationship between the performance's fields (the efficiency of the internal processes, satisfying the customers, growth and development) are leading to the financial improvement of an enterprise.

If in the past century, the financial performance searching was situated on the foreground, and nowadays, the enterprises have learned that this is not only a consequence – "the result of the travel", but the travel on its own, as well as the vector of future²³⁹ travels success.

The profit represents the most used measure of the performance in the view of enterprise's business. By evaluating the performance of decentralised units, by means of profitability indicators, the central management tries to promote the congruence between the decentralised units of the organisation, focusing them the attention towards the profitability²⁴⁰.

The concept of performance is not easily to be defines, because it is an ambiguous and integrating concept. The performance means success, competitiveness, successful outcome, action, continuous effort, meaning the optimisation of the present and the protection of the future. The performance is created by an enterprise by reporting to the environment, following the manner of creating the value. The global performance refers to the equilibrium and the causality relationship existing between the internal and external forces, being built by the continuous improvement of the internal processes, by innovation and forming of stuff, by satisfying the customers and the stockholders, by protecting the environment.

The performance is practically an unsteadfast balance between efficiency (as endogenous indicator of the enterprise) and effectiveness (that shows the relationship with the enterprise's partners). The result (performance seen as result, as "score") cannot be though separated by the action (the manner of achieving "the score"); as result, managing, the management of performance overpass as importance the measuring of the performance.

Survival on long term of an enterprise depends upon its capacity of generating a satisfying²⁴¹ benefit. Investors have become and remained stockholders within an enterprise for one reason: they estimate the dividends and other earnings of capital, of which they will beneficiate and that will be greater than the earnings of other investments with a similar level risk.

²³⁹ Albu, N., Albu, C. - *Instrumente de management al performanței*, vol. II, Control de gestiune, Editura Economică, București, 2003, p. 176.

²⁴⁰ Diaconu, P., etc. - *Contabilitate managerială aprofundată*, Editura Economică, București, 2003, p. 236.

²⁴¹ Ionescu, C. - *Informarea financiară în contextul internaționalizării contabilității*, Editura Economică, București, 2003, p. 229.

The benefit has remained the *premise* and *consequence* of any business. *The premise*, meaning the resource for the necessary investments of a business and *the consequence* (the estimated result), which, in case is greater than the effort done, form the source of financing investments for the new developments. The benefit represents *the revenue overplus*, over the costs carried out by the enterprise and one of the hypothesis (laws) that stands up to the basis of a company's evolution. The hypothesis "law that affirms the accumulation" has shown that investments made by the enterprisers in the view of increasing the productive potential of a company depends upon the benefit (upon the instalment or mass of the profit) and that capitals, the amounts of money of which enterprisers dispose are preferentially leaded towards the activities that assure the highest earning power (taking into consideration the associated risk), and the importance of the investment is connected by the perspectives of the benefit's accomplishment.

Within another approach, the benefit is considered to be a consequence of the risk, respectively a reward that can be achieved by an enterprise for risking its capital²⁴².

No matter the definition, the benefit has kept the two essential characteristics²⁴³:

- is a *random revenue*, meaning that its dimension cannot be certainly known in advance;
- is an *autonomous revenue*, meaning that it cannot be confound with the other forms of revenues (wages, rate of interest, etc.).

The concept of benefit, coming from the Latin word *proficere*, signifies the meaning of producing, of doing something in advance comparing to the other competitors that assure the progress. In the same time, the benefit is the result of the progress and its support.

The benefit is the result of a creative economical, inventing, of performance activity, managed in a high manner, with a result that comes from the way the price accepted on the market in capitalised within the effort included in that certain activity.

The earning power²⁴⁴ can be taken into consideration as viewing the following aspects:

- appears as deciding instrument within the mechanism of free enterprise towards directing the production by reporting to the consumers' requirements (productive or individuals);
- assumes the achievement of certain revenues higher than the outgoings after the selling and cashing the manufactured production;
- reflects the ability of an enterprise on producing benefit, therefore showing within a synthetic way the effectiveness of the entire economical activity of an enterprise.

As the benefit, the earning power – an economical category of high importance – has known diversified conceptual approaches. Therefore, the earning power is regarded as "an important qualitative and synthetic indicator that express the capacity of an economical unit of achieving net revenue, representing the optimal intersection point of all the other qualitative indicators".

The earning power can be defined as "an ability of the enterprises of producing an overplus over the outgoings²⁴⁵ level".

The concept of earning power – cannot be therefore separated by the concept of profit (the benefit), expressing the state of economical-financial credit worthiness of an enterprise, of the economical branches and of national economy within its assembly. It results that emphasized within absolute values, the earning power reflects the margin of revenues that surpasses the outgoings and in derived values (relative expressions), it has to appear always over-unit²⁴⁶.

This manner of approach defines the concept of positive earning power of the micro, mezo or macro-economic level, imperative that has to or should characterize all the economic activities, no matter the steps or fields.

²⁴² Heyne, P. - *Modul economic de gândire*, Editura Didactică și pedagogică, București, 1991, p. 207.

²⁴³ Bogdan, I. - *Management financiar*, Editura Universitară, București, 2004, p. 298.

²⁴⁴ Gheorghiu, A. - *Analiza economico-financiară la nivel microeconomic*, Editura Economică, București, 2004, p. 189.

²⁴⁵ Adochiței, M. - *Finanțele întreprinderii*, Universitatea Româno-americană, București, 2001, p. 174.

²⁴⁶ Ana, Gh. - *Profitul*, Editura Economică, București, 1998, p. 71

Conclusions

Information concerning the performance of an enterprise are useful in order to potentially evaluate the controllable economical resources in the future by it; in the view of estimating its ability of generating treasury flows and respectively for appreciating the manner of how an enterprise has used its resources and can use new resources in the future. Among the elements that can influence the performance of an enterprise, one might mention: the structure of the activity, the quality of human resources, the materials, the relationships between employees, the politics of their motivation, the quality of the products, the technological process, the capacity of using the fixed means, etc.

The performance is materialized into the economical-financial results of an enterprise, and the integration of the performance indicators into the economical-financial analysis of the results achieved into the production and managerial activity of the enterprise.

The benefit is a general accepted measure by the management on evaluating the performance, therefore allowing the merging of divisions' results both into space and time, from one time to another. The analysis of the economical-financial performance of an enterprise is conditioned by also the utilisation of a representative system of indicators, by which the economical part and the financial side of an activity have been materialised.

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