ON THE PERFORMANCE OF ROMANIAN COMPANIES AND PARTNERSHIPS

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Abstract

This article is structured as follows: definitions of performance, profit - the main performance indicator and a case study on how the main performance indicators in the case of the company "X" were calculated.

Keywords: performance, profit, gross profit, net profit, operating profit, turnover, added value, gross operating surplus

Definitions of Business Performance

The etymology of the word goes back to the Latin '*performare'* which means "to give a complete shape to a thing."[153] In English, the verb '*to perform'* means 'to do a thing regularly, methodically and application, to execute, to lead to a convenient achievement.'[154]
In a general acceptance, 'performance'[155] means a special achievement in a line of activity. This definition leads to the conclusion that 'performance is not a statement; it is developed'.
Economic and financial performance is defined by Gheorghe O. Bistriceanu in *Lexicon de finanţe-bănci, asigurări, vol.III,* Editura Economică, Bucharest, 2001, p. 31 as 'a higher quality level of the economic and financial activity of private businesses that can be assessed with the help of several indicators, such as: turnover, return on equity, work productivity, capital yield, gross and net profits, annual fixed capital renewal rate, the efficiency of using fixed means etc.'
In the following page, we would like to discuss the concept of 'performance' as used after 1990. Thus:
Amick Bourguignon (1995) defines management performance as 'the achievement of the objectives of an organization.'
A. Bulrland, M. Friédérich, G. Langlois show that 'performance is not bad or good per se. The same performance can be considered to be a good performance if the objective is modest or as a bad performance if the objective is ambitious'.
M. Niculescu (2003) links performance with enterprise productivity and efficiency 'an enterprise has theoretically a good performance if it is at the same time productive and efficient'.
P. Lorino (1995) states that 'for an enterprise, performance is that element which contributes to improve the value-cost pair. It is not only that which contributes to a decrease of cost or to an increase of value alone'.
T. J. Peter, R.W. Waterman (1995) 'assimilate performance to the concept of excellence which is based on four determinants: organization efficiency, social identity, objective achieving, and the organisation's reputation'.
C. Marmuse (2000) shows that 'performance allows for a long-term advantage to the competitors, through a strong motivation (based on reward systems) of all the members of the organisation'.
Recently, Iulia Jianu has showed that 'performance is a state of competitiveness that ensures the enterprise's long-lasting market presence. Performance indicates potential future results of the

153 Iulia Jianu, 'Evaluarea, prezentarea şi analiza performanţelor întreprinderii', CECCAR Publishing House, Bucharest, 2007, p.12, 19, 20, 21, 23, 24.
154 Idem.
155 Romanian Language Dictionary, Univers Enciclopedic Publishing House, Bucharest, 1996

satisfaction of strategic objectives. Therefore, performance does not describe a present state but it refers to the future'.
These two elements of performance, effectiveness and efficiency yield two types of cost, namely[156] 'the resulted cost', (cost of effectiveness), as an effect of actions that allow the enterprise to yield a result expected by its environment. By reporting the two types of cost categories, we obtain information necessary to pilot performance.
The diversity of definitions of performance proves that it is used differently by the users of financial information, depending on their interests.
Thus, managers are focused on the global performance of their company, the present and potential future investors understand performance as the profitability of their investments, employees are interested in company stability and profitability, creditors are interested in its creditworthiness, while clients are focused on company stability. Performance and value are the ideal pair for an efficient and modern management of companies and partnerships. 'To measure performance means to appreciate value and to know value means to 'translate' performance.[157]'
The most complete definition of performance is given by IAS 1, which refers to global performance. In this view, 'the limits' of the accounting result are exceeded to include 'differences of re-evaluation, differences of conversion, latent gains or losses on financial instruments, actuarial earnings and losses referring to pensions, the effect of change of accounting methods and fundamental corrections.'[158]
Thus, in order to measure a company's performance, we have to make use of not only financial results, as 'it is as if a team were to enter the championship based on its past results,'[159] but also of 'a global view of interdependences between internal and external, quantitative and qualitative, technical and human, physical and financial partners of management. As a result, the users must resort to a company's global performance. It is the mirror of the future 'where results lie' and of the past 'where problems lie'.
It is our opinion that company performance is a complex concept which can be measured with a series of indicators that show the company's place as compared to the competitors.

Profit, an indicator of enterprise performance
From an etymological perspective, the origins of the word 'profit' lie in the Latin verb *proficere*, meaning to progress. It gradually became to mean 'to yield profit.'[160]
Adam Smith[161] presents profit as the 'total economic income of an enterprise less wages and land rent'.
Josep Scumpeter[162] describes profit as 'an income surplus above the cost'.
P. Heyne (1991) defines profit as 'the difference between the enterprise's incomes after wages and financial rent'.
The Dictionary of Economics, 2nd ed., Economics Publishing House, 2001, Bucharest, at p.354 states:
- 'profit is a generic name given to the positive difference between the income obtained through the sale of goods of a company and their cost, considered as an expression of economic efficiency';

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156 Ristea M. Lungu C., Jianu I. – 'Ghid pentru înţelegerea şi aplicarea Standardelor Internationale de Contabilitate, prezentarea situaţiilor financiare,' CECCAR Publishing House, Bucharest, 2004, p. 266-267.
157 Albu C., Albu N., 'Instrumente de management ale performanţei', Editura Economică, Bucharest, 2004, p. 96
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159 Expansion Management Review, December 1997
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161 A. Balean, 'Le profit', Presses Universitaires de France, Paris, 1985.
162 J. Scumpeter, 'Le profit', Presses Universitaires de France, Paris, 1985

- allowed profit 'designation (type) of profit as measure at the disposal of the author, after taxes and which they can use as they consider best; also called net profit';
- legal profit 'designation (type) of profit gained by abiding by the legal provisions';
- illegal profit 'designation (type) of profit gained by violating the legal provisions, deliberate or not';
- regular profit, 'designation given to profit considered to be enough for the owner to continue its activity'.

In Romania, profit is determined as a difference between total incomes and total expenses. Therefore:

$P_b = V_t - C_t$

where:
P_b = gross profit
V_t – total incomes
C_t – total expenses

The operating profit is also determined (Pe) as a difference between operating incomes (Ve) and operating expenses (Ce) according to the formula:

$Pe = Ve – Ce$

Financial profit (Pf) is calculated as the difference between financial incomes (Vf) and financial expenses (Cf) according to the relation:

$Pf = Vf – Cf$

Extraordinary profit (Pex) is the difference between extraordinary incomes (Vex) and extraordinary expenses (Cex).

The current profit (Pc) expresses the positive difference between operating incomes plus financial incomes less operating and financial expenses.

Net profit (Pn) is determined according to the formula:

$Pn = Pb – Ip$

where:
Ip = profit tax

In Romania, the *Profit and loss account* form used until 2005 the term 'earnings', which has been replaced by 'profit' since 2006.

Performance indicators for the company x

We will calculate the profit rates for enterprise X for the period 2004-2007.
The following table will be used:

	Indicator	Measure unit	2004	2005	2006	2007
1.	Total assets	lei	33263340	34833135	35378984	36073079
2.	Net turnover	lei	39651077	48617376	57671285	61136536
3.	Added value	lei	14412885	18658471	20022065	21335446
4.	Gross operating surplus	lei	2272062	3917578	3710288	3797381
5.	Equities	lei	14953621	15371466	15754922	15855815
6.	NFR	lei	9892772	10622547	10659099	11257595
7.	Operating expenses	lei	55995332	61727868	38616787	49068066
8.	Sales of goods	lei	848977	226625	198932	228816
9.	Value of merchandise	lei	38636386	48200269	57412995	60278021

	production for production prices					
10.	Amortisation	lei	791819	959658	753172	686575
11.	Registered capital	lei	4945203	4945203	4945203	4945203
12.	Permanent capital	lei	15534625	15647893	15948590	16425071
13.	Sales of goods	lei	848977	226625	1198932	228816
14.	Net profit	lei	27473	62737	384982	101149
15.	Current profit	lei	185228	393530	736334	495805
16.	Gross profit	lei	185228	382219	736334	495805
17.	Operating profit	lei	798725	941051	1652500	663922

Profit rates

Based on the data in the table above we will calculate some profit rates

Table no.1. Relationship between earnings and means

Cr. No.	Rate	Measure unit	2004	2005	2006	2007
	$\frac{\text{Gross profit}}{\text{Total assets}}\times 100$	%	$\frac{185228}{33263340}\times 100 = 0,56$	$\frac{382219}{34833135}\times 100 = 1,10$	$\frac{736334}{35378984} = 2,08$	$\frac{495805}{36073079}\times 100 = 1,37$
	$\frac{\text{Net profit}}{\text{Total assets}}\times 100$	%	$\frac{27473}{33263340}\times 100 = 0,08$	$\frac{62737}{34833135}\times 100 = 0,18$	$\frac{384982}{35378984}\times 100 = 1,09$	$\frac{101149}{36073079}\times 100 = 0,28$
	$\frac{\text{Gross profit}}{\text{Net immobilised assets}}$	%	$\frac{185228}{7808565}\times 100 = 2,37$	$\frac{382219}{7221735}\times 100 = 5,29$	$\frac{736334}{6700173}\times 100 = 10,99$	$\frac{495805}{7774952}\times 100 = 6,38$
	$\frac{\text{Net profit}}{\text{Net immobilised assets}}$	%	$\frac{27473}{7808565}\times 100 = 0,35$	$\frac{62737}{7221735}\times 100 = 0,87$	$\frac{384982}{6700173}\times 100 = 5,75$	$\frac{101149}{77749952}\times 100 = 1,31$
	Rrfp= $\frac{\text{Gross profit}}{\text{Equities}}\times 100$	%	$\frac{185228}{14953621}\times 100 = 1,24$	$\frac{382219}{15371466}\times 100 = 2,49$	$\frac{736334}{15754922}\times 100 = 4,67$	$\frac{495805}{15855815}\times 100 = 3,13$
	Return on registered capital: Rrcs = $\frac{\text{Gross profit}}{\text{registered capital}}\times 100$	%	$\frac{185228}{4945203}\times 100 = 3,75$	$\frac{382219}{4945203}\times 100 = 7,73$	$\frac{736334}{4945203}\times 100 = 14,89$	$\frac{495805}{4945203}\times 100 = 10,03$

	Permanent capital Rrcp = $\frac{\text{Gross profit}}{\text{Permanent capital}} \times 100$	%	$\frac{185228}{15534625} \times 100 = 1{,}19$	$\frac{382219}{15647893} \times 100 = 2{,}44$	$\frac{736334}{15948590} \times 100 = 4{,}62$	$\frac{495805}{16425071} \times 100 = 3{,}02$

Table no.2. Relationship between earnings and activity

Cr. No.	Rate	Measure unit	2004	2005	2006	2007
	$\frac{\text{Gross profit}}{\text{Turnover}} \times 100$	%	$\frac{185228}{39651077} \times 100 = 0{,}47$	$\frac{382219}{48617376} \times 100 = 0{,}79$	$\frac{736334}{57671285} \times 100 = 1{,}28$	$\frac{495805}{61136536} \times 100 = 0{,}81$
	$\frac{\text{Net profit}}{\text{Turnover}} \times 100$	%	$\frac{27473}{39651077} \times 100 = 0{,}07$	$\frac{62737}{48617376} \times 100 = 0{,}13$	$\frac{384982}{57671285} \times 100 = 0{,}67$	$\frac{101149}{61136536} \times 100 = 0{,}17$
	$\frac{\text{Gross profit}}{\text{Value added}}$	%	$\frac{185228}{14412885} \times 100 = 1{,}29$	$\frac{382219}{18658471} \times 100 = 2{,}05$	$\frac{736334}{20022065} \times 100 = 3{,}68$	$\frac{495805}{21335446} \times 100 = 2{,}32$
	$\frac{\text{Net profit}}{\text{Value added}}$	%	$\frac{27473}{14412885} \times 100 = 0{,}19$	$\frac{62737}{18658471} \times 100 = 0{,}34$	$\frac{384982}{20022065} \times 100 = 1{,}92$	$\frac{101149}{21335446} \times 100 = 0{,}47$
	Return on used funds: Rrfc = $\frac{\text{Gross profit}}{\text{Goods production}} \times 100$	%	$\frac{185228}{38636386} \times 100 = 0{,}48$	$\frac{382219}{48200269} \times 100 = 0{,}79$	$\frac{736334}{57412995} \times 100 = 1{,}28$	$\frac{495805}{60278021} \times 100 = 0{,}82$
	$\frac{\textit{Net}\text{ profit}}{\text{Goods production}}$	%	$\frac{27473}{38636386} \times 100 = 0{,}07$	$\frac{62737}{48200269} \times 100 = 0{,}13$	$\frac{384982}{57412995} \times 100 = 0{,}67$	$\frac{101149}{60278021} \times 100 = 0{,}17$

Table no.3. Return on assets (ROA)

	Net return on assets ROA = $\frac{\text{Net operating profit}}{\text{Total assets}} \times 100$		$\frac{6906}{33263340} \times 100 = 0{,}02$	-	$\frac{899388}{35378984} \times 100 = 2{,}54$	-
	Net operating profit = (CA – CE) - A		$798725 - 791819 = 6906$	941051-959658=-18607	1652560-753172=899388	663922-686575=-22653

Table no.4. Return on equity (ROE)

	ROE	Measure unit	2004	2005	2006	2007
	$R_f = \frac{P_{net}}{Cp} \times 100$		$\frac{27473}{14953621} \times 100 = 0{,}18$	$\frac{62737}{15371466} \times 100 = 0{,}41$	$\frac{384982}{15754922} \times 100 = 2{,}44$	$\frac{101149}{15855815} \times 100$ **=0,63**
	ROE before tax $ROE_{before\ tax} =$		$\frac{185228}{14953629} \times 100 = 1{,}24$	$\frac{393530}{15371466} \times 100 = 2{,}56$	$\frac{738334}{15754922} \times 100 = 4{,}69$	$\frac{495805}{15855815} \times 100 = 3{,}13$
	Yield of equity $\frac{Dividends}{Equities}$		-	-	-	-

Table no.5. Return on sales (ROS)

		Measure unit	2004	2005	2006	2007
	Rmc $= \frac{\text{Sales margin}}{\text{Goods sale}} \times 100$		$\frac{10238}{848977} \times 100 = 1{,}21$	$\frac{21343}{226625} \times 100 = 0{,}42$	$\frac{193}{1198932} \times 100 = 0{,}1$	$\frac{1468}{228816} \times 100 = 0{,}64$
	Rate of the gross operating margin Rmb = $\frac{EBE}{\text{Turnover}} \times 100$		$\frac{2272062}{39651077} \times 100 = 5{,}73$	$\frac{3917578}{48617376} \times 100 = 8{,}06$	$\frac{3710288}{57671285} \times 100 = 6{,}43$	$\frac{3797381}{61136536} \times 100 = 6{,}21$
	Rate of the net operating margin Rmne= $\frac{PE}{CA} \times 100$		$\frac{798725}{39651077} \times 100 = 2{,}01$	$\frac{1233620}{48617376} \times 100 = 2{,}53$	$\frac{1652560}{57671285} \times 100 = 2{,}87$	$\frac{663922}{61136536} \times 100 = 1{,}09$

The evolution in time of the profit rates analyzed in the table above enable us to draw the following conclusions related to the Company X.
Thus, the turnover increased in 2007 by 54.19% as compared to 2004. The increase was especially due to the increase of labour productivity as the company/partnership did not make new investments in production capacities.
The goods production increased each year. In 2007, more goods were produced – 56.02% more than in 2004. The goods produced in this period were also sold and reality shows that the level of finite products stocks decreased from 1,854,330 lei in 2004 to 960,714 lei in 2007.
A major problem that the company/partnership has to face is connected to cashing in from foreign partners, which has negative consequences on the treasury flows. The trade receivables balance reached at the end of 2007 the value of 15,386,589 lei that is the value of the goods delivered in 2007 for 3.02 months.
Long term receivables were low. The company engaged long term receivables only in 2007, the number at the end of the year was 569,256 lei.
We noticed that the total immobilised assets at the end of 2007 was 7,774,952 lei as compared to 7,808,565 lei in 2004, so without any important fixed asset entries in this period.
Gross profit, as a main performance indicator registered modest values, below 800,000 lei, with a minimum of 185,228 lei in 2004 and a peak of 736,334 lei in 2006. Gross profit was decreased by tax rises paid at the state budget according to the deadlines calendar as follows: in 2004 - 681,895 lei; 2,015,405 lei in 2005; 757,931 lei in 2006 and 208,546 lei in 2007.
After this noteworthy effort that the company took at the end of the first trimester 2008, the enterprise paid all its budgetary dues, which it continued to do the rest of the year 2008. At the end of 2008, the net profit reached the sum of 1 mil. USD, with positive consequences for the future development of the company.
Measuring the performance of a company is a complex endeavour. It must measure, through a system of indicators, the activity of the enterprise.

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