

ASPECTS OF COMPANY PERFORMANCE ANALYSIS BASED ON RELEVANT FINANCIAL INFORMATION AND NONFINANCIAL INFORMATION

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The main objective of our work is the conceptual description of the performance of an economic entity in financial and non-financial terms. During our approach we have shown that it is not sufficient to analyze the performance of a company only in financial terms as the performance reflected in financial reports sometimes do not coincide with the real situation of the company. In this case the cause of the differences has to be found among the influences of other nonfinancial information. Mainly following the great financial scandals the distrust in the reliability of financial-accounting information has eroded strongly and thus the business performance measurement cannot be the exclusive domain of the criteria of financial analysis, but must be done in a comprehensive way, based both on financial criteria and on non-financial ones (intangible assets, social responsibility of the company). Using non-financial criteria have led to the occurrence of new types of analysis, namely extra-financial analysis. Thus, enterprise performance is not subject to material and financial resources managed and controlled by the entities, but to the complex of intangible resources that companies created by thier previous work. The extra-financial analysis has to face difficulties arising mainly from the existence of non-financial indicators very little normalized, and from the lack of uniformity of the practice in the field. In determining the extra-financial performance indicators one has to observe the manifestation and the evolution of the company's relationships with its partners / environment. In order to analyze the performance measurement by financial and nonfinancial indicators we chose as a case study a company in Bihor county, listed on Bucharest Stock Exchange. The results of our study show that the Romanian entities are increasingly interested in measuring performance and after the extra-financial analysis we concluded that the company had set targets appropriate for adopting a responsible behavior, aimed at a sustainable development of the entity.

Keywords: accounting information, relevance, performance, financial information, non-financial information.

JEL codes: M41, M21.

Introduction

In the socio-economic space in which it operates, an economic entity must constantly prove its economic and financial performance. The results of the enterprise's performance analysis process depend on quality, quantity, timeliness and accuracy of information used in the analytical work. Thus, in order to be useful the accounting information must comply with all requirements relating to content and type of presentation in the annual financial statements. Sometimes the performance reflected in financial statements does not coincide with the real situation of the company. In this case the cause of the differences must be found in the influences of other "nonfinancial" information.

Research methodology

This paper aims to support *the hypothesis* that accounting information that is relevant, reliable, and available in real time, completed with non-financial information, is an appropriate source for assessing the company's performance.

In the process of drafting this paper, we have followed the next steps:

- *-Choosing the subject of the research and establishing the significance of the problem;*
- *-Documentation, by resorting to the international and domestic accounting literature regarding our research topic;*
- *-Defining the research questions: the purpose of this research is to answer a series of timely questions of great economic interest and related to the main hypothesis:*

Q1: Is the accounting information an appropriate source in assessing performance of an enterprise?

Q2: What are the quality features that accounting information must meet in order to be a relevant source for the performance analysis?

Q3: How does the nonfinancial information influence the assessment of the enterprise's performance?

- *Choosing the data collecting methods and techniques;*
- *Data analysis and data interpretation.*

Relevance of accounting information in assessing company performance

According to the local accounting regulations (OMFP 3055/2009), *qualitative characteristics* are "attributes that determine the usefulness of information provided by financial statements". The four principal qualitative characteristics are *understandability, relevance, reliability and comparability* (OMFP 3055/2009: Section 2.2.).

In the IASB's view the fundamental qualitative characteristics of accounting information are: *relevance, materiality and credibility*, and the characteristics relating to the presentation manner of accounting information are: *comparability, verifiability, timeliness, understandability* (IASB 2010).

According to the definition in the national legislation, the information is **relevant** when it influences the economic decisions of users, helping them to evaluate the past, present or future events, to confirm or correct their previous evaluations (OMFP 3055/2009: section 2.2.). The relevance of information is influenced by its nature and its significance level. According to the 2010 conceptual framework developed by the IASB to meet the requirement of relevancy, the information should have predictive value and confirmatory value, i.e. to provide an adequate basis of forecasts and to confirm previous forecasts, which of course are interrelated aspects (IASB 2010, QC6-QC10).

Another essential characteristic of the accounting information is **reliability**. In the view of OMFP no. 3055/2009, but also in the IASB's view, the information is reliable when it does not contain significant errors, it is not biased and users can be confident that it accurately represents what it is bound to represent or what they expect, reasonably, to represent. Credibility supposes: accurate representation, consistency with economic reality, neutrality, i.e. independence from influences and completeness. Comparability, verifiability, timeliness and understandability are quality features of form that improve the utility of the information which is represented in a relevant and credible way (IASB 2010, QC19).

The influence of the accounting information disclosure on the stock market price

The conceptual framework for financial reporting developed by the IASB in 2010 states that the **overall objective** of financial reporting is to provide useful financial information about the entity to current and potential investors and also to creditors in making decisions on the distribution of the financial resources (IASB 2010, QB2). The current and the potential investors are those users

of accounting information contained in financial reports that are interested in the entity's future ability to make profit. These investors want to foresee the future dividends and the further changes in the market price of the company's stock (Mosciciov, 2011: 48). Dividends and prices are largely influenced by the profit, therefore the investors may seek to anticipate these results. Negative news on the performance has a negative impact on share price quoted at the stock exchange and on human resources, thus the managers try to avoid publishing negative results on performance. Therefore a regular publication of financial results and especially of financial performance has a positive impact on the public and especially on the investors (Brown, Pinello, 2007: 23).

In this sense accounting communication is defined as a means of expression, which is characterized by a message and a code, in which the recipient must have the ability to decode the message (Durand, 1981:58-59). The information provided by financial statements must be adapted and processed in the financial and economic analysis in accordance with the objectives targeted, so that it can be easily understood by the users of information.

For the companies quoted at the stock exchange it is recommended to calculate and analyse specific indicators, such as: (Niculescu, 2003: 226-227).

- **EPS (Earnings Per Share)** – represents the earnings per each share owned, the part of the result that comes from each share owned, calculated as a ratio between net income and the average number of shares. This indicator is particularly useful for the individual shareholder interested in the part of the result that is due to him.
- **SMV (Stock market value)** – indicator that reveals latent capital gains or losses compared to the book value, determining it as the product between the number of shares and the price of a share.
- **MVA (Market Value Added)** – is the added value that the entity created as function of the amount of the initial capital invested, quantifying the impact of a managerial decision on both current and future performance. It is determined as the difference between the market value of equity and the book value of the equity or as the difference between the stock market value and the shareholders' contribution to the capital.
- **PER (Price Earning Ratio)** – the market capitalization ratio, shows the number of years needed to recover the invested capital in the case of full distribution of net profit as dividends, determining it as the ratio of the stock price and the earnings per share of the action or the ratio between stock market value and the result of the exercise (Vâlceanu, Robu, Georgescu, 2005: 58-59).
- **P/BV (price to book value)** – is the ratio of the market price of shares and their book value. We can say that if P/BV is higher than 1, the entity created value for shareholder, while if P/BV is less than 1 the entity destroyed a part of the value that shareholders have brought.
- **DPS (Dividend per Share)** – expresses the short term profitability of the shares, determining it as the ratio of the distributed dividend and the number of shares (Bușe, 2005: 300).

The non-financial information and the performance analysis

The suite of financial scandals (bankruptcy of Enron, WorldCom, Parmalat) led to the distrust in the reliability of financial - accounting information, which doesn't cover all the aspects of performance. Therefore the measurement of the enterprise's performance cannot be the exclusive domain of financial analysis criteria, but must be done in a comprehensive way, based both on **financial criteria** and **nonfinancial** ones (**intangible assets, social responsibility of the company**).

The use of non-financial criteria has led to the appearance of new types of analysis, known as **extra-financial analysis**. Thus, enterprise performance is no longer conditioned by material and financial resources managed and controlled by the entities, but by a complex of *intangible resources* created by the previous activity of the companies (Mironiuc, 2009: 154-155). The

setting up of the extra-financial analysis confronts with difficulties arising mainly from the existence of *non-financial indicators very little normalized*, and from the lack of uniformity of practice in the field.

The phrase *responsible behaviour of multinational companies* lies in their involvement in the development of policies of environmental protection and employees' rights within the developing countries. The most advanced initiative towards a credible reporting system of sustainable development - based on non-financial criteria - is the *Global Reporting Initiative (GRI)* launched in 1997 by an American NGO. This has the merit of developing the following performance indicators: *Indicators of economic, environmental, social performance*. In determining the extra-financial performance indicators it is observed the expression, the evolution of the enterprise's relations with its business partners / "surrounding" environment (internal and external) (Mironiuc, 2009: 153-160).

Through these types of analysis (financial and non-financial) numerous aspects and causes can be found that generate deviations between market value and economic value of a company (Mironiuc, 2009: 151.)

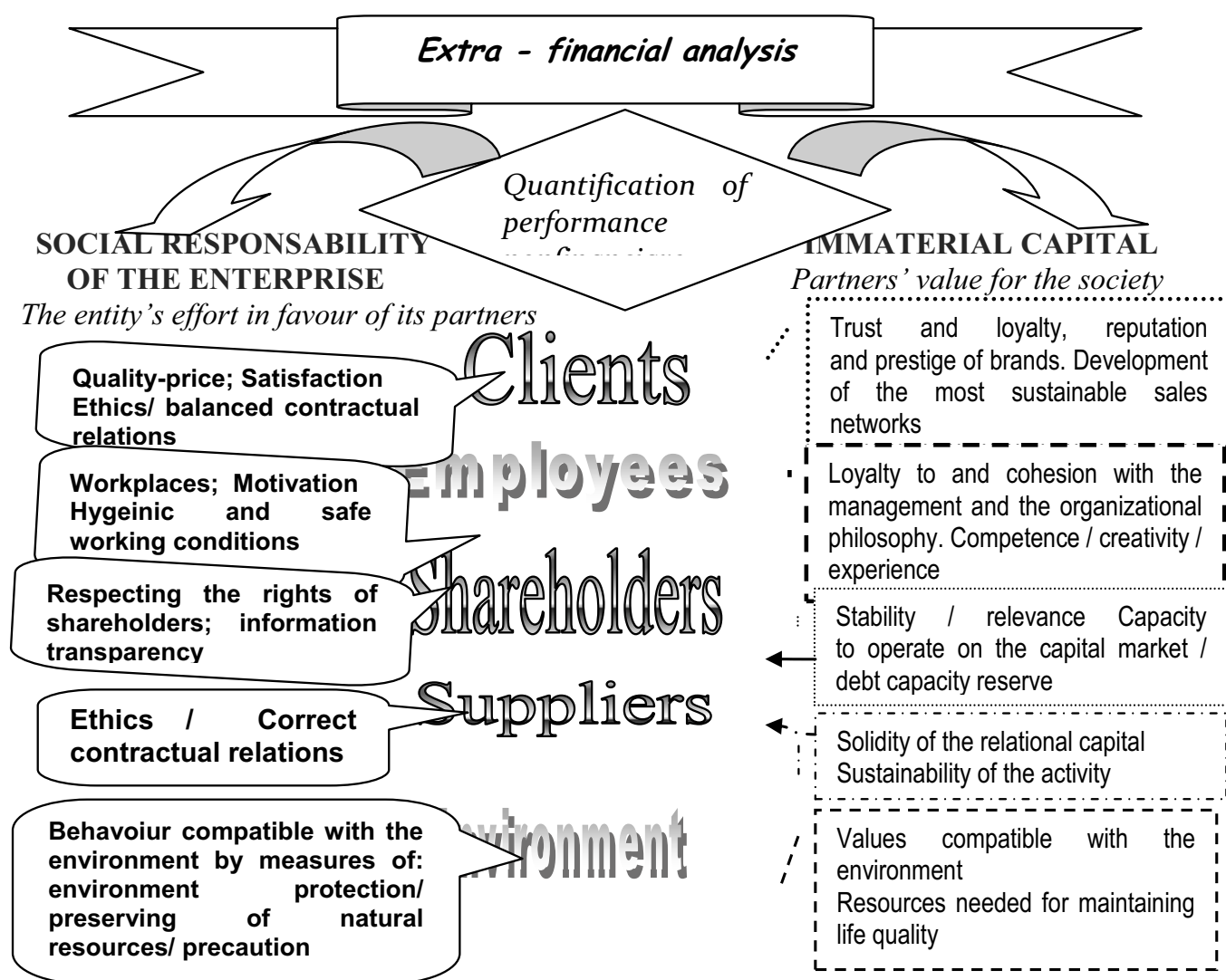


Figure 1 Performance from the point of view of the relation with stakeholders
(Authors' adaptation after Mironiuc M., 2009, p. 157)

To demonstrate those presented theoretically above, we chose to analyze these indicators based on information from the financial situations of SC Sinteza SA, a company in Bihor county, listed on Bucharest Stock Exchange.

Assessment of the performance of the company Sinteza SA reflected by stock market indicators

Table 1. Main stock market indicators of Sinteza SA.

Indicator	Calculating formula	Value in 2011-2012
Dividend paid		0
Number of shares (N)		66 112 590
Social capital		9 916 888.50
Nominal value (VN)	Social capital /N	0.15 Ron
Book value (BV)	Equity/N	2.54 Ron
Current share price (P)	Demand-Supply	0.487 Ron
SMV - Stock market value (Capitalization)	$P \times N$	32 196 831.33
MVA - market value added	Stock market value - Initial invested capital	15 470 346.5
P/BV Price to book value	P/BV	0.19
DPS Dividend per share	Dividend paid /N	0
EPS – Earnings per share	Result/N	-0.02

(source of values: <http://www.bvb.ro/ListedCompanies/SecurityDetail.aspx?s=STZ>)

In 2011 the company Sinteza SA did not distribute dividends, because the 2011 result is loss. This negative aspect is reflected also by the *market price of shares* (0.384 Ron), that exceeds their nominal value (0.15 Ron), but is well below their *book value* (2.54 Ron).

The *market value added (MVA)* indicator characterizes the wealth the company released to its shareholders, totaling over 15 million RON.

Price to book value ratio P/BV is less than 1, so we can say that the company destroyed a part of the value that shareholders had brought, so the amount that investors would be willing to pay in the market for shares is less than the amount that shareholders would receive from the liquidation of assets. The indicator records the value of 0.15, i.e. the market price of the shares represented only 15% of the book value, a low percentage in comparison to the average indicator in the manufacturing sector, which is 0.99, i.e. 99% (source www.bvb.ro).

The negative value of the *earnings per share (EPS)* is due to the loss recorded in 2011, which is also a signal of a poor performance.

Therefore we can say that the stock market indicators reflect a low performance of the company.

Performance analysis using non-financial information

In the extrafinancial analysis of the performance of the company Sinteza SA we have established as a basis for assessment its responsible behaviour. The information posted on the www.sinteza.ro website shows the importance of performance considering economic, environmental and social aspects.

In terms of **economic and environmental policy's performance** the company Sinteza SA seeks the following objectives:

- obtaining profit as long as it does not produce a major impact on the environment;
- minimization of losses of raw materials and resources;
- pollution prevention in the company;
- compliance with environmental laws and regulations;

- the company has obtained all permits and authorizations required by legislation.

As for the **social aspect** the performance of the activity appears in:

- assurance of products' quality in accordance with customers' requirements;
- emphasis on health and safety of staff based on training and learning.

In order to achieve a high level of performance of the activity the company has in view the implementation and preservation of a Quality Management System according to SR EN ISO 9001:2001 which is an appropriate organizational framework to achieve the quality policy and objectives.

Conclusions

Following the theoretical and empirical research we can support the validity of the main hypothesis, that the relevant accounting information presented in the profit and loss account and cash flow statement is an adequate source for assessing company performance and may be influenced by non-financial information.

The conclusions of the performance analysis for the company Sinteza SA are as follows:

- The values recorded for the *stock market indicators* confirm the situation presented in the financial statements and reflect a poor performance and the non-financial information has little and occasional influence on their evolution.
- From the *extra-financial analysis* we concluded that the company has set appropriate targets corresponding to a responsible behaviour, aimed at a sustainable development of the entity.

In our opinion the assessment of the performance of an enterprise is the result of a process of complex analysis, in which we must take into account the most relevant information sources.

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