INSTRUMENTS FOR THE QUANTIFICATION OF ECONOMIC PERFORMANCES OF THE ENTERPRISE

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Abstract

Financial analysis is characterized by interpretative approach based on the data provided by the accounting process. It tries to make assessments of the situation and enterprise performance with particular emphasis on their relevance. A proper financial analysis involves not only a flawless calculation of indicators or a flawless presentation of tables and diagrams. Using financial analysis as a management tool for monitoring the enterprise, as well as a system for moving the mechanisms contributing to increased performance and economic efficiency in order to ensure competitive advantage will confer a privileged position in all disciplines involving dynamic management processes. The company's profitability is the most important qualitative index of the economic activity that expresses the capacity of making profit. The rates that describe profitability are: the Sales Profit Rate (SPR), the Excess of Gross Profit (EGP), the Rate of Economic Profit (REP), the Self-financing Capacity (SFC), Financial Profitability (FP) and Global Profitability (GP). We took into account the case of S.C. AGRO**** S.R.L. Iaşi. We followed the evolution of the main economic-financial indicators between 2011 and 2013. Despite some good indicators (SRP, EGP, REP, SFC and FP), in the case of S.C. AGRO**** S.R.L. Iaşi one can really notice a low overall profitability, which means that the company's capacity to create value is low.

Key words: economic performances, indicators, profitability, agricultural company

The research activity of the economy domain was vital for the progress of humanity. To be aware of each goal of any economical science paper and to lead is the purpose of any economy politics.

For the economy science to be a positive one, the economical reality has to be well known. Experience and intuition are insufficient today to efficiently and operationally solve the problems generated by the more and more complex and ever-changing economic reality (Horomnea E., 2004).

Today, the focus is more and more on the scientific management of the economic activity, which actually means scientifically elaborated decisions.

A definition of management, in its more restrained sense, would be the coordination of functions and of the persons who carry out these functions, in view of achieving a certain beforehand-established goal (Bojian O., 2006).

Under the current conditions, the actions of each economic unit, natural person, autonomous department, national company or trade firm represent the consequence of the targeted goal, conjugated with environment stimuli. The materialization of the management process is realized by the decision act, which implies three systems: the operational system or the acting system, within which the respective economic phenomena; the management system, which represents the ensemble of decision and their action in the functioning of the informational system; and the informational system, which makes the link between the operational and management system (Pântea P.I., 2009).

The subunits of an agricultural company (farms and sectors) keep their balance sheet separately up to the level of check balance; to get the check balance on all the agricultural activity, the data are centralized monthly. The records (clients, suppliers, debtors, creditors, etc) is kept on the level of the company. Both orders and goods reception are achieved through the supply-shipping-sale department within the company, wherefrom they are distributed to farms and sectors.

The personnel: each unit is managed by a farm or sector manager, assisted by an economic manager. In terms of operating staff, the vegetable farms have full-time employees, the tractor mechanics, whose number has to fit into an established one, according to the agricultural

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surface currently operated and the structure of the crops.

Live-stock farms employ zootechnical workers who are trained in taking care of the animals that exist on a farm, while their number varies according to the number of live-stock, species, and the mechanization degree.

The service sectors (mechanic, service) are coordinated by a department head (a mechanical engineer as a rule), helped by an economic manager and a foreman who is specialized in cars and tractors, for the mechanical sector, and another foreman specialized in zootechnical service, within the SERVICE department. The operating personnel are made up of mechanics for the maintenance of cars and tractors or of the installations in the zootechnical sector. The number of staff is sized in conformity with the number of tractors or of the plants in the zootechnical area. The number of staff is also sized according to the number of tractors and agricultural machinery that the company owns. As an integral part of the environment, the company is constantly connected to several other constituents. The company belongs to a whole range of networks it uses to develop and finalize its economic activity. These relationships between the unit and the constituents of its external environment are, through their nature and content, of two kinds: market and competition forces.

Out of the high range of relations that exist between the company and its external environment, market forces stand out due to their complexity and size. They refer to the selling and purchasing of goods and services, to the capital loan and to recruitment. Market research constitutes the premise and the starting point in any company's activity (Brânzan A., et al, 1999).

The market force represents for the modern company the benchmark against which the present and the future situations are confronted, the source of ideas for new products or for the modernization of the existing ones.

The interactions between the company and the market are also revealed by the supply-production-selling flow. As well as, this interaction is reflected in the company's directing its activity towards priority objectives such as satisfying, to the highest degree, the consumers' needs through the goods it creates and sells, increasing efficiency and profitability, based on the overall sales and the unit profit (Ristea M., 2003).

MATERIAL AND METHOD

We took into account the case of S.C. AGRO**** S.R.L. Iaşi. We established the compa-ny's relations with the market, referring to three important elements: the goods market; the capital market; and the labour market. We followed the evolution of the main economic-financial indicators: the turnover; overall liquidity; general solvency; the working capital; the needed working capital; pecuniary resource balance; and especially the profitability.

RESULTS AND DISCUSSIONS

The size and nature of a company's functions depend on a series of general and specific factors, which may be internal or external to the company, the most important being: the socio-economic framework, the specificity of the market and the type of company. The relations of the company in the market are therefore highly diverse, and may be grouped according to several criteria (Pahone, C., 2005; Costuleanu, C., 2009):

• The object of the relations: purchasing-selling relations and information sharing and receiving.

The Purchasing-selling relations may take various forms: goods delivery, goods and services purchase, consumer services, renting, loan and mediation activities. The purchasing-selling relations can be successively expressed as: the pre-contractual relations (mainly achieved by means of negotiation, order, offer request and firm offer); contractual relations (their main tool is the contract complemented by a series of activities such as: invoicing, delivery, shipping, reception and deduction); post-contractual relations (appear during the guarantee and post-guarantee period).

The aim of the information-sharing relations is the sustaining and the materialization of the selling-purchasing relations, which are achieved through advertising, public relations and other promotion means.

• According to the profile of the market agents, the relations can be: with suppliers and service providers, with beneficiaries, with the public institutions and structures;

• According to their frequency, the relations are constant, temporary or occasional;

• According to their focus, the relations can be focused dimensionally, spatially or temporally, or they can be dispersed.

S.C. AGRO**** S.R.L. Iaşi develops partnerships with: suppliers (S.C. AGRI****** S.R.L.: fertilizers and seeds; S.C. BIOT***** S.R.L.: equipment leasing; and S.C. NUT***** S.R.L.: concentrated and combined-feed, premixes for pigs and cattle) and customers (S.C. BIOT***** S.R.L.; S.C. AGRO**** COMP S.R.L.; and S.C. ALM*** S.R.L.).

The **turnover** of the S.C. AGRO**** S.R.L. Iaşi represents the total sales figure of the organization for a stated period, which results from: sold production, income resulted from selling the goods and income resulted from operation subsidies devolving on the net turnover. The turnover does not include either the VAT or the income resulted from the sale or the transfer of fixed assets.

The **overall liquidity** compares the financing sources to the current uses and measures the short-term coverage degree of the company's debts by means of the circulating assets. The higher the liquidity, the higher the guarantee needed for the reimbursement of the debts is. The constant and sharp decline of this indicator is the proof of an insufficient net working capital and results in payment default.

The **general solvency** measures the guarantees that the company offers to the creditors. It describes the degree to which the company's total debts may be covered through its capitals. The constant and dramatic cut in solvency leads to the creditors' loss of confidence provided by the company. It leads to the loss of faith the use up of the circulating capital meant for reinvestment. It expresses the coverage degree of the company's debts through its capitals. The constant and sharp reduction of the overall solvency leads to the loss in the creditor's trust and to both long-term and short term financing difficulties.

The **working capital** ensures the operational fluent development, measuring the relative independence of the company as compared to the takings cashed in from debts. It represents the surplus of "long" financing sources (permanent capitals) against lasting uses (fixed assets). The bigger it is, the more positive the company's treasury will be.

The **needed working capital** describes the level of current financing necessities. It is that part of the circulating assets that cannot be covered by short-term debts and which should be financed out of stable sources (NWC). The bigger it is, the more the company needs "long-term" and important sources. The reduction of NWC based on debt increase is nevertheless highly risky.

The **pecuniary resource balance** describes the capacity of the company to generate liquidities. It reveals the difference between the company's available balance and the short-term credits that are contracted. The unfavorable evolution signals that the company is not capable to generate enough liquidity and is forced to ask for credit, which may lead to bankruptcy.

The company's **profitability** is the most important qualitative index of the economic activity that expresses the capacity of making profit.

The rates that describe profitability are: the Sales Profit Rate (SPR), the Excess of Gross Profit (EGP), the Rate of Economic Profit (REP), the Self-financing Capacity (SFC), Finacial Profitability (FP) and Global Profitability (GP).

The **Sales Profit Rate** (SPR) defines the company's profitability; describes the company's capacity to increase the shareholders' wealth and to fulfill the main rationale for the existence of a trading society: making profit. If the rate is too low, it determines the lack of attractiveness and insufficient self-development sources. If the rate is negative, the company loses capital.

The **Excess of Gross Profit** (EGP) is the company's main financing source, since it encompasses amortizations, in addition to operation profit, while the former in their quality of simply calculated but unpaid expenses are mere accumulations of the company up to the moment when they are used as investment resources.

An operation deficit brings forward the very rationale for the existence of a company. The insufficient Operation Gross Excess engenders difficulties in pecuniary resources.

The **Rate of Economic Profit** (REP) reveals the degree to which the assets of the company are capitalized. The economic profit emphasizes the capacity of the operation to increase the company's patrimony, represented by its assets. The economic loss signals serious operation failures which wear out the company's wealth. If the economic profit is too low, it hinders development through self-financing or own resources. Values which are lower than the average on each sector reveal an inefficient use of the assets, their inappropriateness in relation to the specificity of the business operated by the company (in the Anglo-Saxon literature this indicator is called "earning power").

The **Self-financing Capacity** (SFC) refers to the company's possibilities to develop its activity based on its own resources. The self-financing capacity of the company cumulates the financing sources generated by its own functioning (the net output and amortization expenses). If the self-financing capacity is too low, it determines the use of external resources, which are expensive and rare. A negative capacity is equivalent to the self-destruction of the company's wealth, the use up of the circulating capital meant for reinvestment.

Financial Profitability (FP) measures the contribution that the company's net profit or net loss has in the development or diminishing of its own capitals. If the financial profitability is too low, the way in which the company works does not contribute sufficiently to the increase of the stakeholders' wealth. If it is negative, it damages it in time.

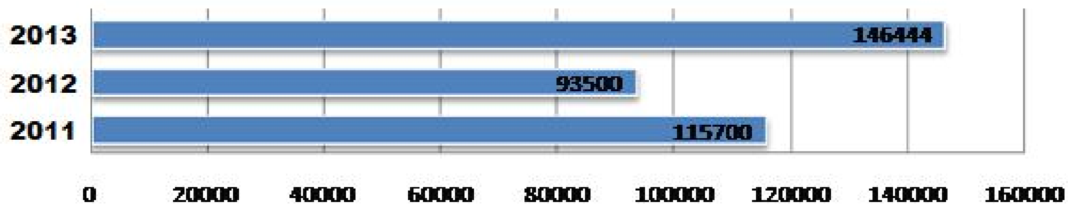

Figure 1 **The turnover for S.C. AGRO**** S.R.L. Iaşi between 2011-2013 (thousands lei)**

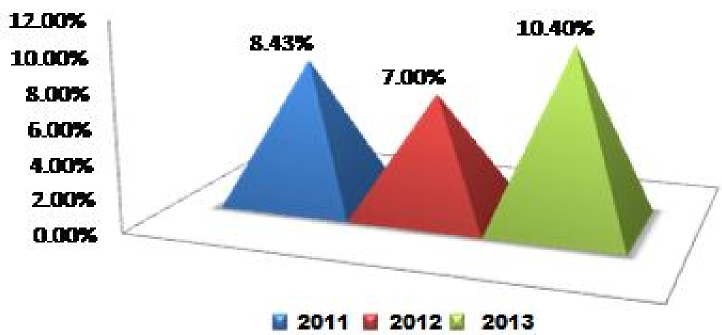

Figure 2 **The Sales Profit Rate (SPR) for S.C. AGRO**** S.R.L. Iaşi between 2011-2013**

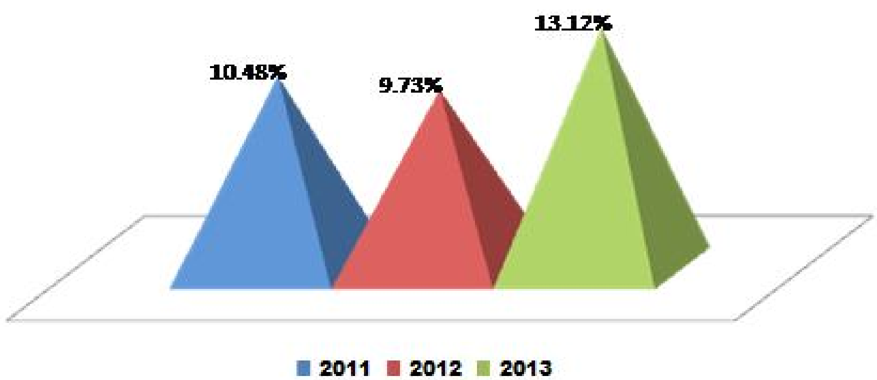

Figure 3 **The Excess of Gross Profit (EGP) for S.C. AGRO**** S.R.L. Iaşi between 2011-2013**

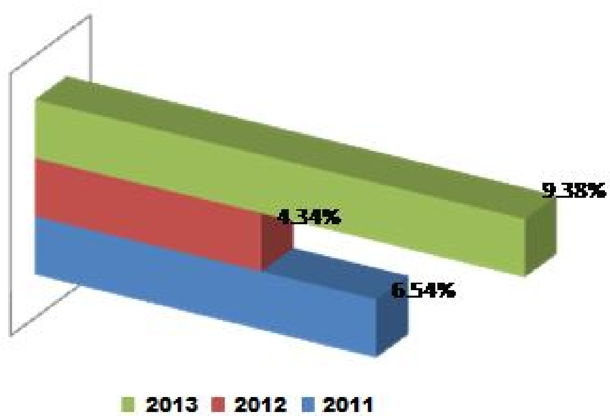

Figure 4 **The Rate of Economic Profit (REP) for S.C. AGRO**** S.R.L. Iaşi between 2011-2013**

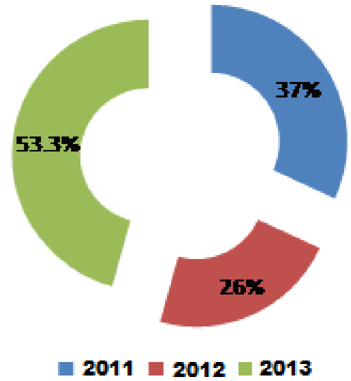

Figure 5 **The Self-financing Capacity (SFC) for S.C. AGRO**** S.R.L. Iaşi between 2011-2013**

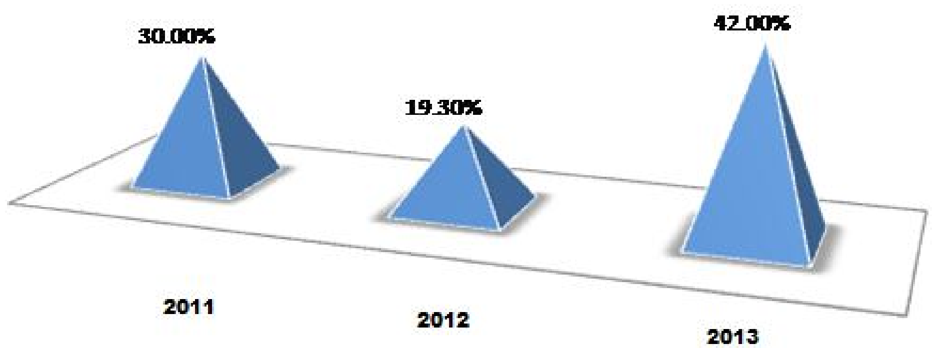

Figure 6 **The Financial Profitability (FP) for S.C. AGRO**** S.R.L. Iaşi between 2011-2013**

The **Global Profitability** (GP) measures the importance VAT holds for operating revenues and characterizes the company's capacity to create value starting with purchasing from third parties. A low Global Profitability frees little resources for salaries, taxes and profit. The negative values signal that the company should not exist.

Some of the most important economic-financial indicators for S.C. AGRO**** S.R.L. Iaşi are presented in the above figures (*figure 1, 2, 3, 4, 5, 6*).

The values indicated by the Sales Profit Rate (SPR) between 2011-2013 reflect the high interest for the increase of the stakeholders' wealth. A negative rate reflects the decapitalization situation, but the indicators for S.C. AGRO**** S.R.L. Iaşi have positive and increasing values, which illustrate a quality of the economic activity, expressed in the capacity of making profit.

The values of the Excess of Gross Profit (EGP) between 2011 and 2013 reflect the amounts accumulated by the company up to the moment when they are used as investment sources, that is an increase of the financing sources of S.C. AGRO**** S.R.L. Iaşi. It is known that an insufficient gross operation excess determines cash resources problems. The analysis of this indicator in the case of S.C. AGRO**** S.R.L. Iaşi reveals also that the near future will not be affected by cash resources problems, since financing sources have been provided and are marked by positive increasing indicators.

The Rate of Economic Profit (REP) reflects the degree to which the company's assets are capitalized. This indicator is marked, in the case of S.C. AGRO**** S.R.L. Iaşi by positive, increasing values (in the last 3 years), which emphasizes the ability of operation to increase the company's patrimony.

The Self-financing Capacity (SFC) indicator calculated for the last three years, proves that S.C. S.C. AGRO**** S.R.L. Iaşi is able to develop its activity based on its own resources. Since high values (almost double for the year 2013) can be noticed, it results that S.C. AGRO**** S.R.L. Iaşi does not have to use external sources or even to use up the circulating capital for re-investment.

The Financial Profitability (FP) for the period 2011-2013 reveals high values in the case of S.C. AGRO**** S.R.L. Iaşi, with an important increase in 2013, which shows us that the functioning of the company contributes to the increase of the shareholders' wealth and does not run any danger to damage it in time.

In the case of S.C. AGRO**** S.R.L. Iaşi one can really notice a low overall profitability, which means that the company's capacity to create value is low.

CONCLUSIONS

We took into account the case of S.C. AGRO**** S.R.L. Iaşi. We followed the evolution of the main economic-financial indicators between 2011 and 2013: the turnover; overall liquidity; general solvency; the working capital; the needed working capital; pecuniary resource balance; and especially the profitability.

S.C. AGRO**** S.R.L. Iaşi has positive and increasing values of sales rate profir (SRP), which illustrate a quality of the economic activity, expressed in the capacity of making profit.

The data provided by excess of gross profit (EGP) reveal also that the near future will not be affected by cash resources problems, since financing sources have been provided and are marked by positive increasing indicators.

The rate of economic profit (REP) is marked by positive, increasing values (in the last 3 years), which emphasizes the ability of operation to increase the company's patrimony.

S.C. AGRO**** S.R.L. Iaşi does not have to use external sources or even to use up the circulating capital for re-investment as stated by the self-financing capacity (SFC) indicator.

The financial profitability (FP) shows that the functioning of the company contributes to the increase of the shareholders' wealth and does not run any danger to damage it in time

Despite the above good indicators, in the case of S.C. AGRO**** S.R.L. Iaşi one can really notice a low overall profitability, which means that the company's capacity to create value is low.

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