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OPTIONS FOR OPERATIONALIZING THE USE OF FINANCIAL ACCOUNTING INFORMATION TO ACHIEVE PERFORMANCE

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Abstract: *In pursuit of achieving performance, in an environment that increasingly allows the existence of weak competitors, it is necessary for organizations to opt for the determination and implementation of an analysis system based on the information provided by financial accounting and not only. Financial balance, financial position, performance, profitability, profit, are just a few dominant, current and prospective problems of organizations and implicitly, of management. Thus, financial accounting no longer only has the role of providing mandatory information and reporting, but of ensuring a solid informational basis for operationalizing the valorization of information through tools for determining financial balance or the valorization of information provided through indicators and specific constructions. In the paper, we have made a synthesis of those that offer organizations at least the starting point in complex analyses. In order to know the option of organizations regarding their use, the paper presents the results obtained following a selective research conducted on a valid sample of 301 organizations, based on a questionnaire.*

Keywords: financial accounting, performance, indicators, information

1. Introduction

Performance is the objective of any organization, regardless of how it is defined or perceived, and performance management is treated from the perspective of numerous fields in the specialized literature, being considered a central exercise in any organization [1, 2].

In pursuit of achieving performance, in an environment that increasingly allows the existence of unprepared organizations, financial accounting is recognized as the main provider of information, at least primary, for the construction or application of certain indicators [3], systems, methods, techniques and financial procedures, depending on specific needs. To achieve their proposed objectives, managers must consider capitalizing on accounting information, starting at least from the annual financial statements [4, 5, 9]. Good financial management is ensured with the help of rigorous, demanding but above all well-founded options.

2. Options Regarding the Use of Information Provided by Financial Accounting

The specialized literature is diverse and deals, from various perspectives, with the financial constructions determined based on accounting information. Thus, starting from the analysis of the specialized literature, we will present a synthesis of the main possibilities of operationalizing the valorization of accounting information for the analysis of the financial situation [6, 7, 8, 10, 11]:

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- structure ratios, establish the weight of each item or group of balance sheet asset items in the total asset, offering the possibility of expressing the balance sheet as a percentage. These include the fixed assets ratio and the current assets ratio, ratios regarding the structure of debts and equity, each of which can be detailed by microstructures;
- debt ratios, measured in terms of liquidity-expansibility analysis, highlight the importance of debt on the financial management of the organization. Comparing external financing through borrowed capital with equity, these ratios highlight the composition of borrowed funds and the distribution of permanent capital between own funds and long-term borrowed funds;
- management rates are used to assess the level of use of the resources available to the organization, namely the speed with which they travel through the economic circuit and are transformed into cash, in the case of assets, or the speed of resource renewal, in the case of liabilities;
- liquidity and solvency ratios [12], characterize the organization's ability to pay its obligations when due, to meet unforeseen cash needs or through which the risk of total insolvency in the long term can be assessed;
- financial balance, which, in its simplest form, expresses the state of equality and the correlations between the possibility (sources) of forming financial resources and the need for financial resources for carrying out operating or operational, investment and financing activities. Financial balance can be determined by specific rates determined based on information from the balance sheet or by restatement of accounting information for the purpose of constructing the financial balance sheet and the functional balance sheet. To establish financial balance in a dynamic view, accounting information is based on flows, the tools used being the Cash Flow Statement or the Needs-Resources Financing Table;
- the transposition of performances from the Profit and Loss Account or the Income Statement can be achieved through interim management balances - indicators in the form of cash accumulation margins that highlight the stages of forming the net result of the year in close connection with the structure of income and expenses related to the organization's activity;
- self-financing capacity [15] and self-financing express in terms of receipts and payments the organization's capacity to ensure its development through its own financial means, respectively the part of the self-financing capacity that remains retained by the organization after deducting distributed dividends and any other participation in benefits;
- rates of return, the synthetic expression of the results of any kind obtained by it. Within these, commercial, economic and financial rates of return can be identified;
- earnings per share [13, 14] - Managers of organizations, regardless of their type, must make informed financing and investment decisions, and the use of accounting information plays a primary role in this process.

3. Research Methodology

To Know the options regarding the calculation of financial indicators as an operationalization financial accounting information, we realized a selective research based on a questionnaire. The valid sample was 301 organizations from the Central Region, formed by organizations divided into categories from the perspective of the obligation to prepare annual financial statements, according to the provisions of OMFP 1802-2014. The main and secondary objectives of the research, as well as the related hypotheses and variables, are presented in Table 1.

Table 1: Objectives, hypotheses and variables of the research

Main objective (Q)	Main hypothesis (IP)	Secondary objective (QS)	Secondary hypothesis (IS)
Q_1 Knowledge of options regarding the calculation of financial indicators as an operationalization of the valorization of information provided through financial accounting.	IP_1 – Often, managers do not require the use of information provided by financial accounting for the purpose of knowing the financial position, performance and balance.	QS_1 Investigation of the degree to which the main indicators /rates /financial constructions are required according to the category of organizations.	IS_1 – There is a direct link between the degree of information request and the category of organizations [5],
	IP2 – The main indicators / rates / financial constructions required are liquidity and solvency ratios, profitability ratios and cash flow statement.		

Variable 1. Which of the following indicators / constructions based on information in financial accounting are required /requested by the management of your organization for:

	Yes	No
Analysis of financial position		
a. structure rates		
b. debt rate		
c. management rates		
d. liquidity and solvency rates		
e. funding rates		
f. none		
g. others________________________		
Analysis of financial performance		
a. interim management balances		
b. self-financing capacity		
c. profitability rates		
d. break-even point		
e. earnings per share		
h. none		
i. others________________________		
Analysis of financial balance		
a. indicators based on the financial balance sheet		
b. indicators based on the functional balance sheet		
c. indicators based on the accounting balance sheet		
d. financing needs-resources table		
e. cash flow statement		
f. none		
g. others________________________		

4. Research Results and Conclusions

The primary information obtained to highlight the effective management use of information generated by the financial accounting system is presented in Table 2. For further analysis, we formulated the secondary objective ***QS₁*** *– Investigation of the degree to which the main indicators /rates /financial constructions are required according to the category of organizations*, the information being presented in Tables 3 to 5.

Table 2: Indicators / rates / financial constructions requested by managers for capitalizing the information provided through financial accounting

Indicators / rates / financial constructions	Mentioned	Unmentioned	Percent	Valid percentage	***Total %***
Valid = 301					
Utilizing accounting information to determine financial position					
- structure rates	79	222	26,25	26,25	100,00
- debt rate	134	167	44,52	44,52	100,00
- management rates	105	196	34,88	34,88	100,00
- liquidity and solvency rates	111	190	36,88	36,88	100,00
- funding rates	39	262	12,96	12,96	100,00
- none	175	126	58,14	58,14	100,00
Utilizing accounting information to determine financial performance					
- interim management balances	96	205	31,89	31,89	100,00
- self-financing capacity	94	207	31,23	31,23	100,00
- profitability rates	117	184	38,87	38,87	100,00
- break-even point	109	192	36,21	36,21	100,00
- earnings per share	21	280	6,98	6,98	100,00
- none	123	178	40,86	40,86	100,00
Utilizing accounting information to determine financial balance					
- indicators based on the financial balance sheet	58	243	19,27	19,27	100,00
- indicators based on the functional balance sheet	34	267	11,30	11,30	100,00
- indicators based on the accounting balance sheet	61	240	20,27	20,27	100,00
- financing needs-resources table	38	263	12,62	12,62	100,00
- cash flow statement	126	175	41,86	41,86	100,00
- none	145	156	48,17	48,17	100,00

Table 3: Capitalizing on accounting information for analyzing the financial position depending on the organization's category

Indicators / rates / financial constructions	**Category %**				***Total %***
	micro	small	medium	large	
- structure rates	1,35	9,52	100,00	100,00	26,25
- debt rate	17,57	46,43	100,00	100,00	44,52
- management rates	0,68	41,67	100,00	100,00	34,88
- liquidity and solvency rates	4,05	42,86	100,00	100,00	36,88
- funding rates	0,00	2,38	44,23	82,35	12,96
- none	81,76	64,29	0,00	0,00	58,14
Total	148	84	52	17	*301*

Table 4: Capitalizing on accounting information for financial performance analysis by organization category

Indicators / rates / financial constructions	**Category %**				***Total %***
	micro	small	medium	large	
- interim management balances	1,35	29,76	100,00	100,00	31,89
- self-financing capacity	0,00	29,76	100,00	100,00	31,23
- profitability rates	4,73	48,81	100,00	100,00	38,87
- break-even point	5,41	50,00	84,62	88,24	36,21
- earnings per share	0,00	2,38	21,15	47,06	6,98
- none	94,59	45,24	0,00	0,00	59,14
Total	148	84	52	17	*301*

Table 5: Utilizing accounting information to analyze financial balance depending on the organization's category

Indicators / rates / financial constructions	**Category %**				***Total %***
	micro	small	medium	large	
- indicators based on the financial balance sheet	0,00	13,10	73,08	52,94	19,27
- indicators based on the functional balance sheet	0,00	8,33	23,08	88,24	11,30
- indicators based on the accounting balance sheet	3,38	33,33	46,15	23,53	20,27
- financing needs-resources table	0,00	7,14	40,38	64,71	12,62
- cash flow statement	7,43	54,76	100,00	100,00	41,86
- none	89,86	14,29	0,00	0,00	48,17
Total	148	84	52	17	*301*

The research highlighted that most managers do not request information for the analysis of the financial position. For organizations that perform such analyses, information is most often requested for determining debt ratios (44,52% share in total), followed by liquidity and solvency ratios (mentioned by 36,88% of respondents), management ratios with a share of 34,88%, structure ratios (26,25%) and, to a lesser extent, financing ratios (12,96%). In the “other” category, a share of 8.14% of respondents mentioned “equity”, which is the image of the financial position but is not based on processing. For this reason, we did not include the information in the data centralization.

The analysis by organization category once again demonstrates the discrepancies between organizations in the large and medium categories versus those in the small and micro-organizations category. Thus, if in the case of large organizations, except for financing rates, all rates are requested by managers in a proportion of 100% to know the financial position, in the case of the majority of small (64,29%) and micro (81,76%) organizations, managers do not capitalize on the information provided by financial accounting. Those who are nevertheless interested in such an analysis most often request knowledge of debt ratios (46,43% - small organizations, 17,57% - micro) and we could probably add, for a preliminary analysis in order to obtain loans, liquidity and solvency ratios (42,86% - small organizations, 4,05% - micro), which we consider to be part of the ABC of business management, management ratios (46,43% - small organizations, 0,68% - micro) and which are essential at least from the perspective of commercial policy, respectively ensuring the efficiency of the supply - receipts - payments flow.

Regarding financial performance, it is interesting to note that most respondents use at least one type of rates / indicators / constructions for analysis.

The research highlighted that organizations analyze financial performance by leveraging financial accounting information through tools such as profitability rates (most often mentioned by a share of 38,87% of respondents), the break-even point (36,21%), interim management balances (31,89%), self-financing capacity (31,23%), earnings per share (6,98% - expected situation being used mainly by joint-stock companies). In the "other" category, a share of 32,17% of respondents mentioned "the result of the financial year". Because we consider that the result of the financial year reflects the image of financial performance, it is actually raw, unprocessed accounting information, thus not being included in the results.

Depending on the category of organization, the lack of interest is again highlighted, especially of micro-entities, in the case of which 94,59% do not request any accounting information to know the financial performance. Regarding large organizations, all are interested in interim management balances, self-financing capacity and profitability rates, a slightly reduced weight being calculated for the indicator "break-even point" (88,24% - due to the field of activity) and "earnings per share" (47,06% - due to its legal form).

Regarding financial balance, it is highlighted that the majority of organizations included in the sample (51,83%) consider that they are concerned with the valorization of accounting information in this direction, the following constructions being used: cash flow statement (41,86%), indicators based on the accounting balance sheet (20,27%), indicators based on the financial balance sheet (19,27%), etc. However, if we take into account that the cash flow statement is a component of the annual financial statements for the categories of entities mentioned by the annual Order of the Minister of Public Finance as well as by OMFP 1802/2014 (medium and large entities), there could be a possibility (reduced, however) that the share of managers requesting this construction based on the information provided by financial accounting is lower.

The analysis carried out through association reflects that within all large and medium-sized organizations there is interest in determining financial balance, the main construct used being the cash flow statement (mentioned by all respondents) but in conjunction with other financial constructs.

We also note the majority of medium-sized organizations (54.76%) that prepare cash flow statements, a surprise we could say given that, even if we did not have in the questionnaire variables identifying total assets or net turnover for classification in the categories established by OMFP 1802/2014, we consider that the majority of them do not reach those criteria, which clearly denotes that they are interested in knowing the financial balance and do not prepare statements from an obligation perspective.

For micro-entities, the situation is completely unfavorable, a majority of 89.96% of managers not requesting processed accounting information that reflects the financial balance.

5. Final Conclusions

The conclusions drawn from the analysis of the data obtained in order to achieve the secondary objective QS_1, lead to the confirmation of the secondary hypothesis IS_1 – There is a direct link between the degree of request and the category of entities.

Following the general conclusions formulated, a first main hypothesis advanced before the research which aimed to express an opinion regarding the general situation of capitalization of the information provided by financial accounting (IP_1 – Often, managers do not request the capitalization of the information provided by financial accounting in order to know the position, performance and financial balance) is validated, with the mention that the capitalization is directly dependent on the category of the organization.

The second hypothesis, which aimed to identify the main indicators / rates / constructions requested by managers to capitalize on the information provided by financial accounting (IP_1 - The main indicators / rates / constructions requested are liquidity and solvency rates, profitability rates and cash flow statement) is partially validated because, in the analysis of the financial position, accounting information is mainly requested for the calculation of debt ratios.

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