COMPANY'S FINANCIAL PERFORMANCE – A SATISFACTORY COMPROMISE BETWEEN STABILITY AND PROFITABILITY

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Summary:

The drives of economic growth are permanently changing, and Romania's accession to EU must accelerate knowledge based economic development. The globalization of companies' economic activities highlights the need for adequate actions on companies' financial management. The selection of the financial performance ratios that may help as the base of the financial management systems both knowledge oriented and aiming to increase value, are essential for the companies that want to go beyond their competitors. The pertinence and predictive use of financial performance ratios depend on the rules that direct the functioning of financial markets.

In the conditions that Romanian companies are in the position to comply with the new exigencies imposed by the Romania's accession to EU, there are two major objectives that materialize: stability and profitability.

The European Union (EU) is going through a period redefining its identity and internal cohesion at present, in the attempt to step forward as a competitive and dynamic player in a continuously globalizing world, but also in the context of "digesting" the fifth wave of accessions started in 2004 with 10 new states and finalized with Romania and Bulgaria's accession on January 1st, 2007.

European Union is a construction in progress in the international context, which is at its turn, very dynamic. This makes Romania to consider the existing opportunities in order to minimize the vulnerabilities typical for a new EU member state and in order to promote coherent policies having as objective the increase of economic efficiency.

Financial management is the core of company's accession in EU, because it has a determinant contribution to the transformation of the national economic and social environment of companies, placing them very clearly in front of the option of either adopting and accepting the rules of the games specific for common financial market or disappear one way or another.

Romania's integration into EU is seen as a reaction to the actual economic needs and a determinant factor of economic growth, with all its consequences. The Romanian companies may benefit from these advantages, but the issue has to be approached more closely in order to notice the essential "details".

The triggers of the economic growth are permanently changing, and Romania's integration in EU should accelerate the economic growth based on knowledge.

In the present economic competition circumstances, Romanian companies' possibilities to reach high levels of economic development are more and more dependent on their innovative capacities.

Companies' economic activities' globalization and financial markets' internationalization highlight the need for adequate financial management methods. Selecting the financial performance ratios that may constitute a base of the management systems knowledge and value adding oriented are essential for the companies that want to overstep their competitors.

Consistency and predictive use of financial performance ratios depend on the conventions that rule the financial markets.

Performance means success. Performance does not exist in itself; it depends on how various categories of accounting data users understand to define accomplishments. Performance is the result of action.

As Romanian companies are in the position to comply with new requirements imposed by Romania's integration in European Union, two major objectives emerge: stability and profitability.

No matter companies' objectives, in order to ensure continuity to main restrictions have to be taken into account:

- The profitability, respectively company's capacity to get a monetary surplus, allowing it to manage its liabilities and ensure its development;
- Financial balance, revealing company's ability to harmonize its resources and the allocated uses of these resources; this restriction must ensure permanent solvency of the company.

The profitability is a limitation having various sides but all of them correlated with each other: ensure the payment for production factors and invested capital, but also efficient and effective resources' management.

Thus, the performance information the investors need is not exclusively historical. They should have access to future oriented information.

Artificial cutting off company's life to annual financial exercises is practically incapable of considering the complex reality faced by many organizations today: the environment turbulences, high variety of demands, the exigencies of regulatory organizations, etc.

The functional approach of companies' activities and their effects on performances raises the issue of annual financial exercises.

For instance, how can an investment project be controlled if the efforts at in present and the results in the future?

The answer to this question has become the essential concern at the beginning of this millennium, defined by a tendency to economically represent the company within a specific, not artificial time, for instance activity cycle, product life cycle, investment life cycle.

A complete economic – financial diagnosis cannot be given disregarding the profitability – risk pair. The risk is an exogenous variable, antonymous to profitability.

Risk's effects are contradictory and this results in the attempt of controlling a certain risk level in order to get the targeted profitability. The risk may also be translated as profit variation with the average profitability in the last exercises, as company's inability to adapt itself to the environment variations in time and with the lowest costs. As result, the profitability is under the prevalence of general risk conditions for companies' activities.

At a certain point, the company may have high profitability and investments become necessary for the extension of activity volume. Unless they have been very carefully calculated, the treasury flows generated by investments may affect the needs of financial resources for the normal current activities.

The company faces difficulties to pay its suppliers and the solvency is obviously prejudiced. The solvency status is given by the liquidities available or not to the company in order to satisfy the current payments.

Before analyzing the solvency, it is necessary to analyze the liquidity status; the liquidity related difficulties or performance (cause) have an influence over the solvency (effect). The study of liquidity allows understanding the interdependence of financial mechanisms, and their incidence on company's operation reveals the "weak" points and "strong" points of economic – financial relationship.

Therefore, a long term activity in economical – financial performance conditions indicate the balance (equilibrium) status in the relationship profitability liquidity – solvency.

The purpose of a company is to create value during its entire economic life duration. ***The profit obtained, even if it is significant, is worthless in itself. It must be compared with the funding sources employed in order to get it and obviously with the cost of these sources.***

It is, thus, essential that the company understands that competitive benefits do not come from protectionism, quotas or preferential access to the markets. The competitors are not the central point, because the capacities must be developed in prospective and not with reference to the immediate competitors.

A trend is active in the present economic practice, namely the approach of traditional methods based on extrapolations starting from accounting results transferred to economic models of available treasury flows, considering factors like:

- Risk;
- Growth potential;
- Return on investments.