The Relevance of Accounting Information Enclosed in Performance Indicators

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Abstract: This research study is analyzing the relevance of accounting information reflected through the elaboration of firm performance variables and administration because of the necessity of performance to be administrated. The subject of the theme is enclosed in current development of accounting norms at national,european, (Directives) and international levels (IAS/IFRS). The analyised topic is based upon the capabilty of accounting to generate information,throug synthesis calculus being settled the nature,the characteristics and the informational valences of financial performance of an organization. The accounting infromation is base for performing the decison process. The rol of accounting in insurring the relevance and comparability of information increased significantly, being already indispensable. A real solution for communication misunderstanig elimination emerged, as result of diputes in perception and interpretation of economic information, as results for the national speciffic norms.The economic communication is demanding for firm not only in its expression but in thinking and in the process of method conceptualization of organization and administration. A detailed financial situation analysis, which are employing annual financial analysis procedures, underling the performance and risks influencing factors, are considering one starting point for addressing the issue. The introduced variables are insuring a whole vision of firm activity and an appropriate strategy for results significance.

Keywords: performance management; firm’s risks; performance management breakeven analysis; global risk evaluation; balanced scorecard

JEL Classification: G32; G33; C39

1. Introduction

In the current period a fundamental role is assigned to the firm performance, in the context for increasing competition for each market share and the mechanisms of globalization is eliminated the weakness. The chance for survival in this type of competition is increasing for the firms capable to assess and diminish the financial vulnerabilities in due time and for those which are implementing administration

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performance instruments with the role of signaling, explaining and resolution of different management weaknesses. The main target is raising competitiveness but it must observe the different obstacles on the route, as the following: imperfect and changing legislation, the strong political impact in economy, the society instability, all being the main characteristics of business environment in our country (Crețu, Nuță, & Constandache, 2011, p. 76).

The mains topics of the new global economy (economic liberalization, globalization, increasing competition, the evolution from industrial economy to knowledge economy, the social and ecological challenges derived from sustainable development, the recent global financial crisis) are altering the exigencies for organizations and the diversification of the responsibilities to the stakeholders and the whole society. In this new economic system all the entities must be perceived as cells which are influencing the health of the whole body. In this manner, we cannot speak of financial viability, in a competitive, instable and turbulent environment, without performance.

The integration of management levels is suitable because it will permit the improvement of the organizational results and will act as a catalyst for coagulating a new academic specialty which in turn will accelerate the improvements at academic research level. A research model which can be addressed for further exploring of integrated performance management approaches at organization level can be illustrated in the figure no 1.

In the last past years a key tendency was the integration of strategic and individual performance management, through the employment of some instruments like Balanced Scorecard, Performance Prism, etc. The organizational objectives are becoming reflected in individual performance and the individual variables are correlated with the organizational one's, in a common effort to improve the responsibility of the employees in organizational strategy implementation (Brudan, 2009).

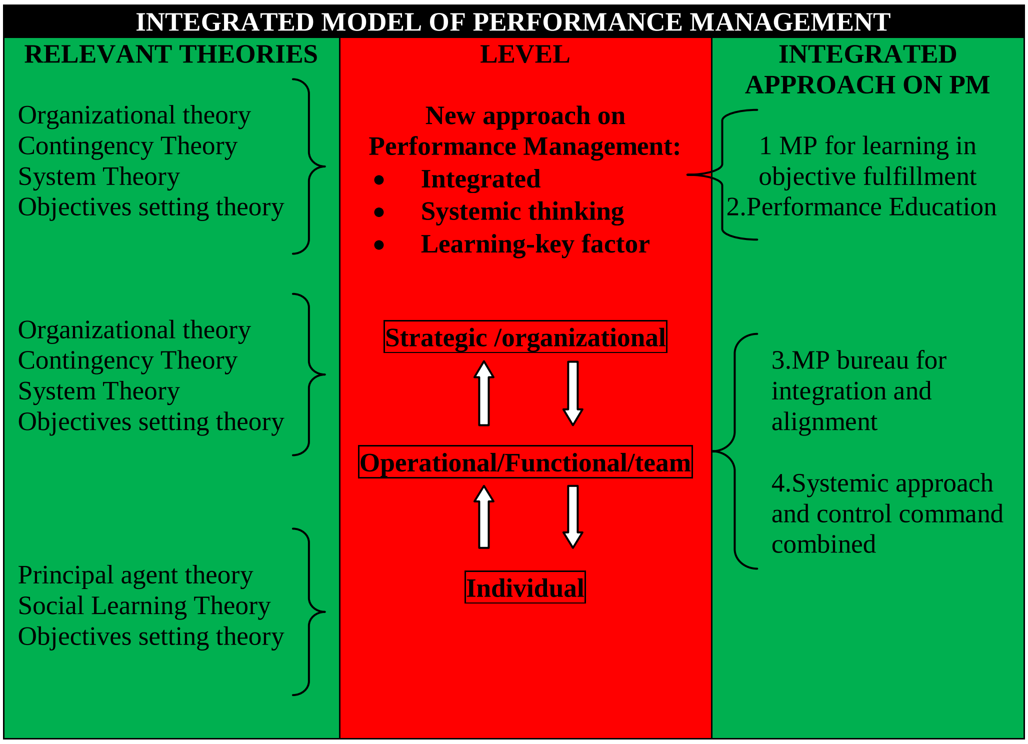

Figure 1. Integrated model of performance management

2. Main Integrated Instruments of Performance Management

The firms may employ or are currently employing a large amount of performance assessment models, this diversification relying upon cultural differences, firm's values, information technology development, but mostly due to the necessity of adaptation of the model at local context. We are describing the most common of them for further detail the most suitable and valuable.

The leading firms at global level are successfully employing a set of concepts and methods of production organization in order to better competitive positioning. The decisional process and selecting methods are highly influenced by client satisfaction. The adequate methods for fulfilling the objectives through value creation are:

- **Tableau de Bord (TB)** – model relying upon financial information rectification;
- **Balanced Scorecard (BSC)** – strategy based model.

“Tableau de Bord” - Dashboard is the evaluation instrument of performance used mainly in France and Europe countries, back between the WW**,** issued by necessity of balancing the vulnerabilities of accounting system and for correlation the rest of administrative instruments (costs and budgets). TB is an ensemble of synthetic data which is informing about the degree of fulfillment of the key objectives, due to what it is a true instrument employed in performance management. TB evolved in time and recognized transformation due to conceptual changes of administrative instruments until current similarity with Balanced Scorecard (Pripoaie, 2007, p. 88).

The final version of TB from Anglo Saxon extraction is Balanced Scorecard. The model emerged as result of a KPMG research project initiated by Robert S. Kaplan and David P. Norton, early 90’s.

BSC is employed under different versions; Balanced scorecard, prospective “tableau de bord “(French version), Strategic TB (adopted by Association Française de Normalisation). BSC is based upon two principles; the multidimensional character of performance assessment through a four categories of variables system and the necessity of correlation of different variables. BSC allow the firm steering based upon four approaches: investor’s satisfaction (remuneration); client satisfaction, internal system of quality, firm capability of innovation and improvement.

3. Risk Influence on Firm Performance

Risk evaluation supposes the assessment of the risk materialization degree and the impact upon the firm’s objectives in that case. (Constandache, 2011, pp. 20 - 33). For better emphasis of the inherent and residual risks is suitable to document on Risk register and the graphic illustration of risk level. Risk monitoring is efficiently performed through. (Nistor, Lăcătuş, Cuceu, Văidean, 2010, p. 45)

Risk register which allow the firm that risk management is implemented at all levels. In conformity with Standard no 11: “Risk management” is specified under The Risk Register Model. In Romania this model of RR is compulsory inly for public sector. The elaboration of RR responsibility is due for each department manager, followed by centralization of RR’s into General RR at firm level. Risk monitoring could be addressed through:

- Avoiding the risk generating activity;
- Identifying an opportunity to further develop the risk generating activity
- Effacing or isolation the risk source;
- Changes in nature and magnitude of the risk degree;

- Alter the consequences of specific risk;
- Deciding upon the possibility of risk keeping and surveillance.

The selection of analysis methods is dealing with the instruments of risk consequences level through level variables of the dimensions of effects at a certain moment. The level of consequences is qualitative and quantitative assessed. The selection of methods can be performed upon the following considerations-table no 1.

Table 1. Main categories of risk analysis method

Main categories	Analysis Type	Description
Simplified analysis	**Qualitative**	Simplified informal procedure for risk table setting through brainstorming. Scale from minim medium high, without formal analysis risk technique.
Standard analysis	**Qualitative/Quantitative**	Formal analysis with identified risk analysis techniques .Risk matrix implemented for results reporting.
Model based analysis	**Mainly quantitative**	Risk analysis model relying upon instruments: event tree analysis and estimated risk error tree techniques

3.1 Economic Risk Assessment

Under incertitude economic environment the firms must pursue the minimization of breakeven to the level of no loses. If facing difficulties in rising of sales despite marketing strategies employed, then they are obliged to diminish fixed costs to avoid loss (Bărbuţă – Mişu, 2009, p. 89). In the case of S.C. NAVAL S.A. Galaţi the fixed costs were raising annually, harbor maneuvers, cleaning, towing, maintenance, rent, insures expenses.

Table 2. Break- even Point at S.C. NAVAL S.A. Galați 2006 – 2011

Variables	2006	2007	2008	2009	2010	2011
Sales (CA)	**137.247.117**	**142.139.688**	**155.232.835**	**199.945.306**	**156.160.170**	**185.905.402**
Variable Costs (Cv)	44.048.476	52.672.753	45.990.769	69.112.028	56.148.502	78.803.620
Variable costs margin Mc (1-2)	93.198.641	89.466.935	109.242.066	130.833.278	100.011.668	107.101.782
Fixed Costs	95.579.993	88.801.625	104.611.423	121.702.815	94.601.808	110.507.676

(Cf)						
Minim sales (CA minim)	140.753.967	141.082.683	148.652.697	185.991.721	147.713.109	191.817.293
Safety margin (Ms)	-3.506.850	1.057.005	6.580.138	13.953.585	8.447.061	-5.911.891
Confidence interval (Is)	-2.49	0.75	4.43	7.50	5.72	-3.08
Efficiency increase (Se)	-2.56	0.74	4.24	6.98	5.41	-3.18

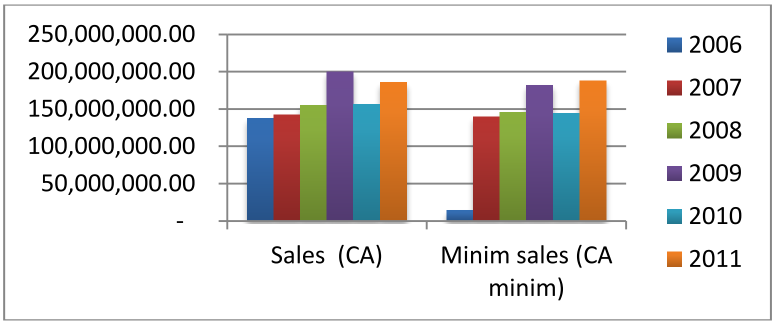

Figure 2. Economic break even point at S.C. NAVAL S.A. GALAŢI

Performing break even analysis at S.C. NAVAL S.A. Galaţi we underline the following conclusions:

During 2007, 2008, 2009 and 2010, the level of activity was superior to breakeven point, in the profit zone, with superior values to critical point. The situation becomes instable,the safety zone is diminishing under 10%, which prove the incapacity of the firm to adjust to market context, the operating risk being high,due to continues decreasing starting 2010 of industrial production from which cut the demand for transportation. The lack of demand for transportation increase competition which cut tariffs and the profits accordingly. The efficiency increase fail in 2006 and 2011, when the firm touch the red zone and the economic and financial balance is altering.

Table 3 Operating leverage costs at S.C. NAVAL S.A. Galaţi

No.	Variables	2006	2007	2008	2009	2010	2011
1	Sales (CA)	137.247.117	142.139.688	155.232.835	199.945.306	156.160.170	185.905.402
2	Variable Costs (Cv)	44.048.476	52.672.753	45.990.769	69.112.028	56.148.502	78.803.620
3	Variable costs margin Mcv (1-2)	93.198.641	89.466.935	109.242.066	130.833.278	100.011.668	107.101.782
4	Variable costs ratio (rcv)(2/1)	0.32	0.37	0.30	0.35	0.36	0.42
5	Variable costs Margin ratio (rmcv) (3/1)	0.68	0.63	0.70	0.65	0.64	0.58
6	Operating income (Rexp)	162.121	-2.983.388	5.000.996	12.196.999	8.302.347	2.288.566
7	Operating leverage	0	30.63	18.93	2.64	1.67	-16.42
8	Operating leverage ratio **(CLE)(3/6)**	**574.87**	**-29.99**	**21.84**	**10.73**	**12.05**	**46.80**

We notice in 2009 and 2010 the operating risk is diminishing with increasing report sales/breakeven point. In 2011, operating leverage is negative, which imply higher operating risk. Avoiding operating risk is possible through sales increasing and commercial margin more accelerate then variable costs margin, and keeping constant the fixed costs.

3.2 Financial Risk Evaluation

Based upon data from table 5 we calculated financial breakeven point at S.C. NAVAL S.A. Galaţi in the period 2006 – 2011.

Observing breakeven and critical sales analysis we underline the following:

- During 2007 -2010 we observe total sales higher critical sales which indicates profit zone, but in 2006 and 2011 breakeven point is above total sales, which means red zone. For touch critical point, total sales must equal breakeven.
- Safety margin is positive in years 2007, 2008, 2009 and 2010, which illustrate risk lack and normal development of activity, following still by a negative value in 2006 and 2011 which prove that financial risk is faced by the firm.

- Regarding safety range, normally must reach 20%, but in the case of the analyzed firm, the range is diminishing annually, which impose market adjustment and competitive alignment.
- Profitability index or efficiency increase illustrates the level to which sales may go down until touch breakeven. The analysis proves a diminishing value, which enable reaching the breakeven.

Table 4. Financial break-even point at S.C. NAVAL S.A. 2006-2011

No.	Variables	2006	2007	2008	2009	2010	2011
1	Sales (CA)	**137.247.117**	**142.139.688**	**155.232.835**	**199.945.306**	**156.160.170**	**185.905.402**
2	Variable Costs (Cv)	4.4048.476	52.672.753	45.990.769	69.112.028	56.148.502	78.803.620
3	Variable costs margin Mc (1-2)	93.198.641	89.466.935	109.242.066	130.833.278	100.011.668	107.101.782
4	Fixed Costs (Cf)	95.579.993	88.801.625	104.611.423	121.702.815	94.601.808	110.507.676
5	*Interests costs*	194.892	780.776	2.193.081	2.628.194	2.247.645	2.200.032
6	Minim sales (CA minim)	**14.046.964**	**139.842.233**	**145.536.332**	**181.975.197**	**144.203.592**	**187.998.516**
7	Safety margin (Ms)	-3.219.847	2.297.455	9.696.503	17.970.109	11.956.578	-2.093.114
8	Confidence interval (Is)	-2.29	1.64	6.66	9.88	8.29	-1.11
9	Efficiency increase (Se)	-2.35	1.62	6.25	8.99	7.66	-1.13

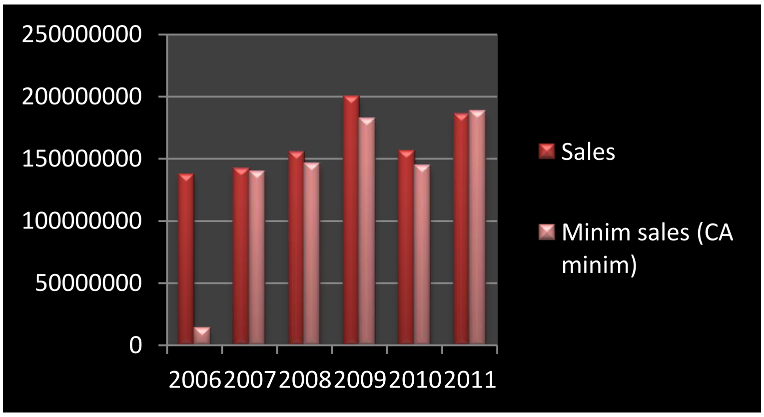

Figure 3. Financial break-even point

Table 5 Financial leverage ratio at S.C. NAVAL S.A. Galaţi

No.	Variables	2006	2007	2008	2009	2010	2011
1	Sales (CA)	137.247.117	142.139.688	155.232.835	199.945.306	156.160.170	185.905.402
2	Operating income (Rexp)	162.121	-2.983.388	5.000.996	12.196.999	8.302.347	2.288.566
3	Financial costs (Chfin)	1.711.610	3.366.073	9.021.109	10.119.851	8.821.664	9.113.492
4	Operating income-Financial costs (2-3)	-1.549.489	-6.349.461	-4.020.113	2.077.148	-519.317	-6.824.926
5	**Financial leverage ratio (CLF)(2/4)**	-0.10	0.47	-1.24	5.87	-15.99	-0.34

Based upon data analyses, the financial leverage ratio is documenting different values in time. Financial risk is strong only in 2009 when financial costs are rising, in the rest of the time we observe a diminishing risk level. The nature of activity the society is exposed to diversified risks; debts, currency, interests and liquidity.

3.3 Global Risk Assessment

The assessment of total risk (economic and financial) is performing through Total leverage ratio, illustrating the risk exposure of the firm in intention of economic and financial balancing. (Sîrbu, 2009, p.97). The calculus of CLT is illustrated bellow:

$$CLT = CLE \times CLF = \frac{Mcv}{Rexp - Chfin}$$

The results for S.C. NAVAL S.A. Galați are in the table 6:

Table 6. Total leverage ratio at S.C. NAVAL S.A. Galaţi

No	Variables	2006	2007	2008	2009	2010	2011
1	Sales (CA)	137.247.117	142.139.688	155.232.835	199.945.306	156.160.170	185.905.402
2	Variable Costs (Cv)	44.048.476	52672753	45.990.769	69.112.028	56148502	78.803.620
3	Variable costs margin Mcv (1-2)	93.198.641	89.466.935	109.242.066	130.833.278	100.011.668	107.101.782
4	Operating income Rexp	162.121	-2983.388	5.000.996	12.196.999	8.302.347	2.288.566

5	Operating leverage ratio CLE=Mcv/Rexp	574.87	-29.99	21.84	10.73	12.05	46.80
	Fixed costs (Cf)	95.579.993	88.801.625	104.611.423	121.702.815	94.601.808	110.507.676
	Rexp + Cf	95.742.114	85.818.237	109.612.419	133.899.814	102.904.155	112.796.242
	Operating leverage ratio CLE=(Rexp+Cf)/Rexp	574.87	-29.99	21.84	10.73	12.05	46.80
6	Financial costs (Chfin)	1.711.610	3.366.073	9.021.109	10.119.851	8.821.664	9.113.492
	Rexp-Chfin	-1.549.489	-6.349.461	-4.020.113	2.077.148	-519.317	-6.824.926
	Financial leverage ratio CLF=Rexp/(Rexp - Chfin)	-0.10	0.47	-1.24	5.87	-15.99	-0.34
7	Total leverage ratio CLT = CLE x CLF	-60.15	-14.09	-27.17	62.99	-192.58	-15.69
	Total leverage ratio CLT= Mcv/(Rexp-Chfin)	-60.15	-14.09	-27.17	62.99	-192.58	-15.69

Table 7. Degree of indebtedness of S.C. NAVAL S.A. Galați period 2006-2011

No.	Variables	Financial year					
		2006	**2007**	**2008**	**2009**	**2010**	**2011**
1	Total debts	276.582.372	352.859.621	364.330.856	365.700.005	365.415.043	360.494.211
2	Total assets	77.354.761	74.982.511	69.123.883	64.218.505	61.472.782	58.501.727
3	**Degree of indebtedness %**	**27.97**	**21.15**	**18.97**	**17.56**	**16.82**	**16.23**

The analysis observe that in each of the 6 years, the DI was not higher than 30%, which indicates that the firm is not proving a high financial risk .It must be selected the indebtedness level in the manner that allow the sustainability of the solvency through an adequate investment, financing and dividend politics. If he firm keep in mind all these strategies its performance will increase.

4. Conclusion

Resuming the analysis prove the rising of economic, financial and total risk due to economic global from 2009 and 2010. The financial results from 2010 were strongly altered due to continuous shrink of industrial production, which diminish the demand of transportation accordingly. The lack of demand increased competition which cut the tariffs, which in 2011 was obvious. As a correction for cut costs, the firm pursued partial conservation and annulment. In the future the firm intention is to undertake some river transportation routes in Brazil, Columbia and Sierra Leone for better employ the excess capacity.

The topic of this study is motivated, mainly for the reason that performance analysis must be contextual specific and secondly for the necessity to upgrade and improve the performance assessment instruments, with the intent to better reflect the results of an economic entity according with the stakeholders exigencies. The economic operator is alike a living organism and the analysis must dares the whole global system. This is a dynamic environment with the main objective valued added process. In this manner we can motivate the importance of the performance study. The consecrated instruments for performance are the indicators. The management is using the indicators for assess, report and improve the performance. In or opinion using one indicator for performance assessment is impossible due to the complexity of economic phenomena and processes, that's the reason of employing a system of performance indicators. In the specific literature the preoccupation for improving the models of performance assent and the design of new models for globally dimensioning of it, are counting till today, ad this scientific approach is addressing it. For a significant assessment of the global performance it is compulsory the utilization of system of indicators able to observe both financial and nonfinancial dimensions of performance,for the reason that such a system may be considered as the **heart** of the firm management.

The importance of this scientific approach may be at list underline through the following arguments:

- It is contributing to the development of the state of knowledge in financial accounting domain with implications to firm level performance management.
- To acknowledge the relevant steps in conceptual evolution of firms performance, management and performance assessment.
- Identification and detail analyses of the global performance dimensions with emphasis to the dimensions of global performance enabling the analysts can evaluate it.
- It underlines the fact that, in the current context of sustainable development, in the assessment process it is compulsory to consider the interests of the categories of users of financial accounting information; internal and external clients, suppliers, partners, investors, the society as a whole. The performance assessment must be developed through broader indicators for diminishing the limits of financial and nonfinancial one's.
- The set of performance indicators is adapted to the Romanian business environment, which currently it became an exigency for a balanced image of performance.

- Based upon the study employed, we tried to reflect one of the priorities of the economic research which can be considerate the identification of the most relevant and adequate the global activity performance.
- Which indicators are best reflecting the global performance? Which indicators are best reflecting the financial performance? Through this scientific work we tried to address each of these interrogations and to illustrate the economic research employed and in this manner to elaborate a model of calculate and evaluation of global performance.

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