Analysis of determinant factors of a company’s performance

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Introduction
In this paper I tried to introduce the concept of performance and the methods by which this can be quantified. In order to measure this performance, I tried to design a case study that aims to determine the extent to which accounting information contained in financial indicators affect the total shareholders return. This test was made using information available in the financial statements of 13 companies listed on the Bucharest Stock Exchange and the New York Stock Exchange, between years 2005 - 2008. The companies chosen are part of the pharmaceutical sector, and by this test I intended to compare the results from the U.S. market with the results obtained by the Romanian market.

Chapter I
1. Getting on the concept of enterprise performance and progress of research
   Performance measurement is important for every company operating on the market. Performance assessment of an enterprise is very important because it helps improve future work. The concept of performance has many meanings, which shows that this term is perceived differently by users of financial information in order to satisfy their interest. We can say that: managers are concerned with the overall performance of the company, current and potential investors see performance by profits from investments made, employees show their interest for stability and benefits, suppliers for the solvency of their customers and customers are concerned about the stability of the company. Companies need to assess the performance and change, if necessary, their own strategy to increase profits. Shareholders need this information to decide in which company they will invest, and customers sometimes use this information as a parameter before choosing a product (non-financial information).

   Management firm and objective must be to increase the company's value, according to Jensen's theory (2001). Two hundred years of work in economics and finance implies that in the absence of externalities and monopoly (and when all goods are priced), social welfare is
maximized when each firm in an economy maximizes its total market value. Total value is not just the value of the equity, but also includes the market values of all other financial claims including debt, preferred stock, and warrants. This theory states that the manager should take the best decision for increasing company value.

The theory is supported by few authors (Marsh - in 1999, Arnold - 1998) who agree that the main objective of company's management is to increase shareholders’ capital (shareholder theory). Arnold says in his work, that value-based management is a management approach, in which the primary purpose is to maximize shareholder wealth, and this can be achieved by developing strategies, processes, analytical techniques and indicators adopted by the company to assess performance.

In sharp contrast stakeholder theory, argues that managers should make decisions so as to take account of the interests of all stakeholders in a firm (including not only financial claimants, but also employees, customers, communities, governmental officials). Because the advocates of stakeholder theory refuse to specify how to make the necessary tradeoffs among these competing interests they leave managers with a theory that makes it impossible for them to make purposeful decisions. With no way to keep score, stakeholder theory makes managers unaccountable for their actions. Telling a manager to maximize current profits, market share, future growth in profits, and anything else one pleases will leave that manager with no way to make a reasoned decision. In effect, it leaves the manager with no objective. It seems clear that such a theory can be attractive to the self-interest of managers and directors.

Creating value takes more than acceptance of value maximization as the organizational objective. As a statement of corporate purpose or vision, value maximization is not likely to tap into the energy and enthusiasm of employees and managers to create value. Seen in this light, change in long-term market value becomes the scorecard that managers, directors, and others use to assess success or failure of the organization. The choice of value maximization as the corporate scorecard must be complemented by a corporate vision, strategy and tactics that unite participants in the organization in its struggle for dominance in its competitive arena. A firm cannot maximize value if it ignores the interest of its stakeholders.

The difference between the 2 theories is that maximizing the value of invested capital requires a return rate as high as possible, while, in case of interested parties we should consider
the contribution of other interest groups as they track the performance of the company for reasons other than assessment measures.

Wallace supports the idea that if a company has not achieved added value for its shareholders is unlikely to satisfy other interests groups. Jensen (2001) and Rappaport (1998), are also agree with this idea. Rappaport says in his work, that value-based management, seen as an incentive of management in the process of value creation and, more specifically, maximizing shareholder value, must not conflict with the stakeholder approach, if this process is combined with a socially responsible business conduct. As a consequence, there should be an agreement between shareholders and other interest groups, which means a more cautious and more responsible behavior for the company.

Classical financial indicators used to estimate the enterprise performance does not take into account investment risk or opportunity cost of foreign capital used to finance those investments. Therefore, the profit has been replaced by indicators that measure the value created for shareholders,

Robert Kaplan, professor at Harvard University, and David Norton, a management consultant, proposed a system to measure performance in 1990, called balanced scorecard.¹ The Balanced Scorecard complements financial measures of past performance with measures of the drivers of future performance. The objectives and measures of the scorecard are derived from an organization’s vision and strategy. The objectives and measures view organizational performance from four perspectives: financial, customer, internal business process, and learning and growth.

O’Byrne (1996)² developed a theory in which he wanted to test if EVA, unlike NOPAT or other earnings measures like net income or earnings per share, is systematically linked to market value. He said that EVA should provide a better predictor of market value than other measures of operating performance. EVA improvement provides a powerful tool for understanding the investor expectations that are built into a company’s current stock price. Expected EVA improvement—that is, the increase in future EVA that is necessary to provide investors with a normal return on the company’s shares—is important not only for securities analysts in evaluating stocks, but also for corporate compensation committees in setting

performance standards for management incentive compensation plans. Garvey și Milbourn (2000)³ developed a theory which shows that the degree of correlation between indicators measuring the value added and market value of capital is a relevant factor in the choice of reference for determining bonus board.

Behn and Riley (1999)⁴ conducted a research in financial management and operational accounting and said that non-financial indicators of business performance are an important part. They found a direct link between the level of customer satisfaction and future performance of the hotel and transport companies.

Najar and Rajan (2001)⁵ examined the relationship between future sales and financial and non-financial indicators of companies from the industry of Jordan, and concluded that the two types of indicators are complementary in assessing future sales volume.

2. **Indicators of enterprise performance measurement. Critical Analysis**

   Major objective of a company, maximizing the overall value may be made only by creating value throughout the company. Company performance is defined in terms of its ability to create value for all stakeholders, this means shareholders, creditors, employees, suppliers, local communities and others. Traditional financial indicators reflect historical performance of companies having a limited relevance in the forecasting of their future evolution and. Financial indicators are based on the modern concept of creating value, they have a strong relevance in expressing the real financial performance of the company and are superior to classical indicators. Maximizing the value of these indicators leads to the creation of value and then increases the overall value of the firm. The main modern financial ratios used for the evaluation of the firms financial performances are: value added (EVA), market value added (MVA), excess return, return on capital employed (ROCE), return on capital employed (ROI), cash flow available to investors (CFROI), total business return (TBR), total shareholder return (TSR), profit per share (EPS), price / income (PER), the market value ratio (MBR).

   **Economic value added (EVA)**

³ Garvey, Gerald, and Todd Milbourn (2000) - *The Optimal and Actual Use of EVA versus Earnings in Executive Compensation* - working paper, Claremont Colleges


EVA is an indicator of measuring the performance of an enterprise promoted by the Stern Stewart consulting agency. The economic value added represents the difference between the operational profit and expenses afferent to the invested capital, accordingly to the formula:

\[
EVA = \text{Operational Profit} - \text{Invested capital’s expenses}
\]

\[
= \text{Operational Profit} - \text{Ci} \times \text{Kc}, \text{ where:}
\]

\[
\text{Ci} = \text{the entire capital invested in the enterprise;}
\]

\[
\text{Kc} = \text{cost of the total capital invested (medium weighting cost of the capital);}
\]

\[
\text{Ci} \times \text{Kc} = \text{expenses afferent to the invested capital.}
\]

This indicator is relatively simple to calculate if there is known the operational result, the capital invested and the weighted average cost of the capital. Unlike the MVA and Excess Return, EVA can be determined at the global level of the enterprise, and at the level of different organizational subdivisions, lines of production, no matter if the respective society is quoted or not on the capital market. More, EVA allows calculation of the performance of the enterprise for periods of time shorter than a year because it is expressed depending on the accounting result from exploitation.

The market value added (MVA) represents the difference between the market value of an enterprise (sum of equity and debts) and the invested capital of this, according to the formula:

\[
\text{MVA} = \text{Market Value} - \text{Invested Capital}.
\]

Thus, the market value added includes the market value of all it’s capitals, respectively the market value of it’s equity and the market value of borrowed capital. The invested capital presents the capital invested by capital suppliers of the firm. It is considered that the firm creates value when the MVA indicator is positive; respective the market value of the capital, which depends on the expectations of the investors concerning future cash-flows of liquidities, outruns the capital invested in the business. Contrary, the negative value of MVA demonstrates that predictions about the management’s capacity of using efficiently the capital are unfavorable, so the market value associated to the firm is inferior to the invested capital.

Excess return represents an indicator with an informational value superior to the MVA, because it also considers the cost of the capital at the begging of the calculation period, as well as sums distributed towards the shareholders as dividends, stocks redemption, etc. Excess return represents the difference between present earnings (at N periods) and earnings predicted by shareholders.
**Return on Capital Employed (ROCE)** is determined with the formula:

\[
\text{ROCE} = \frac{\text{Gross profit}}{\text{(Total Assets – Current Debts)}}
\]

Return on Capital Employed has to be higher than the rate at where the firm is borrowing. Contrarily, any increase of the credit rate will lead to reducing the shareholders winnings.

**Return on investment (ROI)**

Dupont Powder Company has developed criteria for return on investment as a tool to support decision-making process. This indicator is calculated as the ratio between net profit (after depreciation and before deduction of interest on long-term loans) and net assets. Limits the use of return on capital invested in the performance assessment were analyzed for a long time. Corporations like General Electric in the years ’50 and academic researchers have shown how these limitations can be overcome by using alternative another performance indicator, such as residual income. The main advantage of this indicator is that it can provide information about strengths and weaknesses of short-term company management.

**Cash Flow Return on Investment (CFROI)** represents the internal rate of return of the cash-flows generated by the activity of the enterprise, being considered the main “contestant” of the EVA at the international level. The superiority of CFROI is generated especially by the fact that is determined on the base of future cash-flows, it takes into consideration the inflation rate and it is a relative measurement that allows comparing results of a firm on different periods of time, between different firms.

**Total business return (TBR)** is calculated through a similar methodology to CFROI, but based on future estimated cash-flows, not historical. So is determined the gross capital invested initially, gross cash-flows future estimated and the residual value of the existent assets. As CFROI indicator, TBR may be calculated at the level of organizational structures of the enterprises, and, more, it contains adjustments to inflation generated by the decreasing of it’s assets.

**Total shareholder return (TSR)** represents the direct expression of modifying the fortune of the shareholders on a certain period of time. Being expressed relatively, this indicator may be used for doing the horizontal comparisons in the same firm, but also on the vertical one inside economical sectors. TSR represents a function of two variables, the value of the dividends (including the special dividends and redemption stocks), as well as the increase or diminishing of the price of the stocks. So, this indicator depends of the return rate of existent
assets, growing rate, the cost of the capital and the cash-flows. Anyway, this indicator can be calculated just for quoted enterprises and at the level of the whole firm.

**Earnings per share (EPS)** is calculated as a rapport between total profit for a year (from the profit and loss statement) and total number of shares. Main advantage of this indicator is the simplicity of the rapport; the information being available from the financial statements. The indicator is a global measure of the company’s performance. As negative matters, earnings per share does not take into consideration the capital costs, only interest expenses being deducted, although it is shareholders right to receive a return for the investments made, same way as creditors are entitled to interest for the capital loaned. All the indicators calculated based on profit exclude the size of the invested capital and the time value of money.

**Price earning ratio (PER)** measures the relationship between the share price to its earnings per share. It is considered one of the most important metric of a company because comparing two similar companies’ P/E shows us which has a better value. Formula is: PER=Stock price/Earnings per share.

**Market to book ratio (MBR)**, is the ratio of the current share price to the book value per share. It measures how much a company worth at present, in comparison with the amount of capital invested by current and past shareholders into it. Formula is: MBR= Stock price/Book value.

Beginning with the mid of the last century, there was a new approach for assessing company performance, because the information provided by financial indicators of previous work were not enough and requires establishing indicators to measure future performance, non-financial indicators which concern quality, the customer satisfaction, market share, social responsibility, innovation. The 2001 report of the FASB (Financial Accounting Standards Board) financial information presents new indicators to measure non-financial performance: the balanced scorecard (Kaplan) – takes into consideration 4 perspectives: financial, customer, internal business process, and learning and growth, innovative reports regarding intellectual capital of the Swedish insurance company Skandia - intangible assets are placed in the center accounts, matrix Karl-Erik Sveiby - which assumes control of intangible assets.

The study issued Mavrinac and Eccels for Ernst & Young shows that only one third of investors and financial analysts propose mandatory publication of information by non-financial companies.
3. Impact of accounting on business performance

The objective of an accounting system is to provide financial information for the company studied. This information relates to the accounts, company performance, and is designed to be used by decision makers in the company. Accounting information are the basic materials of a financial analyst, their relevance depending on the policies adopted by the company regarding depreciation and stock record in ledger. In this way, the company is free to record assets at historical value or fair value.

Some economists have studied how the stocks are included in the costs and how these influences income to shareholders. They concluded that incomes are higher when the company uses the LIFO method. Other economists have conducted an analysis of the relationship between stock price and PER for those companies that have used accelerated depreciation and for those who have used the linear method. It was found that a higher PER recorded for companies that use accelerated depreciation than those that use linear depreciation.

Another survey was issued by Lipe (2001)\(^6\), who wanted to see the impact of leasing transactions regarding the investors’ concept of risk that companies assume. He thus concluded that for investors, the risk associated with operating lease is the same as the risk associated with bank loans.

Lev and Zarowin (1999)\(^7\) have proposed a new accounting procedure, the systematic updating of the financial statements, because changes and risks always occur and affect the quality of information.

Feltham and Ohlson (1995)\(^8\) propose a new approach for evaluating the company: connecting the market value to the book value of equity, plus an updated value of future benefits.

Chapter II

\(^7\) Lev, B., and Zarowin, P., (1999), *The boundaries of financial reporting and how to extend them*, Journal of Accounting Research 37, 353-385.
Presentation of studies that tested the relevance of the information contained by performance indicators

There are numerous studies which tested the relation between the shareholders return and the performance indicators calculated based on the accountancy information. The most used method to analyze the relevance of the accountancy information is the linear regression equation, where the dependent variable is the total shareholder return or the stock price and the independent variables are the performance indicators.

For the regression analysis it is necessary to solve the following problems:
1) identifying the model variables and its writing down;
2) definition of the classic regression model, their testing, and based on the obtained results, the methods which can be used for the parameters estimations;
3) estimation of parameters and validation of the model and parameters;
4) issue of previsions for the endogenous variable based on the model: this equation has the following form: \( \text{Dt} = b_0 + b_1X_t/MVE_{t-1} + b_2X_{t-1}/MVE_{t-1} + e_t \), where:
   \( \text{Dt} \) = dependant variable
   \( b_i \) = regression coefficients;
   \( X_{t,t-1} \) = independent variable (performance indicators);
   \( MVE_{t-1} \) = the market value of the own capital after three months from the publishing of the company financial situations;
   \( e_t \) = residual variable which incorporates the influence of the other factors not included in the model.

The regression coefficients \((b_i)\) show an existent relation between the dependent variable and the independent one, meaning how much the dependent variable suffers modifications. The determination coefficient \(R^2\) expresses the percent of the variation of the dependent variable which is explained by the regression equation.

Goodwin, Sawyer and Ahmed (2002) \(^9\) analyse the relevance of the value by testing the two mechanisms of information transmission: its filtration in the company’s accounts and then its incorporation by the market at the company shares price.

The three economists propose the following model:

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\(^9\) Ahmed K., Goodwin J. and Sawyer R. - *The relevance of value*, Hong Kong Polytechnic University, University of Melbourne - Department of Finance and La Trobe University, working paper, 2002
\[ R_t = \beta_0 + \beta_1 E_t(X_t) + \Sigma \beta_{2k} (X_t \mid \Phi_k - E_t(X_t)) + u_t \], where:

- \( \Phi_t \) is the information given during period t
- \( E_t(X_t) \) is the waited value of the accountancy financial indicator
- \( R_t \) – the capital return obtained during period t.

This equation shows that the shareholders return depends on the investors’ expectations regarding the financial indicator, by the given information, filtrated by the indicator value. When the market is efficient \( \beta_1 \) is equal with zero, and the information is relevant when \( \beta_2 \) is different to zero.

On an inefficient market, the capital return invested in shares, depends on the expected value of financial indicator, by the given information and filtered through the companies’ accounts and the existent information in the accounts measured by \( v_{kt} \).

The market is efficient if \( \beta_1 \) is equal to zero, and all \( \beta_{2k} \) are different to zero. If one of the coefficients is equal to zero, then the information does not influence the course of the shares and their return. When \( \Phi \) is equal to \( X \) it gets to the model which is the base of many studies regarding the relevance of accountancy information regarding the company performance and in this way the equation becomes: \[ R_t = \beta_0 + \beta_1 X_{t-1} + \beta_2 (X_t - X_{t-1}) + u_t. \]

If \( \beta_1 \) is statistically equal to zero, this means that the market is efficient, and if \( \beta_2 \) is different to zero, this means that the financial indicator has influence over the shares return. A special importance has the statistics signification of the regression equation coefficient, such as: t test, F test and \( R^2 \).

**Chapter III**

**Case Study**

This study aims to determine the extent to which accounting information contained in financial indicators affect the total shareholders return. This test was made by using information available in the financial statements of 13 companies listed on the Bucharest Stock Exchange and the New York Stock Exchange, between 2005 – 2008. The main source of obtaining the necessary information was the annual reports, balance sheet and income statement. Regarding the indicators used, we chose to use the classical indicators, because they could be compiled using information included in the balance sheet and income statement. They were defined and calculated similarly for all companies that are forming the database. Indicators for which
relevant information was tested and their influence on total income of the shareholders on the Romanian market and U.S. market were the following: Gross profit margin (MBP), changes in turnover (CA), financial leverage (LF), earnings per share (EPS), return on equity (ROE), return on assets (ROA), price earning ratio (PER) and the market book ratio (MBR). I examined the relationship between these indicators and the total income of the shareholders (TSR), using regression model presented in Chapter II. The 2 functions used are:

\[
\text{TSR}_{it} = \beta_0 + \beta_1 I_{it-1} + \beta_2 (I_{it} - I_{it-1}) + u_{it}, \ \forall i
\]

\[
\text{TSR}_{it} = \beta_0 + \sum \beta_{1k} I_{kit-1} + \sum \beta_{2k} (I_{kit} - I_{kit-1}) + u_{it}, \ k=1, \text{ where}
\]

\[
\text{TSR}_{it} - \text{total shareholder return from company “i” obtained in year “t”}
\]

\[
I_{it} - \text{financial indicator of company “i” obtained in year “t”}
\]

\[
I_{it-1} - \text{financial indicator of company “i” obtained in year “t-1”}
\]

\[
n - \text{number of indicators used for calculating , } \beta_i - \text{regression coefficients.}
\]

For the U.S. market, I have analyzed ten companies for a period of 4 years, respectively from 2005 to 2008, the influence of selected financial ratios for total shareholders return. The companies chosen are listed below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Ticker</th>
<th>Company</th>
<th>Sector</th>
<th>Industry</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ABT</td>
<td>Abbott Laboratories</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>BMY</td>
<td>Bristol-Myers Squibb Company</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>3</td>
<td>JNJ</td>
<td>Johnson &amp; Johnson</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>4</td>
<td>LLY</td>
<td>Eli Lilly &amp; Co.</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>5</td>
<td>MRK</td>
<td>Merck &amp; Co. Inc.</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>6</td>
<td>PFE</td>
<td>Pfizer Inc.</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>7</td>
<td>AGN</td>
<td>Allergan Inc.</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>8</td>
<td>FRX</td>
<td>Forest Laboratories Inc.</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>9</td>
<td>KG</td>
<td>King Pharmaceuticals Inc.</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
<tr>
<td>10</td>
<td>VRX</td>
<td>Valeant Pharmaceuticals International</td>
<td>Healthcare</td>
<td>Drug manufacture</td>
<td>USA</td>
</tr>
</tbody>
</table>

For the period 2004 – 2005, after making the analysis we can see that the independent variables explains in a proportion of 99% the total shareholders return and there is a strong positive correlation between variables in the model, the correlation coefficient is close to 1. The biggest influence over TSR has the return on assets (ROA), followed by changes in turnover (CA), the rest of the indicators having a small or insignificant impact on total profits of shareholders.

For period 2005-2006, it was noted that the indicators that have the greatest influence over TSR is the return on equity (ROE) and the percentage change in turnover (CA). Again, we
can say that the independent variables explain a 99% total income of the shareholders and there is a strong positive correlation between variables in the model. Significance F 0.0549 is greater than 0.05, indicating that the correlation between variables is not significant. P-value calculated in this case is less than 0.05 for all indicators chosen in the model, which means that the null hypothesis is verified, and the constant and coefficients indicators are equal to 0 if the data is generalized. Therefore, the calculations are not a representative.

For the period 2006 - 2007, independent variables explain a 95% of total shareholders return and there is a strong positive correlation between variables in the model. Significance F 0.0582 is greater than 0.05, indicating that the correlation between variables is not significant. The greatest influence in this period has the return on assets (ROA), followed by gross profit margin (MBP), other indicators having a small or insignificant impact on total profits of shareholders.

In the period 2007 - 2008, the analysis shows that the most important factors that influence the total shareholders return are financial leverage (LF) and net income per share (EPS), other factors having a negligible influence.

These being said, we might consider that for companies in the U.S. market, there are few indicators that influence the investment decision of shareholders, but neither of them are constant from one period to another. The only indicators we can consider having the same influence in different periods are the percentage change in turnover (CA) and return on assets (ROA). However, this study can not be considered relevant due to small sample size chosen and, also, in order to be able to generalize the data we should take into consideration other factors influencing the investment decision of shareholders, such as non-financial indicators.

**Short history of the Romanian pharmaceutical market**

The pharmaceutical sector in Romania had a weak year in 2008 in terms of development activities at the Bucharest Stock Exchange (BSE) and in terms of the financial results achieved by companies, due to the economic crisis that we faced during this period.

Even if the stock price decreased in 2008 for all shares traded, however, the domestic issuers remain interesting given the expected market potential of pharmaceuticals for the next period. A Deloitte study claims that by 2012, health spending per capita in Romania will increase by 85% compared with 2007. The estimated total expenditure allocated to health will get a share of 5.4% in GDP, which is still small compared to the 9.4% that it will record the
European Union. Cegedim’s analysts are more cautious, considering that the pharmaceutical market will grow in 2009 with more than 10% of amounts in lei, with possibility of stagnation in the case of amounts denominated in euros. The same growth rate is estimated and IMS Health Consulting, that the pharmaceutical market growth, globally, will slow down significantly for the period 2008 - 2012, reaching an annual growth rate between 4 and 7%. In 2009 it is estimated that emerging markets will support the global pharmaceutical market growth from 4.5 to 5.5%.

Thus, we could say that investors on the Romanian market are driven in a lesser extent on the accounting information contained in the indicators calculated, they do not found their investment decision solely on the basis of information contained in financial reports of listed companies, they need a reference, more exactly a sector average. Regarding the financial information of the companies from Romania, we notice that the pharmaceutical sector is poorly represented, and it is difficult to draw some general conclusions.

**Conclusions**

Selecting appropriate indicators to assess performance is a challenge for business partners. Financial performance of enterprises concerns shareholders, creditors and their management in charge. Accurate financial forecast achievements of enterprise have a very great significance. To predict a company's financial performance is important to identify those factors that influence this performance. There are many potential factors affecting the performance of an enterprise, but practically we can not take into account all the factors involved. The way in which are selected the most important factors that have a direct relationship on financial performance has always been an interesting research topic. Public information on the financial performance of companies includes financial statements: balance sheet, income statement, statement of cash flows and, also, dividends situation.

For example, shareholders want to estimate the company’s value and to evaluate the ability of managers to create value. Board members want the quality assessment of administration and they design the compensation contracts for managers, which interpret the company's strategic objectives. Managers are designed to perform tasks and company’s strategies with measurable indicators. Lenders want the indicators to show the company the
ability to generate future cash flows needed to repay debt. Performance indicators should provide an aid in assessing the economic value, in creating value and in future earnings.

Share price is a barometer of overall performance of the enterprise, officially recognized by the capital market. In an efficient capital market, economic performance has a decisive impact on the level of variation in share prices. Financial reporting provides holders of funds, information on company strategy and policy, competition of products and its market position, expertise and experience of managers, changes in the share stock rate, and financial results.

All the information related to a preliminary analysis of the general market situation offer an opportunity to preview potential and future development prospects of the company.

Reference

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