Analysis of Commercial Companies Profitability in the Garment Industry in Romania

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Abstract

This paper underlines the importance of an analysis of the reality behind the garment industry companies in Romania, investigating the bases and constants of its environment, while determining Romania's current position regarding turnover.

Among the research objectives of this paper we outlined the study of the profitability of the Romanian commercial companies in the garment industry, using real data. In order to achieve this purpose, we used the literature in the field of management accounting and case studies, showing the strengths and weaknesses of the companies in the Romanian garment industry, as well as a real situation in this field for 2014.

The paper ends with the conclusions regarding the status of commercial companies in the garment industry at the national level.

Keywords: managerial accounting, profitability, competitivity, the garment industry, economic performance
J.E.L. classification: D24, M41

Introduction

The garment sector has a long tradition in our country, being represented in all important cities of the country and represents an important branch of Romanian industry. In the last decade, the garment industry has witnessed more difficult times, marked mainly by the following stages:

- A dependency of exports and imports due to the Lohn system.
- A decrease of the Lohn type production itself. The migration of the Lohn system to countries in Asia and Africa had a significant contribution to the decrease of the companies' production in the garment field;
- Integration in EU and the member condition in 2007.
- The global crisis and fierce competition, at a global, European and regional level and the manifestation of its effects in the national economy; the current period is a delicate one for the entire Romanian economy, not only for the garment industry, the crisis having a particular effect on:
  - cash-flow and payment capacity of economic agents;
  - access to funding;
  - demand for clothes;
  - volume of activity, by losing manufacturing contracts.

All these factors have threatened the future activity of the companies operating in the garment and shoes industry. In this economic-financial situation, more than ever, the economic activity of companies needs to be based on the principle of economic efficiency of each activity, in order to obtain a maximum output, a superior profit margin as compared to the previous fiscal intervals, based on a rational expenditure of resources.

Although they registered a continuous decrease within the industry and exports, the garment-textile sectors are still very important from a social point of view, with mostly female employees and a total number of units and employees in abrupt descent at the level of the last years. The major structural changes within the sector, mainly determined by the abandoning of or giving up the largest parts of the natural and synthetic threads and fibers production units, have led to a dependency on imports and a greater adjustment to the lohn system, followed during the last two years by the migration of the lohn wave to the east. As a result, the value made in the country, at the level of the sector's value chain, has decreased and the production units in the field were forced to quickly boost the efficiency of their activity, to identify new business opportunities and to adapt to new and challenging market conditions.

In order to cope with the current economic background and to be competitive at a world level, organizations will have to understand the way competitors are able to maintain a low level of costs, to quickly boost efficiency, to adapt to the new market conditions and identify their vulnerabilities. Thus, the accent shouldn't be placed exclusively on state of the art retechnologization, but also on the way of thinking and on a cost calculation policy to maximize the turnover and, implicitly, the profit.

Under these circumstances, the decisive role played by the organization's management appears the more relevant, in the light of the decisions taken and actions implemented in view of increasing the efficiency of the company's activity; the management of the enterprise thus constitutes a determining factor for the increase of economic efficiency.

In this paper we thought it would be relevant to make an analysis of the reality behind the companies in the garment field in Romania, by investigating the bases and constants of its environment, as well as the current condition held by Romania in terms of turnover.

Literature review

In Anglo-Saxon countries, management accounting includes all the "valorized" information the managers need and not only cost related information. It is admitted that the purpose of management accounting reports to the capacity of the mobilized economic resources and not only to their consumption.

In France, management accounting is defined as an "analysis technique" of an entity and of the manufactured products in order to control the internal production costs by means of cost information.

Ever since 1996, the National Accounting Council in France defined management accounting as follows: "management accounting is destined first of all for the needs of the enterprise, constituting a part of its information system and providing an economic modeling of the company in view of meeting the performance measurement objectives and support in decision taking" (Cokins et al., 2012, 33). In its competence also fall the process of performance assessment and the decision founding methods.

(Bouquin, 2004, 11-12) defines management accounting as an "information system meant to help managers and which influences the behavior by modeling relationships between consumed allocated resources and intended finalities".

The definition of management accounting given by the National Accountants Associations, currently called the Institute of Management Accountants (IMA, 2008) in the US is: "the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information used by management to plan, evaluate and control an organization and to assure appropriate use of and accountability for its resources".

Management accounting, whose initial objective was cost calculation, has considerably expanded its role by providing information systems to orient the dynamics of the supply-production-sale-collection chain with regard to their impact on costs and results. The main objectives of management accounting are: cost calculation, determination of results and profitability of manufactured products, executed works and services performed, forecast of expenses and income by drawing up an internal network of budgets, the control of costs and budgets by means of deviations and the provision of the necessary date to take decisions regarding the management of the entity (Cokins et al., 2012, 33).

Management accounting is oriented towards providing information to the internal management in the following fields:

- Cost. „The permanent increase of efficient economy and of the demands of the entity management in the context of the market economy determines a need to improve the cost calculation method" (Coman et al., 2012, 522). In addition, cost efficiency is of a great importance and it helps companies in the daily activity to determine deviations.

- Planning and budgeting. Management accounting helps companies in setting objectives by "providing the necessary information in decision taking regarding the production systems that were adopted, the company policy regarding prices, the commercial policy and the appreciation of the invested capital" (Breuer et al., 2013, 357).

- Evaluation of performance regarding profitability, income and productivity. According to (Coman et al., 2012, 522), performance „is not measured, it needs to be actively created, so that management accounting requires the use if its talent to contribute to its «ex-ante» creation, in the context in which it will allow the maximization of profitability to get «ex-post» results".

Research methodology

The research methodology involved research techniques and instruments such as the analysis, comparison, case study, as well as investigation methods.

In order to identify the current stage of research, we consulted a bibliographical database comprising books and articles published in the country and abroad, in fields such as: accounting, management accounting, economic informatics, management, marketing, business administration, statistics, general economy, finance, technology information, etc.; statistics, financial reports and specialized magazines were analyzed. By consulting these bibliographical references we achieved an overall image regarding management accounting and profitability of companies in the Romanian garment industry, both at a theoretical and practical level, we observed the evolution of management accounting from the past to the present and we created a general image regarding Romanian organizations and, why not, maybe identified the weaknesses, strengths, challenges and opportunities the organizations in the garment industry have been confronted with.

In view of analyzing the profitability of the Romanian commercial companies in the field of garment industry, we analyzed a sample of the first 100 companies in the garment industry.

The population under analysis represents the entire units part of a collectivity which constitutes the object of a statistic endeavor. In this research, the population is represented by the companies in the garment industry (especially those with the CAEN code 1413 – Manufacturing of other clothing articles (exclusively underwear) for 2014; the number of companies with this CAEN code is 3495 and the number of companies with turnover over 0 lei is 2609 (Ministerul Finantelor Publice, 2016). The sample represents the partial collectivity taken out of the total collectivity in view of statistic analysis, and represent 63.34% (4.220.264.765 lei) (Ministerul Finantelor Publice, 2016) of companies with the CAEN cod 1413.

Case study

In this research, the sampling was made based on the principle of rational choice, the selection of a number of 100 commercial companies in the garment industry, selected and ordered according to their turnover. The research is based in the creation of a database using SPSS.

We analyzed the turnover variable, because it is the most important factor in describing the size and profitability of a commercial company. In table no. 1 we can see the minimum, maximum turnover, the mean turnover, standard deviation, variance, kurtosis and asymmetry of the turnover.

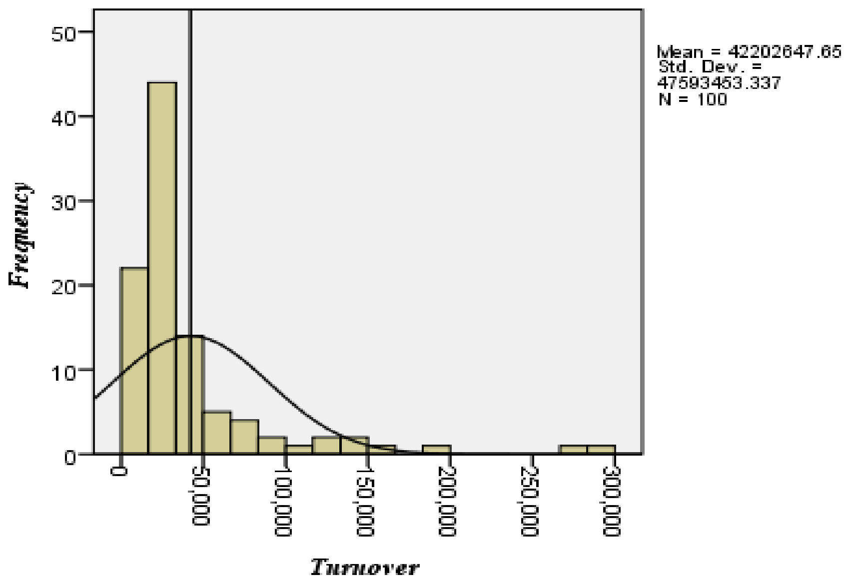
Table no. 1 The turnover analysis

N	**Valid**	100
	Missing	0
Mean		42202647.65
Std. Error of Mean		4759345.334
Median		26966537.00

Std. Deviation		47593453.337
Skewness		3.187
Std. Error of Skewness		.241
Kurtosis		11.643
Std. Error of Kurtosis		.478
Minimum		12023584
Maximum		284264039
Sum		4220264765
Percentiles	25	17360998.50
	50	26966537.00
	75	47055882.00

Source: Own processing SPSS 20

Figure no. 1. Graphical representation of turnover (thousand lei)



Source: Own processing SPSS 20

Table no. 1 reflects the following aspects:

- The mean of the turnover for the first 100 companies in the garment industry 42.202.647,65 lei, given the fact that the minimum turnover is 12.023.584 lei, and the maximum is 284.264.039 lei, therefore resulting a great difference between the first and the last one as far as the turnover is concerned. Following the histogram we can notice that 14 companies are close to the mean turnover value, while 43 companies have turnovers below 35.000.000 lei, and the first 2 companies have the largest turnovers.
- The median turnover is 26.966.537 lei, which means that 50% of the companies are over this value and 50% are under it;
- The asymmetry *Skewness* index shows the extent to which the average differs from the mean value and, implicitly, the extent to which the normal data distribution curve pulls away from the middle, going to the left or to the right. Relatively normal distributions are considered to be the cases in which these indicators are under ±1.96. In this case, we have a **3.187** asymmetry, which means that we are talking about a **positive asymmetry** in the situation in which the mean is higher than the median value, and there appears a distribution of data to the left. In this case we have a positive asymmetry, with the extreme value to the right, also reflected by the data distribution curve.

- Kurtosis refers to the curve height, as compared to the normal one. We may have leptokurtic or platikurtic distributions. In this case, we have a **leptokurtic kurtosis**, because we have a positive value greater than 3;
- We may conclude that each company, out of the 100 companies under analysis, deviated from the mean turnover of the selected sample with an average of 47.593.453 lei;
- The amount of the turnover of the 100 commercial companies is 4.220.264.765 lei, representing 63,34% of all companies with CAEN code 1413;
- Over 50 companies have a turnover in excess of 26.966.537 lei, and over 75% of the companies have a turnover of up to 47.055.882 lei.

Conclusion

The diagnosis performed evidenced the fact that the garment manufacturing companies in Romania, with the CAEN code 1413, “Manufacturing of other clothing articles (exclusively underwear)”, for 2014, have the largest part of the turnover coming from the sale of manufactured products on foreign markets. In the sample analyzed there was no company manufacturing products only for the domestic market, which leads, of course, to an increase of exports. Most of the companies in the garment industry work in a Lohn system, for various companies or groups of companies from abroad (the most common countries are Great Britain, Spain, Italy, Germany, etc.).

As we can notice from the statistic analysis, there are certain companies with a very large turnover, but with a small number of employees; that can be explained by the fact that most large companies afford to subcontract their foreign orders, counting on following up on orders, product quality as well as the delivery and expedition process to the foreign partner.

The garment – clothing industrial sector is a foreign exchange generating component of the national economy, leading to a balanced regional development, social stability and an adequate environment for private initiative. This industrial sector has the capacity to develop in the future.

We will attempt a continuation of this analysis in the future, taking into account more commercial companies and, of course, the identification of new study variables.

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