

## The Role of Financial Indicators in Financial Communication

Georgiana Maria Lungu  
University of Craiova, Romania  
[georgianalungu@ymail.com](mailto:georgianalungu@ymail.com)

### Abstract

*In a highly competitive market, the economic entity is required to perform at all levels, including customer relations, supplier relations, employee relations, shareholder relations, competitor relations, state relations and resource management (raw materials, portfolios of securities, human resources). In this context, communication has become one of the most important components in the success of every activity carried out by economic entities; it is the fundamental tool for communicating the objectives and results of the business to various partners.*

*As a result of the intensification of the globalization process and the development of the complexity of economic and social activities, any entity has realized that it is no longer enough to be known, seen and analyzed financially, but rather to be credible to establish a channel. reliable communication between it and an increasingly demanding and sophisticated audience.*

**Key words:** financial communication, economic entity, investments, financial analysts

**J.E.L. classification:** A11, F64, Q56

### 1. Introduction

The quality of accounting information is more than just a support for the choices of managers; quality can also be highlighted through the interaction and communication between the departments of an economic entity, in particular it reflects the level of collaboration and cooperation in order to implement the decisions and strategies of the entity.

The starting point of this article is the need and importance of analyzing the financial position of an entity. The financial economic analysis was performed in accordance with the European Directives and the International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), researching the financial statements for a period of five years (2017-2021) of SC Șantierul Naval Orșova SA and SC Severnav SA Drobeta Turnu-Severin, ensuring the financial balance and efficiency of the activities of each entity.

### 2. Theoretical background

One of the roles of financial communication is to protect and enhance the value of the entity (Avram et al. 2017). The investor information policy must take into account the different types of shareholders, as the communication of the organization will be affected by the dispersion of shareholders. The purpose of voluntary communication is to increase the awareness of the economic entity.

According to Cavelius (2009), voluntary communication provides investors with information traditionally reserved for the internal use of the manager: information about the results of business lines (or sectoral information), forecast information, non-financial information, which increase the reputation of the economic entity. According to Nejjar (2011), voluntary communication helps the investor to have more confidence in the company and its initiatives by revealing reliable, stable and transparent information, which highlights the company in the market in which it operates. Then, it is a unique lever to give credibility and promote its approach to all its shareholders, as well as to the financial, economic and media communities.

Thus, development by hiring external investors creates a voluntary communication (Healy et al. 1999) and becomes increasingly significant in the management of the company as opposed to foreign and weakly involved shareholders.

The role of financial communication is to increase the company's notoriety and credibility in order to attract investors (Avram, 2017). Managers who anticipate capital market activities are urged to communicate freely in order to reduce the asymmetry of knowledge and, consequently, the cost of external financing (Healy and Palepu, 2001). Based on the data provided by the company, financial analysts observe and forecast the performance of the economic entity, thus responding to the concerns of investors and simplifying the process of making decisions to buy or sell shares. The owners want to follow and lead the actions carried out in the company to ensure that the managers and management tools used by the organization properly serve the interests. Financial communication for financing has become important as a result of this demand, and the aim is to keep shareholders, while convincing institutional investors to invest in the shares of the economic entity. Therefore, the main instrument used in financial communication is annual financial statements, a universal and transparent financial communication medium for supervisors, investors, creditors, tax authorities, suppliers, customers and the general public (Avram et al, 2017).

### **3. Research methodology**

The Drobeta Turnu Severin Shipyard was founded in 1852 as the shipyard of the Austrian shipping company DDSG Later, in 1893, the shipyard was taken over by the Romanian government and renamed the SEVERNAV Shipyard. In 1958, it merged with Dinamica Shipyard, a private company that had been nationalized in 1948. The second company, Orșova Shipyard, was founded in 1890 and enjoyed a constant expansion until 1991, when a restructuring process began. which led to the formation of the joint stock company SC antierul Naval Orșova SA.

The research involves the calculation of financial indicators over a period of 5 years using data from the company's annual financial statements, namely the balance sheet, profit and loss account, statement of changes in equity and cash flow statement, together with the Explanatory Notes and monitoring the effects on the relevance of the accounting information provided ([www.mfinante.ro](http://www.mfinante.ro), [www.bvb.ro](http://www.bvb.ro)).

Starting from the data presented in the financial statements, based on the methods and techniques used by the economic-financial analysis, we obtained information on the performance of the analyzed economic agents.

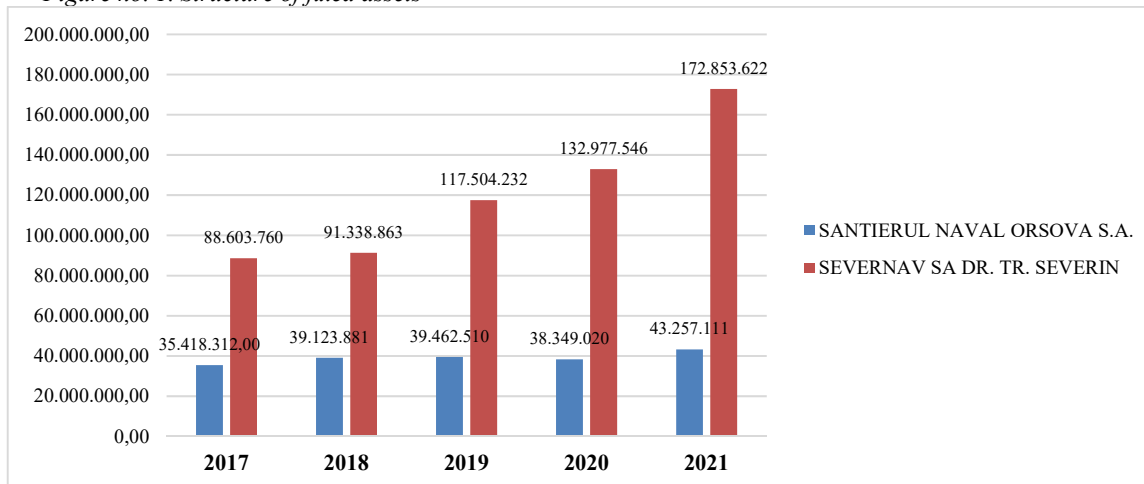
### **4. Findings**

Within the overall analysis of the financial position of SC Șantierul Naval Orșova SA and of SC Severnav SA Drobeta Turnu-Severin, aspects regarding the evolution and structure of the elements of assets and equity are followed. Information on these can be found in the Balance Sheet and in the Explanatory Notes.

According to IFRS (2013, General Framework for the preparation and presentation of financial statements para. 49), assets are a source controlled by the entity as a result of past events from which future economic benefits are expected.

The evolution of the assets for the two competing companies is shown graphically in Figure 1 and Figure 2:

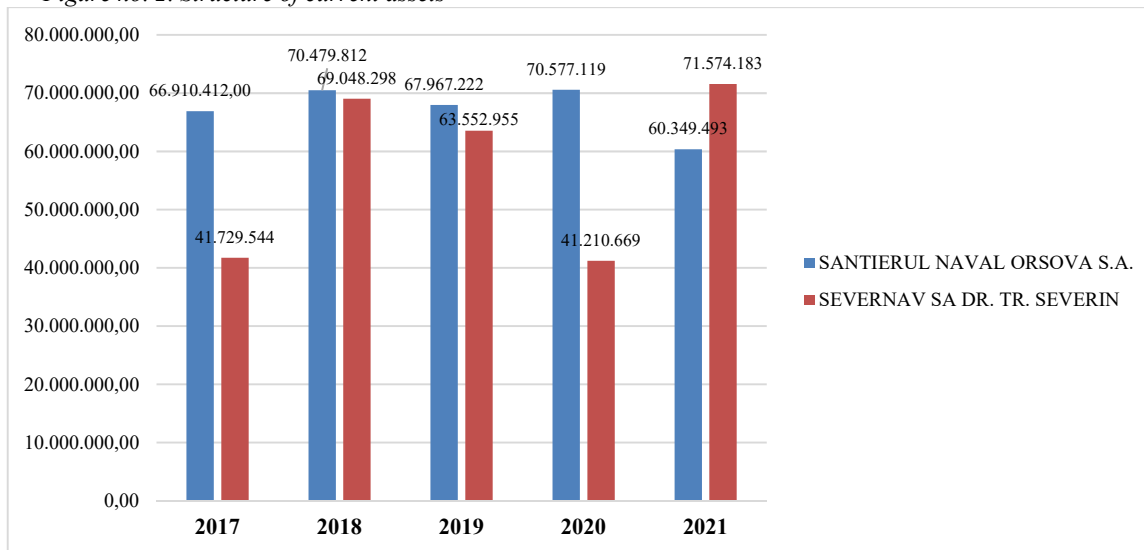
Figure no. 1. Structure of fixed assets



Source: Own processing according to the data present in the financial statements

The main element in carrying out the presented activities is the tangible fixed assets. Following the data analysis, for SC Şantierul Naval Orşova SA, this graph shows an increase in the structure of fixed assets, values much higher than SC Severnav SA Drobeta Turnu Severin. While SC Şantierul Naval Orşova SA registered successive increases of 15,473,314 lei in the period 2019-2020, respectively 39,876,076 lei for the period 2020-2021. SC Severnav SA Drobeta Turnu Severin registered moderate fluctuations, and in the last year it registered an increase of 4,908,091 lei. Following the research, we can conclude that SC Severnav SA Drobeta Turnu Severin has constantly invested in fixed assets as opposed to SC Şantierul Naval Orşova SA

Figure no. 2. Structure of current assets



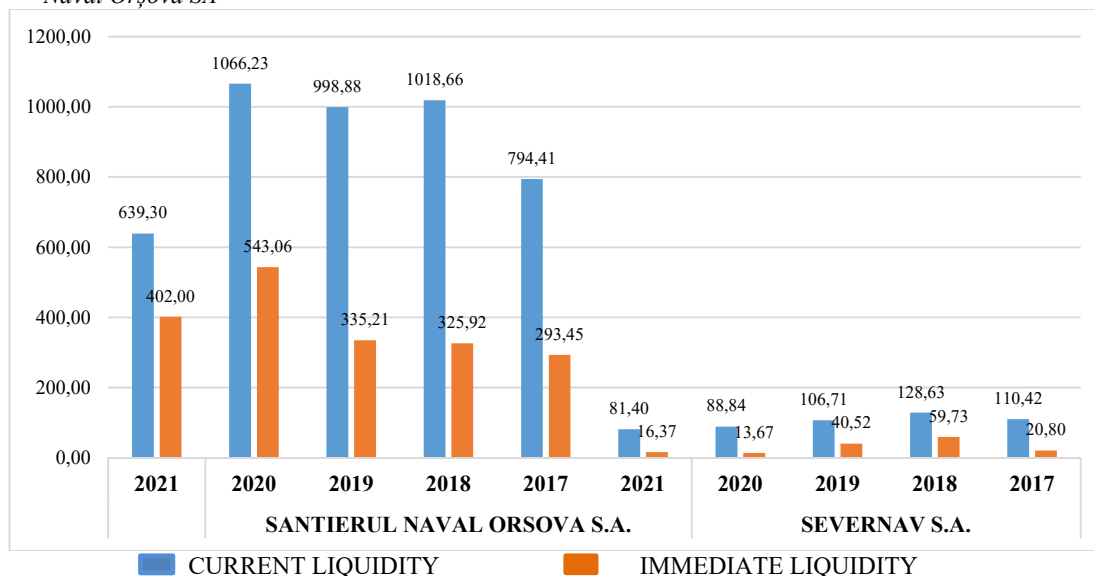
Source: Own processing according to the data present in the financial statements

Regarding the structure of current assets, we observe a trend similar to the structure of fixed assets in the sense that, for the period 2019-2020, SC Severnav SA Drobeta Turnu Severin registered a major decrease, followed by a significant increase of 30,363,514 lei. by SC Şantierul Naval Orşova SA which recorded moderate fluctuations throughout the analyzed period.

### Analysis of the structure of assets and equity within SC Şantierul Naval Orşova SA and within SC Severnav SA Drobeta Turnu-Severin

According to IFRS (2013, General Framework for the Preparation and Presentation of Financial Statements para. 16), liquidity reflects "cash availability highlighted in the near future, requiring consideration of obligations for this period."

Figure no. 3. Evolution of liquidity rates within SC Severnav SA Drobeta Turnu-Severin and SC Şantierul Naval Orşova SA



Source: Own processing according to the data present in the financial statements

The evolution of the current liquidity in the case of both companies registers decreasing values, the lowest value registered by SC Şantierul Naval Orşova SA being of 639.30, and the minimum value registered by SC Severnav SA Drobeta Turnu-Severin being 81.40.

Regarding the immediate liquidity within SC Şantierul Naval Orşova SA, there is an increasing trend until 2020, and then a decrease up to 402.00, unlike SC Severnav SA Drobeta Turnu-Severin which records increasing values. lower in the period 2018-2020 and a slight increase in 2021 to 16.37.

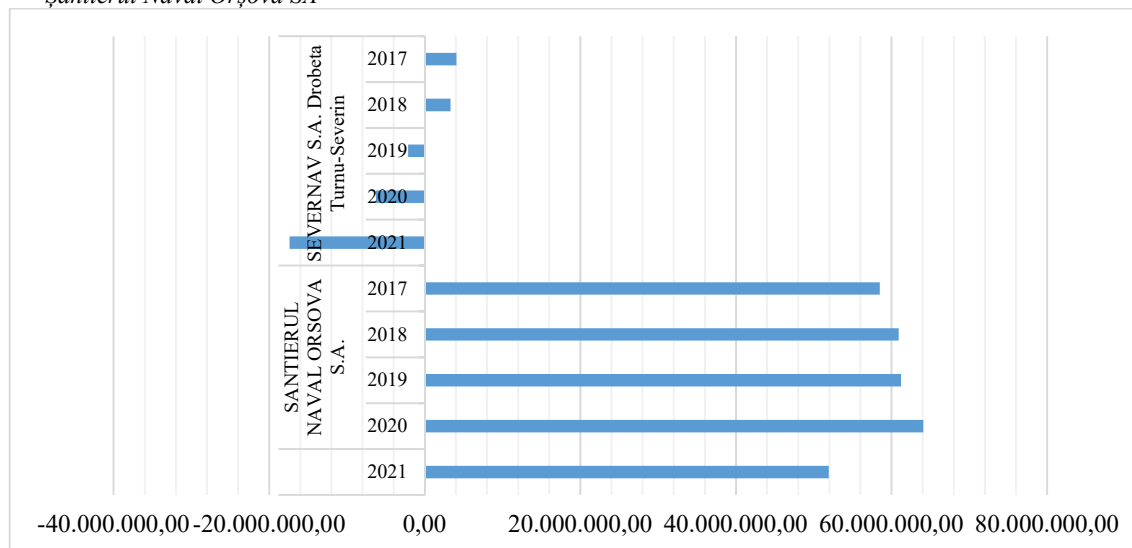
Figure no. 4. Evolution of the general solvency ratio for SC Severnav SA Drobeta Turnu-Severin and SC Şantierul Naval Orşova SA



Source: Own processing according to the data present in the financial statements

According to these results, in 2021, both SC Severnav SA Drobeta Turnu-Severin and SC Şantierul Naval Orşova SA cover their total debts in the proportion of 278% and 1097.53%, respectively, which indicates a good situation of the company.

Figure no. 5. Presentation of the working capital for SC Severnav SA Drobeta Turnu-Severin and SC Şantierul Naval Orşova SA



Source: Own processing according to the data present in the financial statements

For a complete picture of the two companies, we consider it important to analyze the working capital. During the analyzed period, SC Şantierul Naval Orşova SA registers positive values, therefore the permanent capitals cover the full financing of the fixed assets, the surplus being used to insure a part of the current assets. In the case of SC Severnav SA Drobeta Turnu-Severin, the working capital registers decreasing values, reaching in 2021 the lowest threshold of the analyzed period. This observation indicates a state of imbalance that requires thorough research in order to find solutions to balance the indicator.

## 5. Conclusions

Consistency, in our view, is essential for developing and maintaining investor confidence, and it is better to favor a smaller volume of information provided on a solid basis built over time. Economic entities must also be aware of the importance of establishing and maintaining a reputation. The ability to maintain the objectives while being credible, to maintain market commitments and to have a clear and strong voice are undoubtedly the elements of good communication.

The quality of accounting information is more than just a support for managers' decisions; it can also be emphasized by the interaction between the departments of an economic organization, in particular the level of collaboration and cooperation in order to implement the objectives and plans of the entity. The quality of information is assessed using three variables: technical aspects, analysis of the financial image of the economic entity and other qualitative factors.

## 6. References

- Avram, A., Avram, C.D., Avram, M., 2017. *Financial communication-forms, principles, techniques* Craiova: Universitaria Publishing House.
- Avram, C.D., 2017. Some Considerations on The Role of Financial Communication Within Corporate Governance. *Ovidius University Annals. Economic Sciences Series*, 17 (1), pp. 398-402.
- Avram, C.D., Avram, M., Dragomir, I., 2017. Annual Financial Statements as a Financial Communication Support. *Ovidius University Annals, Economic Sciences Series*, 17 (1), pp. 403-406.

- Cavelius, F., 2009. *Confrontation of reporting systems and financial communication of listed companies through a measure of their quality. The place of the European dimension in Audit Control Accounting*, Strasbourg, France
- Healy, P.M., Hutton, A.P., Palepu, K.G., 1999. Stock performance and intermediation changes surrounding sustained increases in disclosure. *Contemporary Accounting Research*, 16 (3), pp.485-520.
- Healy, P.M., Palepu, K.G., 2001. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31 (1-3), pp. 405-440.
- Nejjar, W., 2011. *Contribution to the analysis of governance mechanisms that explain the quality of financial communication: the case of SBF120 companies*, PhD thesis in Management Sciences, University of Orleans
- Bucharest Stock Exchange, [online] Available at: <<https://bvb.ro/>> [Accessed 10 June 2022].
- Ministry of Finance, [online] Available at: <https://mfinante.gov.ro> [Accessed 3 June 2022].