

Empirical Research on the Utility of Financial - Accounting Information in Considering Performance for Stakeholders

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Abstract

Financial performance is appreciated through the information in the financial statements and a wide range of indicators based on them. A fair financial diagnosis involves a complex analysis of these, but on the other hand each stakeholder category and each stakeholder in turn pursues a set of relevant information for them. What are basically the main users of financial-accounting information and what is important to them in an economic entity? Do these stakeholders have the financial education needed to properly assess the performance of an economic entity? What is the most useful information and how is performance translated for each category of stakeholders? In this research, the theoretical answers combine with practical answers, giving a practical meaning to the term of financial performance.

Key words: financial reports, financial performance, financial rates, stakeholders, the usefulness of financial-accounting information

J.E.L. classification: M41, M42

1. Introduction

The term *performance* has a high degree of complexity and includes several dimensions, of which the financial dimension is of major interest. Financial performance is defined both by general clichés (such as efficiency, profitability, lucrativeness), or by means of indicators that customize earlier phrases.

According to OMFP 1802/2014, “the objective of the annual financial statements is to provide information on the financial position, financial performance and cash flows of an entity useful to a wide range of users”. In quoting this objective, the three types of information mentioned, namely financial position, financial performance and cash flows, refer to three components of the financial statements - the balance sheet, the profit and loss account and the cash flow statement.

2. Literature review

The balance sheet reflects the financial position. Financial performance, in a narrow sense, is reflected in the profit and loss account. Most economic entities consider the profit and loss account to be the most important component of the financial statements (Bragg, 2014, p. 9). In addition, there are many points of view, among the most well-known, that profit is an indicator, if not the “main indicator of measuring the financial performance of the entity”. (Chirilă, 2004, Tulvinschi, 2013). Even the general conceptual framework financial reporting claims that “profit is often used as a measure of performance”, as also evidenced by our study.

But “at least as important as a company's profitability is its liquidity”. (Moreland, 1995). The cash flow statement reports cash inflows and cash outflows over the period. Cash flow analysis has become an imperative need to complete the analysis of an entity's financial condition because it has

been proven that not always the existence of an accounting profit is also a guarantee for securing the ability to pay and thus avoiding bankruptcy risk.

3. Research methodology

In our scientific approach, we applied a questionnaire with anonymous responses among different users and producers of financial-accounting information to discover the usefulness of financial-accounting information in assessing performance for each of them. The questionnaire was developed on the surveymonkey.com online platform and sent via e-mail to professional accountants, banks, leasing companies and brokers active on the capital market but also distributed to groups of investors and accountants on the Facebook social network between February 18 and July 1, 2019.

A total of 142 recipients responded to this questionnaire, removing 24 incomplete answers, resulting in a total of 118 responses.

The questions in the first part of the questionnaire are of a general nature, referring to the profession of the respondent, the experience in the financial-accounting field, the quality in relation to the financial-accounting information published by the economic entities (producer or user of financial-accounting information), and the user category of which they are a member (shareholder, investor, manager, bank, etc.). In the second part, the questions are specific to the objective pursued. We are looking for the importance that the stakeholders give to economic and financial indicators, the usefulness of the financial information contained in the balance sheet, the profit and loss account and the cash flow situation for them and, last but not least, the importance given to them by each category of stakeholders in the economic entities.

The variants of response were of a qualitative nature and were transformed into quantitative data by assigning importance coefficients.

In the presentation of the results we used tables and charts to give a legible meaning to the description.

4. Parties interested in the entity's financial performance

Financial performance is passed on to those interested through financial statements prepared by professional accountants. The Ethical Code of Professional Accountants (2011), issued by IFAC and adopted by CECCAR, considers that "a distinctive feature of the accounting profession is the assumption of responsibility to act in the public interest". By the expression public interest, the Code of Ethics refers to users of financial and accounting information represented by "actual or potential investors, entity management, employees, creditors, suppliers, customers, state institutions and other authorities as well as the general public" (Toma, 2012).

The general conceptual framework for financial reporting refers to "existing and potential investors, lenders and other creditors" as "main users" of financial reports. Paragraph 10 of the General Framework (1989) stated that the provision of financial statements that meet the needs of investors will also meet the needs of other users. A 2010 KPMG study showed that IFRS financial statements are primarily relevant to shareholders and then to management, potential investors and various lenders (banks).

Performance is defined and perceived by each category of information users differently, with reference to their own objectives (Pintea, 2011).

Table no 1. Performance targeted by user categories

Users	Interests regarding performance
Managers	Global performance Fulfillment of targeted objectives
Actual and potential investors	Lucrativeness of their investment The entity's ability to pay dividends (Matis, 2005)
Employees	The entity's stability and lucrativeness

Creditors	Liquidity and Solvency of the enterprise
State	The entity's ability to obtain profit and pay taxes

Source: (Author's processing)

A study conducted by the Romanian Investor Relations Association (ARIR) in 2019 on a sample of 104 investors highlights the fact that 'financial reports of listed companies are the main source of information for individual investors.' With this hypothesis, we will further investigate which components of the financial statements are more relevant and, more precisely, which information in these situations.

5. Findings

For the interpretation of the collected results, we will calculate a percentage of usefulness for the components of the financial statements for each category of users by multiplying the percentages obtained with 3 for high usefulness, 2 for medium usefulness, 1 for small usefulness and 0 for futility and dividing the sum to 3 Then we will calculate a percentage of the overall usefulness for each component of the financial statements by dividing the sum of the percentages previously obtained by the number of user categories considered. Thus, these utility percentages will take values between 0 and 100% and are presented along with the raw information in the following tables.

Table no 2. Usefulness of the balance sheet for stakeholders in assessing financial performance

	High usefulness		Medium usefulness		Lower usefulness		Futility		Overall usefulness percent
Shareholders, investors	81,25%	3	16,07%	2	1,79%	1	0,89%	0	92,6%
Managers	75,00%	3	23,21%	2	0,89%	1	0,89%	0	90,8%
Employees	10,09%	3	36,70%	2	42,20%	1	11,01%	0	48,6%
Government	55,75%	3	28,32%	2	9,73%	1	6,19%	0	77,9%
Financial creditors (banks, leasing companies)	82,14%	3	16,07%	2	0,89%	1	0,89%	0	93,2%
									80,6%

Source: (Author's processing)

Table no 3. Usefulness of the income statement for stakeholders in assessing financial performance

	High usefulness		Medium usefulness		Lower usefulness		Futility		Overall usefulness percent
Shareholders, investors	91,15%	3	7,08%	2	0,88%	1	0,88%	0	96,2%
Managers	86,49%	3	12,61%	2	0,00%	1	0,90%	0	94,9%
Employees	10,00%	3	40,91%	2	40,91%	1	8,18%	0	50,9%
Government	54,46%	3	29,46%	2	8,04%	1	8,04%	0	76,8%
Financial creditors (banks, leasing companies)	79,46%	3	19,64%	2	0,00%	1	0,89%	0	92,6%
									82,3%

Source: (Author's processing)

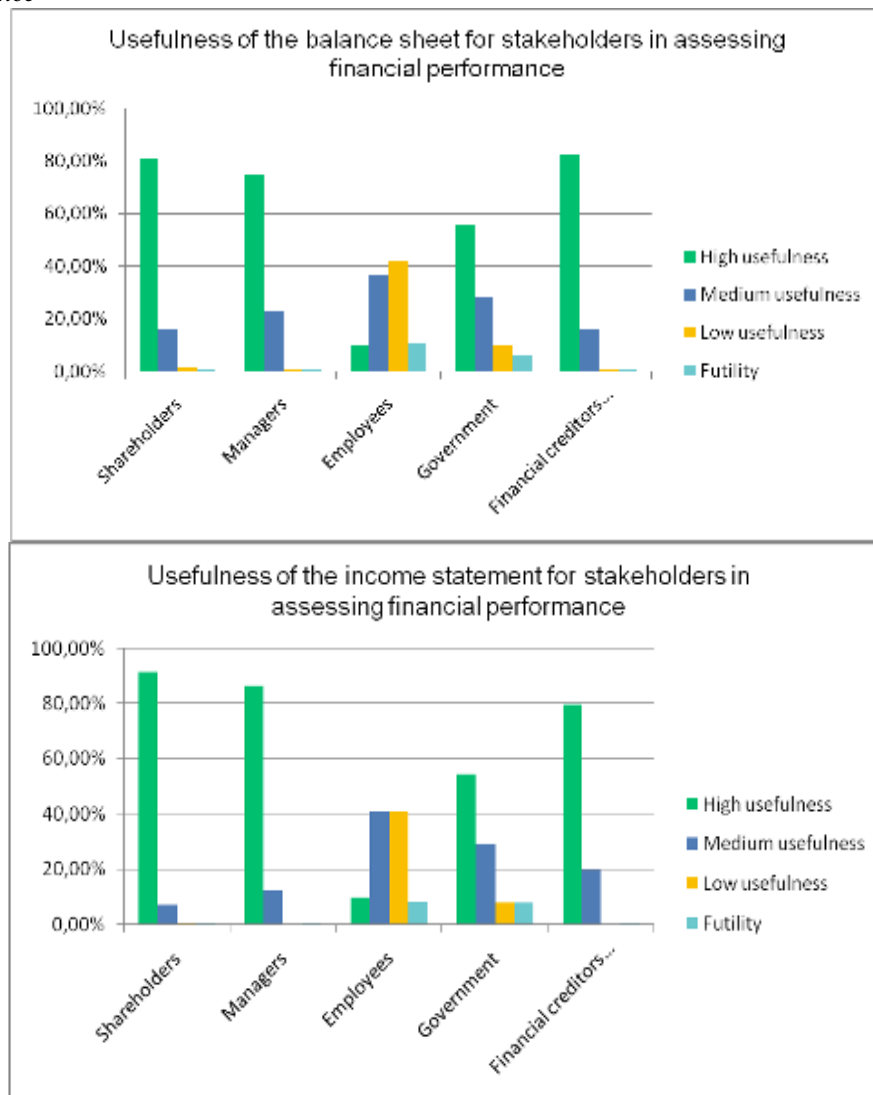
Table no 4. Usefulness of the cash-flow statement for stakeholders in assessing financial performance

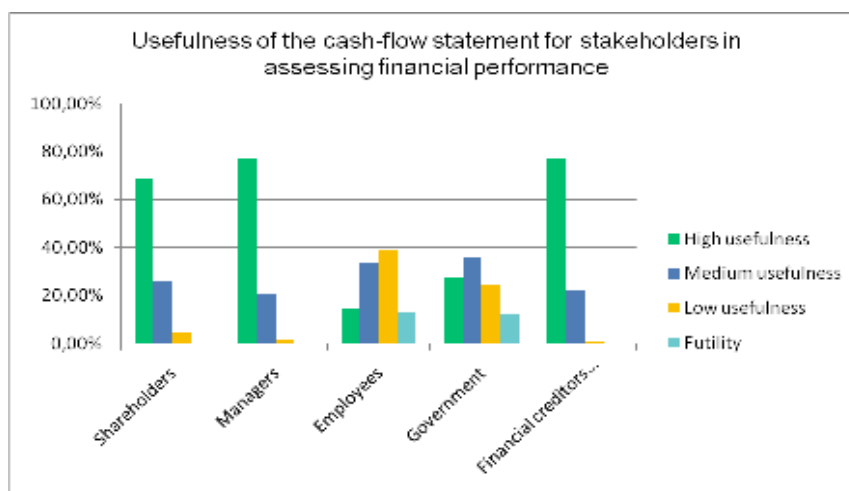
	High usefulness		Medium usefulness		Lower usefulness		Futility		Overall usefulness percent
Shareholders, investors	69,09%	3	26,36%	2	4,55%	1	0,00%	0	88,2%
Managers	77,27%	3	20,91%	2	1,82%	1	0,00%	0	91,8%
Employees	14,29%	3	33,33%	2	39,05%	1	13,33%	0	49,5%
Government	27,52%	3	35,78%	2	24,77%	1	11,93%	0	59,6%
Financial creditors (banks, leasing companies)	77,06%	3	22,02%	2	0,92%	1	0,00%	0	92,0%
									76,2%

Source: (Author's processing)

For a greater visual impact we present the data in the tables above in the following charts:

Figure no 1. Usefulness of financial statements' components for stakeholders in assessing financial performance





Source: (Author's processing)

The obtained values indicate a high usefulness of more than 90% of the balance sheet for financial creditors (banks, leasing companies), shareholders, investors and managers, followed by 78% usefulness for the tax administration and 49% for the employees.

Percentages are similar in the case of the profit and loss account that has the highest usefulness (96%) for shareholders and investors, followed by 90% utility percentages for managers and financial creditors.

The usefulness of the cash flow situation is lower by several percent. Usefulness of over 90% is registered among financial creditors and managers, followed by a 88% usefulness for shareholders and potential investors. Somewhat lower usefulness (50% and 60%) is also registered for employees and this time also for the tax administration.

The high usefulness of the financial statements for shareholders, investors, managers and financial creditors can be seen from the three graphs above where the usefulness is clearer for these stakeholders, most of the responses focusing on high usefulness, low usefulness value or futility being insignificant.

Overall, the profit and loss account ranks first with 82.3% on the usefulness scale, followed by balance sheet with 80.6% usefulness and the 76.2% of cash flow situation. These figures approve what Ștefan I.O. states in his 2016 study, namely that 'profit-based results show greater influence than cash flows' on users. However, a 'change in the users' perspective' (Ivan, 2015) is recommended, which also focuses on the cash flow situation, which is the 'modern instrument of performance measurement' (Popa et al., 2012).

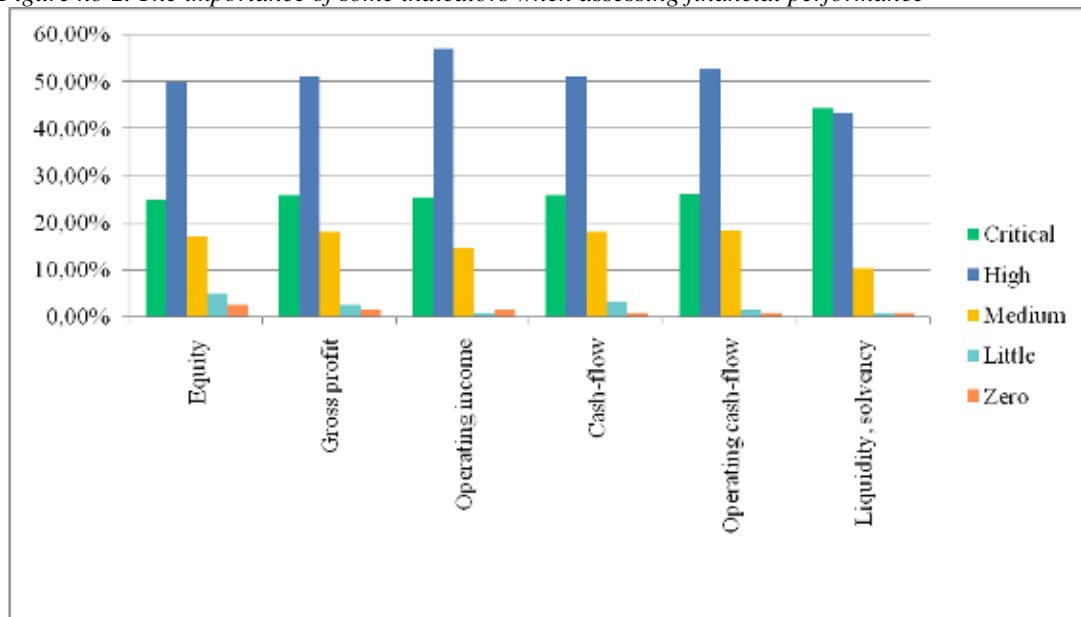
More specifically, we asked survey participants about the importance they give to indicators when assessing financial performance, and wanting to make a comparison between the profit and cash-flow outcomes, between the indicators of general and operational activity. The results and calculations made on the basis of the responses received are summarized in the following table. Values 0, 1, 2, 3 and 4 are important coefficients with which we multiplied the percentages to obtain the overall percentage of importance.

Table no 5. The importance of some indicators when appreciating financial performance

	Critical		High		Medium		Little		Zero		Overall importance percentage
Equity	25,00%	4	50,00%	3	17,24%	2	5,17%	1	2,59%	0	72,4%
Gross profit	26,09%	4	51,30%	3	18,26%	2	2,61%	1	1,74%	0	74,3%
Operating income	25,44%	4	57,02%	3	14,91%	2	0,88%	1	1,75%	0	75,9%
Cash-flow	26,09%	4	51,30%	3	18,26%	2	3,48%	1	0,87%	0	74,6%
Operating cash-flow	26,32%	4	52,63%	3	18,42%	2	1,75%	1	0,88%	0	75,4%
Liquidity, solvency	44,35%	4	43,48%	3	10,43%	2	0,87%	1	0,87%	0	82,4%

Source: (Author's processing)

Figure no 2. The importance of some indicators when assessing financial performance



Source: (Author's processing)

The figures above indicate that the most influential indicators on the market are those related to liquidity and solvency, followed by operating income and operating cash flow. Net equity is the last place in respondents' reasoning, 44% of respondents believe that the liquidity and solvency of a company is decisive in appreciating performance, compared with the 25-26% percent of the decisive importance of the other indicators.

Regarding the comparison between the profit and loss account and the cash flow situation, the main indicators in the two reports, things are roughly the same.

The accounting result is of 74.3%, a value close to the importance of the cash flow (74.6%), and the result related to the exploitation activity is of 75.9%, close to the importance of the cash flow from the operating activity (75.4%).

We observe that operating activity is slightly more important than general activity. The operating result is of 75.9% importance, more than 74.3% importance of the accounting result. Also, the share of the cash-flow in operation (75.4%) is higher than that of the total cash-flow (74.6%), which indicates that the respondents put more emphasis on the exploitation activity. Figures confirm the results of other studies. For example, a study by Jones and Widjaja (1998) among 157 Australian credit officers and financial analysts highlighted the increased relevance of cash-flow for operating activities in decision-making relative to business activity financing or investment. This is normal, the cash flows from operating activity should have the most significant weight because 'their level depends also on the company's ability to generate sustainable results' (Ivan, 2015).

In addition to the predefined indicators in the questionnaire, some stakeholders have suggested other useful performance indicators: leverage, EBITDA, total liabilities, current liabilities and long-term liabilities, turnover, net income, free cash flow, return on Assets (ROA), Price to Earnings Ratio (PER), dividend payout ratio, fixed and current assets turnover, which again highlights the fact that users have reasonable financial knowledge.

Regarding the importance of the stakeholders, on a scale of 1 to 3, shareholders, investors, managers and banks have an importance of approximately 2.7 as users of financial-accounting information issued by the economic entities, followed by the tax administration with a significance of 2.2. Employees are the least important with a score of 1.8. All users are given greater importance in listed entities compared to unlisted entities.

6. Conclusions

The usefulness of financial-accounting information is proven by their influence on stakeholder decisions. Research results show that 70% of users who are shareholders, investors and managers are aware of a complex performance approach, tracking both balance sheet and profit and loss figures and cash flow statements, as well as certain economic and financial indicators calculated on the basis thereof. The fact that the three components of financial situations have a great utility among stakeholders shows that they have a financial education that allows them a complex appreciation of the performance of an economic entity, which determines them to make informed decisions. This degree of financial education is also justified by the fact that over 70% of respondents are economists, 60% having more than 10 years of experience in the financial and accounting field.

All components of the financial statements have high usefulness, even very high for the stakeholders, less for the tax administration and for the employees. This is explained by the fact that the tax administration mainly uses the information in the tax returns and the employees are generally not remunerated on the basis of the company's financial performance.

The profit and loss account is the component of financial statements with the greatest impact on stakeholders, generally followed by the balance sheet and ultimately by the cash flow situation. This proves that there is still insufficient importance given to cash-flow, although specialized literature draws attention to and practice proves that 'not always the existence of an accounting profit is also a guarantee for ensuring payment capacity and this way avoiding bankruptcy risk'. However, liquidity and solvency ratios are considered to be most useful in assessing performance.

Shareholders, investors and managers are given the utmost importance as users of financial-accounting information, followed by banks, the tax administration and, last but not least, employees. All users are given greater importance in listed entities compared to unlisted entities.

7. Acknowledgement

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