

STUDY REGARDING THE ASSESSMENT OF THE FINANCIAL PERFORMANCE OF THE ECONOMIC ENTITIES THROUGH THE RATES OF RETURN

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Abstract

The research presents both theoretically and practically, the main rates of return used in order to estimate the performance of an economic entity. Obtaining profit is essential for the proper functioning of any society and an objective that every manager wants to achieve. The research, conducted on three societies from the construction sector in Romania, listed on the Bucharest Stock Exchange, leads us to the conclusion that their profitability decreased significantly after the financial crisis arrival and that the improvement of the financial performance of these economic entities fails to appear.

Keywords: *rates of return, financial performance, economic and financial crisis.*

JEL classification: *G3.*

1. Introduction

Local and foreign literature presents a number of indicators regarding the assessing of the financial performance of an economic entity, including economic and financial rates of return. It should be noted that the profitability is essential for the long term survival of the societies, which implies obtaining some financial effects higher than the financial efforts made. However, no conclusions can be developed only on the basis of the results of rentability, being necessary to analyze other factors that contribute to the economic and

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financial situation of the society (Balteș, 2010). Also, the values of the rates of return must be interpreted according to the society's activity, its market position, etc. (Bătrâncea, 2007).

2. Literature review

Rates of return are relatively easy to calculate because they contain information taken from the profit and loss account and balance sheet, (Anghel, 2010), being useful as they allow developing comparisons regarding the performance between different societies and also the observation of the performance recorded by an entity during a period of time. In general, the rates of return are determined as the ratio between the effect (result) and effort (costs, invested capital, assets, turnover), etc (Stancu, 2003). In the economic literature, the main rates used in the analysis of the financial performance of an economic entity are the Return On Assets (ROA) and the Return on Equity (ROE).

Return on Assets (ROA) shows the management efficiency in using the society's assets. It represents an indicator for assessing the performance of the management team. The indicator is determined either as the ratio between EBIT (Earning Before Interests and Taxes) and total assets (Vâlceanu, 2005), either as ratio between the gross profit and total assets (Balteș, 2010). In order to ensure the renewal and the growth of the assets of the economic entity in a short period of time, it is recommended that the indicator's value to be superior to the level recorded by the inflation rate.

Return on Equity (ROE) reflects the equity's contribution in obtaining net profit, or in other words, the economic entity's ability to generate net profit using the equity engaged in its activity. The value recorded by the indicator is useful mainly to investors in their decision to invest or to direct their capital to another business (Dragotă, 2003). In comparison with the Return on Assets which represents the remuneration of the society's capital only considering the operating activity, the Return on Equity highlights the return of the shareholders investment, expressing the remuneration of the equity through all the activities (operating, financial, investments).

3. Empirical research concerning the financial performance assessed through the rates of return at societies from the construction sector, listed on the Bucharest Stock Exchange.

The study considers the evolution of the economic and financial rates of return at three societies from the construction sector in Romania, listed on the Bucharest Stock Exchange, at the first and the second category, respectively: Condmag S.A., Impact Developer & Contractor S.A, and Transilvania Construcții S.A., during the period 2007-2013, using data provided by the site of the Bucharest Stock Exchange (<http://www.bvb.ro/>). The data processing was performed using the Excel software.

Condmag S.A. has as main activity the construction works of utility projects for fluids, NACE code 4221, the society being listed at the second category of the Bucharest Stock Exchange since 1996.

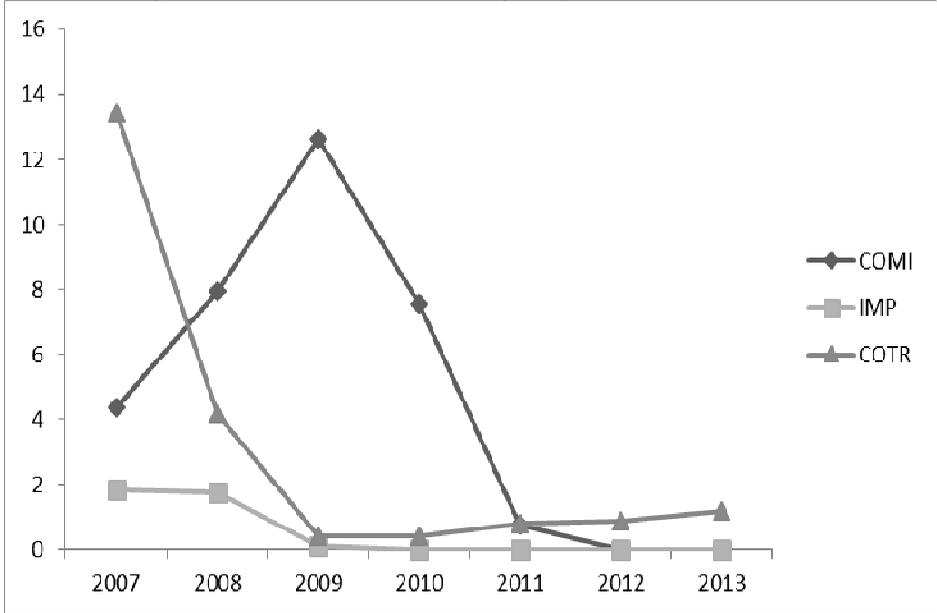
Impact Developer&Contractor S.A. has as main activity the imobiliar development, NACE code 4110 and since 2006 its shares were promoted to the first category of the Bucharest Stock Exchange.

Transilvania Construcții S.A. deals with providing construction services for residential and non-residential buildings, NACE code 4120, being listed at the second category of the Bucharest Stock Exchange since 2008.

3.1. The analysis of the Return on Assets (ROA)

The Return on Assets (ROA) evolution during the period 2007-2013, for the three analyzed societies is highlighted in the figure no.1.

Figure 1: ROA's evolution during the period 2007-2013 (%)



| ROA | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------|-------|------|-------|------|------|------|------|
| COMI | 4.38 | 7.94 | 12.63 | 7.58 | 0.78 | - | - |
| IMP | 1.83 | 1.78 | 0.1 | - | - | - | - |
| COTR | 13.44 | 4.18 | 0.44 | 0.44 | 0.82 | 0.9 | 1.18 |

Source: Own processing of the data provided by the portal www.bvb.ro

Although the three economic entities operate in the same field, ROA's evolution during the period 2007-2013 is different from one to the another. Only the COTR society managed to obtain profit and hence profitability throughout the entire studied period using its assets. Regarding this society, the highest value of the ROA indicator recorded in 2007. The economic and financial crisis determined the decrease of the market price of the real estate and hence the reduction of the society's profitability during the whole analyzed period.

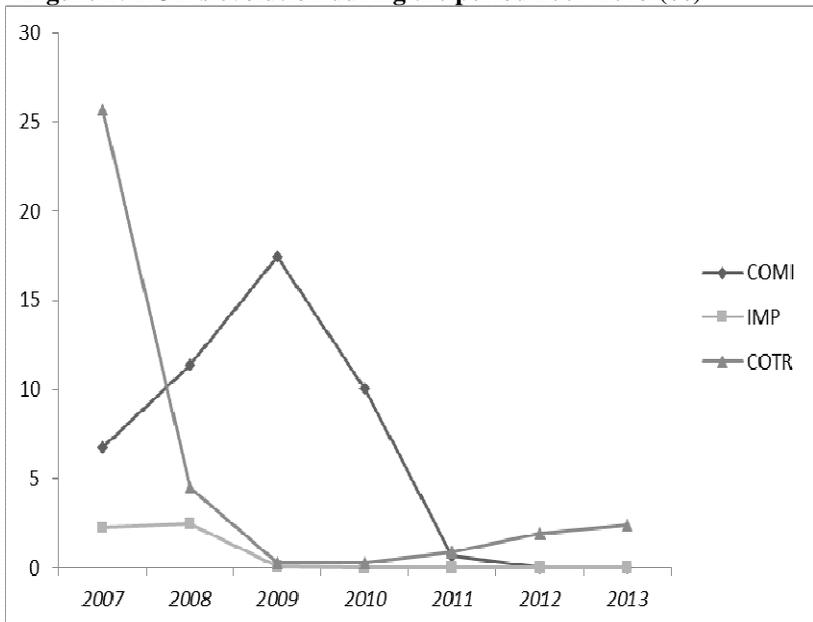
Concerning COMI society, the return on assets has been growing during the period 2007-2009. During the period 2010-2011, we are witnessing at the strong reduction of the society's profitability and since 2012 the society

records loss from its activity. During the period 2007-2009, the IMP society recorded low levels of the return on assets and since 2010, records loss from its activity.

3.2. The analysis of the Return on Equity (ROE)

The Return on Equity (ROE) evolution during the period 2007-2013, for the three analyzed societies is highlighted in the figure no. 2.

Figure 2: ROE's evolution during the period 2007-2013 (%)



| ROE | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------|-------|-------|-------|-------|------|------|------|
| COMI | 6.73 | 11.37 | 17.44 | 10.06 | 0.64 | - | - |
| IMP | 2.27 | 2.47 | 0.04 | - | - | - | - |
| COTR | 25.67 | 4.5 | 0.25 | 0.27 | 0.84 | 1.93 | 2.38 |

Source: Own processing of the data provided by the portal www.bvb.ro

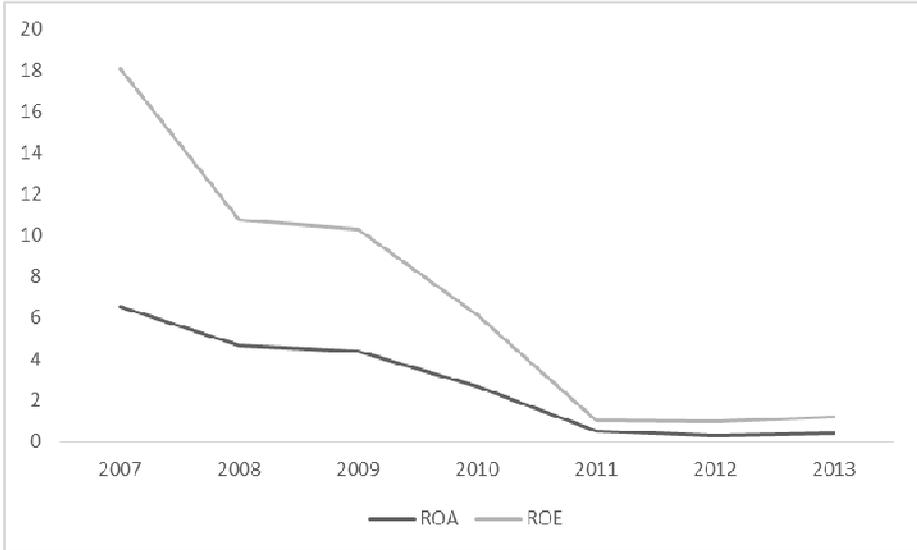
COTR is the only profitable society in the whole investigated period of time. Also, in the case of this society, since 2008, ROE decreases

drastically, a weak tendency of post-crisis recovery being observed since 2011. However, ROE's value is much lower than the value recorded before the crisis. ROE's evolution is determined by the situation of the net profit that follows the same trend. The unfavorable situation of the net profit and ROE was determined by the decrease of the market price of real estate, phenomenon that began to expand after the crisis arrival.

In the case of the COMI society, during the period 2008-2009, the contribution of the equity in obtaining profit was substantial, the value of the Return on Equity compared to 2007, being doubled and even tripled. The economic and financial crisis made felt its appearance in the case of this economic entity since 2010 and particularly in the coming years. The decrease of the turnover's value and the accumulation of debts since 2011 contributed to the reduction of the equity's value and hence of the profit. In the last studied period (2012-2013) the society recorded losses. The financial situation of the IMP society is even worse, the ROE's level becoming insignificant since 2009 and in the last four years included in the research, the society records losses.

The average values of the rates of return achieved by the three investigated societies, during the period 2007-2013, are presented in the figure no. 3.

Figure 3. The average values of the rates of return during the period 2007-2013 (%)



| An | ROA | ROE |
|------|------|-------|
| 2007 | 6,55 | 11,56 |
| 2008 | 4,63 | 6,11 |
| 2009 | 4,39 | 5,91 |
| 2010 | 2,67 | 3,44 |
| 2011 | 0,53 | 0,49 |
| 2012 | 0,3 | 0,64 |
| 2013 | 0,39 | 0,79 |

Source: Own processing of the data provided by the portal www.bvb.ro

The financial performance of the studied societies, assessed through ROA and ROE is decreasing in the analyzed period. The annual average values of ROA are decreasing from 6,55% in 2007 to 0,39% in 2013, which demonstrates the reduction of the assets contribution in obtaining profit. ROE's average values are also decreasing from 11,56% in 2007 to 0,79% in 2013. This situation is determined by the reduction of the turnover, by the continuous increase of the debts and by the losses that decreased the equity.

4. Conclusions

The conducted research leads us to the conclusion that, at the same time with the economic and financial crisis arrival, the financial performance of the three investigated societies reduced significantly during the period 2007-2013. If at the end of 2007, the analyzed societies were performant, since 2008 their financial performance decreases significantly, two of them recording losses in the second part of the analyzed period. The decrease of the turnover due to the reduction of the real estate price and to the reduction of the transactions from the market are the main causes that lead to the decline of the societies financial performance. Thus, during the period 2007-2013, we are witnessing at the massive decapitalisation of the analyzed societies, as a result of the significant decrease of the profit and accumulation of debts, which increased from one year to another.

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