THE IMPORTANCE OF PERFORMANCE INDICATORS IN ANALYZING BUSINESS ENVIRONMENT AND BUSINESS EVOLUTION

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Abstract

The analysis of economic environment brings into attention of the ones interest important trends and important evolutions that can bring into surface new strategies and new ways of obtaining profit. This is to say that staying in connection with all the changes and analyzing the trends in business performance, analyzing performance indicators helps managers to know not only their firm but the environment, the opponents, stakeholders and the opportunities that can be optimized and used as advantages in a turbulent economic area. In general, performance is associated with two key processes: performance management and its measurement. Performance management is a holistic process which embodies the subject of performance and reflects the connection between the economic entity and performance, including processes such as definition of strategy, implementation of strategy and training and performance measurement. Performance measurement appears as a low performance management that focuses mainly on the identification, tracking and communicating performance that results through the use of performance. Key performance indicators help quantify the formation of a result, providing visibility in relation to the performance of individuals, teams, departments and organizations, allowing decision makers to take action in order to achieve the objectives desired. These indicators can be appreciated based upon the trends in the company or benchmarking - comparisons with standard industry values or reference companies.

Keywords: *indicators, financial analysis, business, economics, profit*

1. Introduction

The first step in analyzing financial performance is the overall analysis of financial performance in which we highlight the progress of the performance at different levels of activity and then we follow the evolution and mutations that were produced based on categories of incomes, expenditures and results that were based upon the financial situations. The augmentation of an analysis of this value recquires investigating the financial situation of severel years. In this sense the analysis faces four levels:

- Level of exploitation;
- Financial level;
- The current level;
- Extraordinary level;
- Global level.

In the one that follows, we will see which are the indicators that are used for every level and how are they structured in order to give a clear idea upon the financial situation of the firm and the main performance levels. But until then let see which are the main indicators that can be used and how are they related with the business environment.

Strategy indicators provides information for the management of a company: profits from invested capital, risk versus opportunity, return on assets employed, turnover, market share, stock price, employee satisfaction and the customer's. Managerial indicators provide information like management - resource availability, versus planning effort, cost income versus budget, operational indicators provide information on individual performance – related to processes, activities, products, specifications, procedures, efficiency. Among the most used and recommended performance indicators for companies, depending on the strategy and strategic goals are:

- Marginal net profit recommended indicator for benchmarking industry level.
- Delivery on time and in accordance with customer expectations, as stipulated in the contract of service / delivery is an index of operational performance.

This indicator is suitable for both companies producing or selling goods, and in case of service offerings.

- -Profitable customers-can provide essential prerequisites for making strategic decisions in relation to the portfolio and customer segments.
- Projects on schedule, within budget and according to specifications.
- The commitment of staff in relation to work activities and responsibilities, defined by the enthusiasm, dedication and personal effort. In order to choose relevant performance indicators, a company must take into account many factors:

- strategic objectives (turnover, profit, cost - intensive or extensive development)
- timing activity (long-term orientation or immediate profit)
- company profile (services, manufacturing, distribution)
- the current situation on the company's

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development curve (growth, maturity, decline), including the style of management.

According to a study made by James Henderson, professor of Strategic Management at IMD Laussane, " firms that are in development follow the key performance indicators that are trelated with turnover, the penetration degree on new markets, the number of active clients, the development of distribution channels and human resources development. The companies that are in the process of development will orientate the main performance indicators in the area of profit obtained on invested capital, of operational and marginal profit, of economic added value. But the organization that are already mature will concentrate upon the indicators linked with the cash-flow, capacity of payment, investemnts versus non-investments and the degree of organic growth."

From another point of view indicators can and should be set on the following levels:

company: turnover, market share, profitability, stock price, employee satisfaction, etc .;

- function / department: sales quota, the fluctuation of personnel, budget implementation, etc .;
- process: for example, generic – development of a product related with time and new product launch; marketing & sales - percentage accepted deals on promotions to increase sales, customer profitability, customer retention, customer satisfaction; stocks and acquisitions - stock rotation, percentage of orders delivered on time provider, the average response time to urgent orders; Recruitment - duration and costs etc;
- Individual: net sales per salesperson number of interruptions of the IT system, average number of items processed per day, percentage of savings in expenditure, supported training hours per year, etc. The performance indicators have impact upon the business environment and, on the other side, the business environment plays a crucial role in the development of the company. That is why the interconnection between the micro and macro environment should be of great interest among managers. There are several factors that influence the business environment.

2. Content

The *operating level*- in this performance review is outlined the volume of the main activity, that is, the activity indicators operation used a specific calculation based on profit or loss account.

Indicators calculated based upon profit and loss account

- *Net turnover* demonstrates the breadth of business portfolio made by a company in connection with various partners. As an indicator volume, net turnover reflects both the commercial side of a company producing (by sold production) and the volume of work done by a firm focused on sales By sales mărfuri- VM) and operating subsidies related to net turnover (SE).

$$CAN = VM + Qv + SE\text{-}V$$

- VM is the volume of goods sold is taken from turnover creditor707 account; Qv is the production sold, the indicator will be calculated in those follows;
- SE is operating subsidies which are taken from the creditor turnover 7411 account.

Net turnover related to sales can be increased either by an increased volume of goods sold, either by increasing prices, or both.

Entity's ability to change one or both of these factors will depend on the demand for entity's products, the company's position in the competition and the economic conditions offered to the entrepreneur.

Production of the year (QE) demonstrates the breadth of business activity production companies both in relation to third parties (customers) by variation of the production and production sold stored (Qs), on the one hand, and in relation to the production of the property itself (Qi), on the other hand.

$$QE + QS + Qi = QV$$

- Sold production is calculated from turnover creditor group accounts 70 least 707 account
- Variation stored output (Qs) comprises as change in stock finished product (SPF) and the variation of the production in progress (SPCE) from end and beginning of the year under review.

$$QS = \Delta\ SPCE + \Delta\ SPF$$

Production is once stored account balance 711, if it has a credit balance it is summed up, if in debit and it is lowed;

- Production of property includes all costs incurred for obtaining tangible and intangible assets necessary for investments. Immobilized production is calculated from account credit turnover 711.

In terms of analysis, the "production year" is heterogeneous due to different measurement bases used. Since the production sold is evaluated in selling prices and production and production assets stored in production costs. Therefore factors that modify the state of these components are grouped into:

- physical volume;
- structure of production and sales;
- sale price;
- cost of production

Trading margin (CM) is the new value created in trade of specialized companies and the companies that operate trade through its own stores. The indicator is calculated as the difference between the proceeds from sale of goods (SG) and expenditure on goods (GE):

$$MC = SG - GE$$

Industrial margin (MI) is the new value created in production activity held by a company over a period of time that is the financial year. Industrial margin is calculated as the difference between production year

(QE) on the one hand, and the costs of raw materials, equipment, energy (CM) and the work and the third parties (Lt) on the other hand, as follows:

$$MI = QE - [\,CM + Lt\,]$$

- expenditure on raw materials and consumables is calculated from debiting the accounts of group 60, less 607 account;

- work and services performed by third parties is calculated from the debtor turnovers of the groups 61 and 62 accounts.

The added value (VA) represents the value of a company newly created by a company over a period of time, usually during the financial exercise. The added value is determined by summing the commercial margin and the industrial margin:

$$VA = MC + MI$$

The added value is the resulting synthetic indicator expressing the amount a business activity and unlike other indicators of volume forth above has the advantage of reflecting only the volume of what has actually occurred in the entity, apart from inputs from outside. The importance of the added value resulting from analysis the following considerations:

a) added value is the main source of self-financing of the operating result and the net result for the year;
b) the added value is the main source of financing the activity of operators;
c) added value expresses the degree of economic integration of a commercial company;
d) the added value of the is the source compensation of personnel;
e) added value is the source of financing of budgetary obligations;
f) value added is the source of increasing company reserves;
g) the value added measure the firm's contribution to obtain the internal gross income of a country.

The added value obtained by an entity are generally divided between the five participating parties as follows:

a) staff person who is remunerated by wages and social protection related (including payroll taxes)
b) state that charge taxes (including income tax)
c) lenders who charge interest
d) owners and managers of the entity entitled to a hoped remuneration (dividends, profit-sharing)
e) eligible sources of self-financing (retained earnings and amortization).

Analyzing the way of repartization of the value added is important in order to outline the participation degree of every category in creating the added value, and also to appreciate the level of retribution regarding the the effort made. For appreciating the way the added value is distributed several raports can be used:

Personal	Personal expenditures/ VA
Stat	Taxes/ VA
Group and associates	Dividends and distributions/ VA
Lenders	Interest expenditures/ VA
Entity	Self financing/ VA

The operating result (RE) differs from gross result of exploitation that takes into account depreciation and provisions policy promoted by the entity so it a net of depreciation and provisions.

RE = RBE + Other operating income + operating income of depreciation and provisions – Other operating expenses - Operating expenses of depreciation and provisions

The *financial level* illustrates through indicators like "gross financial result"and "outcome financial result", the financial cah-flows of a commercial society.

The gross financial result (GF) is the intermediate result obtained bya company which is not influenced influence the financial provisions and amortization:

$$GF = FVB - FEB$$

GFB- financial venues

FEB- financial expeditures

Financial result (RF) is determined as the difference between financial income (FI) and financial charges (FF). If the financial result (RF) is a profit situation can be:

Favorable because available funds were placed effectively in financial activities obtaining income exceeding costs.

Unfavorable when the positive result is due for lack of credit operations thus losing various investment opportunities.

If the financial result represents a loss, situation can be:

Favorable when negative financial result is compensated by the effects that lending has caused to the operation activity.

Unfavorable when return on investment is purchased through credit below the costs incurred in lending. In other words it is obtained a negative leverage effect lending prejudicing the operating results.

The *extraordinary level* puts into light through its indicators the financial flows of the extraordinary operations. This type of operation has a random character, it cannot be considered to assess the future performance of an enterprise, because of the lack of regularity in appearance and because of a very alternating direction (Profit / loss).

Exceptional activity, although characterize random operations such as: disposal of assets, fines and donations received or offered these activities were closely related to the operating activities of the entity reason why new regulations include them in the extraordinary activity.

2. The extraordinary activity includes income and costs related to extraordinary events like the extraordinary disasters or other events.

Gross outstanding indicator is a partial indicator showing volume results from extraordinary activity influenced by depreciation and specific provisions of these financial flows.

The extraordinary result is calculated as the difference between exceptional revenues and exceptional expenses. The extraordinary result is an indicator that shows profitability of the companies in extraordinary flows.

The *global level* of activity highlights using a system of indicators the preliminary results and the final results of the economic activity. In this are distinguished:

- current result;
- total gross result;
- gross profit before deducting interest and income taxes;
- net result for the year;
- self-financing capacity;
- net cash flow capacity.

Example:

Indicators Society A	N-1	N
Turnover	114.520	142.700
Gross margin	25.080	22.550
Total assets	111.417	114.921
Personal capital	744.350	868.201
Total revenue	821.007	1.178.202
Net profit	59.749	113.278
Sold production	10000	20000
Production of the exercise	42000	43000
Selling price	100	100
Variable costs	6000	5300
Fix costs	400	400
Maximum production	45000	45000
Financial venues	120.000	123.000
Financial expenditures	56.000	73.000
Taxes	12.300	11.200
Personal	120	105

As it can be seen the turnover rises from N-1 to N with 28.180 u.m which represents a favorable situation, that is reflected also by the total revenue which rises as well. This is registered having in consideration that the number of working people is falling down but this means that the technological capacity of the society is rising and the productivity is not affected. So, the productivity can be calculated as Turnover/Number of personal so in N-1 we obtain the value 954,3 u.m., respectively 1359,04 u.m.

The added value that represents a performance indicator can be calculated as Total production of the exercise- Third-parties costs, so having into consideration our indicators we can reffer as third parties costs, registered taxes so the results will be for VA N-1= 29.700 and VA N= 31.800, so in the current year the value added registered greater values, so the performance is growing referring to the operating level. The VA Index is 107% and the Total Exercise production is 102%, so IVA > IPE so in which concerns the commercialization and production activity the society has a favorable situation, this is to say that grows working productivity, grows the level of valorification of the material resources and diminishes the third parties costs.

To analyse the way of repartization is important see how repartization of added value is made by the firm, in this situation we choose to report VA to state and entity so: Taxes/ VA N-1 = 0.41, Taxes/ VA N= 0.35,

Referring to the entity the repartization of added value is calculated: Self financing/ VA N-1= 25.06 and Self financing/ VA N= 27.3.

The gross margin, another indicator of the operating level shows a depreciation of 2530 u.m., maybe because of stagnation of the selling price in connection with the changes of the market (market request or inflation) or another reasons.

In which concerns the level of reaching productivity or as it is said the break even point it can be calculated as: $\frac{\mathrm{CF}}{1-\frac{CV}{FV}}$, so in N-1= 421.05 u.m. and in N= 416.6 u.m. This is the point from which the society begins to register profit.

At the exceptional level, it can not be made a concrete analysis having into consideration the lack of information but the trend of the society is good reflected by an increasing net profit from 59.749 to 113.278, so the conclusion that at the extraordinary level the society has a positive position it can be drawn.

The global analysis can be done using indicators as: current result, total gross result, net result for the year, self-financing capacity. So, in this case the turnover is positive, the net profit grows from N-1 to N with 53.529 u.m and the total revenue from 821.007 to 1.178.202, this is to say an augmentation of 357.195 u.m. The financial rate can be calculated by reporting the net profit/ personal capital*100, in N-1 the financial rate is 8.03% and in N is 13.05 %, this representing an important increase. This is to say that the rotation speed of assets increases calculated as TA/ TV, in N-1 is 13.57 % and in N is 9.75 %.

The financial leverage can be calculated as TA/ Kp, in N-1= 14,96% and in N= 13,24. And, at last the Net return on revenue as NP/TR N-1= 7.27% and NP/TR= 9,61%.

3. Conclusions

Performance indicators can show you can help you understand if your company is on the right track for success—and if it's not, where to focus your attention.

The business environment is in a continous change and it is important for a society to be flexible and to have power of adaptation so its financial results shall not be affected.

The environment in which business organizations operate is a complex, multi-focus dynamic and has a far reaching effect on such organization. The environment tends, shape the outlook, and goal of the

organization by placing constraints on them. These constraints in the environment of organizations goal could be in the form of competition, this sets a limit on the goals specify by the organization.

Organizations survival and success depend on the appropriate adoptions to a complex and over changing environment. It is pertinent for top management of organization to identify opportunities and threats in the external environment. Internal environment, it should focus on strengths and weakness, potential and existing ones.In this paper, the attention was focused upon the financial opportunities and analysis, so the weak points of an economic society can be viewed through a financial telescop. The other parts concerning the performance of a business environment such as human resources, competition, stakeholders, resources can represent the basis of another research.

But with the amount of data that today's businesses and organizations generate, it is important to choose the right metrics and indicators.

Indicators give executives the chance to communicate the mission and focus of the organization to investors, team members, and other stakeholders. As performance indicators filter through the organization, they must grab employees' attention to make sure that everyone is moving together in the right direction and delivering value to the business.

In addition, performance indicators can create a type of benchmarking within one's business. A person can see the present quality of their business and with the use of these indicators, they can envision the business they want to become; they help companies become what they deem the epitome of success through the process of managing, monitoring and analysis.

In the case of the analysis of financial performance the information is provided for the most part by

The Profit and Loss Account using the techniques and tools whose procedure is based upon the fact that the result and other components of the Profit and Loss Account are comparable in time and space.

By using methods specific to the financial analysis it can be put into light the way in which the conditioning factors and the financial performances from different levels influenced the value of that financial performance.

Key performance indicators lead to performance management.

Performance management is about increasing performance. As you know, we have been steadily improving our performance management system lately but there is more to be done. Successful use of our performance management system will enable us to improve our program delivery, increase our employee engagement and productivity, and make us better stewards of the taxpayer's money.

A good performance management system works towards the improvement of the overall organizational performance by managing the performances of teams and individuals for ensuring the achievement of the overall organizational ambitions and goals.

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