THE ANALYSIS OF FINANCIAL AND NON-FINANCIAL INDICATORS, ESSENTIAL COMPONENT OF APPRECIATING THE GLOBAL PERFORMANCE

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Abstract: *Considering the more and more stringent need for economic recovery and development at a national and international level, an important role falls under the responsibility of economic entities' performance, given the more intense competition for each market segment, and the globalization mechanisms that remove the weak actors. The beginning of the third Millenium and implicitly the international financial crisis have brought to analyze numerous issues regarding the business environment and company performance. The difficulties of financial analysis in forecasting the issues that could arise have led to a reconsideration of the main concepts of: operational tools, knowledge method that imposes the establishment of economic-financial analysis type, establishing the content of the economic-financial analysis process, and finally establishing the methods and techniques of economic-financial analysis. Considering the macroeconomic evolution, we cannot ignore the social and environmental aspects that can incur loss to economic entities, especially to multinational companies, losses that can become real as: market shares and fiscal revenue decrease, less clients, various greening costs, marketing campaigns to regain the trust of consumers in their products and services. Due to all these reasons, the old tools regarding the company's performance are no longer sufficient to determine these indicators. Now, there needs to be a clear distinction between accounting profit and economic profit. The theme of this research „The Analysis of Financial and Non-financial Indicators, Essential Component of Appreciating the Global Performance", looks to underline one of the most important aspects of the new economic reality, marked by change, transparency, knowledge, collaboration, interactivity, but also by a special interest given to human factor.*

Keywords: *performance analysis; financial and non-financial analysis, evaluation, globalization, innovation*

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1. Introduction

The established tools for measuring performances are the indicators. In economic literature, we can identify dozens of definitions of indicators. As some authors say, indicators are „objective data that describe a phenomenon from a strictly quantitative point of view". For others, „indicators are numbers that express loyally the controlled phenomenon" or „numerical data, surged from an activity or action, that can contribute efficiently to enriching the progress decisions or putting them in practice".

The majority of definitions given to economic indicators are restrictive, not considering in a sufficient manner, their role in the management decision.

In my opinion, the spectrum of company performance is more extensive; it has to contain other performances measurable of not, from economic, technical-economic, environmental protection and managerial standpoint, etc. To obtain a reasonable and coherent image of an economic entity performance is needed to be used an indicator system. Performance indicators from this system structure have to contain at the same time, at least the following aspects: the organisation objectives, strategy, effectiveness, and efficiency of activities developed, the adjustment capacity of the company to the market demands in which activates (Comandaru et al., 2020, p.100).

We ascertain that, usually, a set of indicators used in assessing the global performance contains, given their relevance to each economic entity, the two main indicator categories: financial and non-financial. As we assist globally to an accentuated tendency of reporting the three dimensions of global performance (economic, environmental and social), we consider that in the near future, this way will be imposed by legal regulations, or will be requested by the partners of the economic entities. For a more concise assessment of organizations' performance, it is imperative that the measurement of performance to be made with the help of a multidimensional balanced system, that includes both financial and non-financial indicators, with the purpose of diminishing the constraints of both indicator categories () [Nicoleta-Cornelia B.S. et al., 2012:531].

One of the performance measurement and management systems is the one based on *Balanced Scorecard* (BSC), used and adopted worldwide by organisations of all types: a strategic planning tool, spread in the business environment, industry, governmental organisation as well as in the non-profit ones. Balanced Scorecard is a method of measuring and assessing the performances of a company, a version of the Anglo-Saxon dashboard, used today at a large scale. The main pillars of the system are represented by four key components: Desired Evolution State, Strategy Map, Performance Scorecard and Initiatives Portfolio.

Balanced Scorecard has its origins in 1900. Specialist David N. Norton, director of the Research Institute Nolan Norton, in collaboration with Professor Robert S. Kaplan from Harvard Business School, has made a study of 12 known companies such as IBM, DuPont, and General Electric, on the methods and tools used to measure future performances.

Two of the concepts that dominate the modern management of an organisation are value and performance. Performance supposes creating richness and value to the organisation. In this sense, performance represents the ratio between cost and the value of the output generated. To measure the performance means to estimate the value, and to know the cause of value is to „translate" the performance (Albu and Albu, 2005).

This is why it is indicated that we analyse the processes that participate to the value creation mechanism. In this context, it is requested to use a dynamic and flexible tool: Balanced Scorecard.

BSC defines the most important success factors, and measurements are created in such a way that would support completing the organization objective and measure the performance in vital areas, from a strategic point of view. BSC concept includes and develops four fundamental perspectives (Kaplan and Norton, 1992, pp.71-79).

Financial perspective. What are the shareholders' expectations from a financial performance point of view? (shareholders requests satisfaction)

Client perspective. To reach the financial objectives, how will be created value for clients? (client needs satisfaction)

Internal business processes perspective. At what processes we need to excel to satisfy both the shareholders' and clients' requests? (internal processes quality)

Development and innovation perspective. How do we engage all intangible resources – human capital, systems, and organizational culture – to improve the critical processes to organisation success? (development and innovation capacity).Using financial and non-financial indicators to measure the company's successes, represents in reality, a way of reflecting the global performance.

The critics brought to informing power of financial indicators, be it classic or modern, are diverse, starting from the quality of source information and leading to its utility or, better said, to its lack of practical use in decision making, as demonstrated by some empirical studies. Although more and more analysts use a new type of indicators, non-financial, that better characterize the organisation performances, because they touch the sensible points of the company (such as quality of management and intellectual capital in general), the financial indicators keep their privileged role in substantiating the investment decisions. Ideally would be the assurance of a balance between financial and non-financial indicators, between those that evaluate the past and those who are future-oriented.

2. Issues identified

Through this article, *The Analysis of Financial and Non-financial Indicators, Essential Component of Appreciating the Global Performance*, I will focus on a study case documenting „The assessment of global performance of company X, by analyzing the financial and non-financial indicators", representing a pertinent analysis of the type of financial-accounting reporting of Romanian companies.

The paper is structured in two main parts: first part, that presents theoretical information from specialty literature combined with personal views; second part, that presents the practical analysis of financial and non-financial statements of the listed company X, to see to which extent a Romanian company understands the importance of applying an innovative management and reporting, that would raise the standards of national economy and face international competition.

The subject of the current study is motivated, first, by the fact that performance research must be placed in the present economic context, and second, by the necessity to renew and improve the performance measurement and assessment tools with the purpose of reflecting more accurate the results obtained by an economic entity, based on the stakeholders interests. The economic entity is a dynamic environment, that has as main objective adding value. Through this, it is justified the importance of performance study.

3. Objectives and research methodology

The present article falls under the research theme of managerial accounting.

The main objective of this research is to contribute to the building of a diagnostic model of global performance adapted to the business environment from Romania, using the financial and non-financial indicators, a context that imposes the use of a dynamic and flexible tool: Balanced Scorecard (BSC).

The second objective is represented by the interest given to increasing competitiveness, without omitting the various limits to companies' success, like: imperfect legislation that continuously changes; the high impact of politics over the economy, social instability; that determine the global economic environment.

The third objective is measuring the value as a result of transformations that take place within some economic processes involving human activity, and the strategic perspective in concentrating over the products with high added value, through assessing the financial and non-financial indicators. The current research is based on specialty literature study as well as practical experiences shown in past statements: financial statements, accounting archives, and other non-financial data made public to identify various themed fields of reporting compared to the potential value of the company studied through Balanced Scorecard. A listed company has been chosen as the study object, due to its complexity and relevance as well as that is undergoing an implementation process of modern methods of management.

The research methodology used is combining the quantitative and qualitative research, through various and complementary methods: historiography, comparison, documentary analysis, graphical representation, statistical estimation, observation, but also public data and materials from institutions from financial and accounting field, the Bucharest Stock Market and National Statistics Institute. To represent the practical studies the exploratory research was used. The work is based on a deductive approach from general to specific, combining qualitative and quantitative studies. The theoretical content came to support a better understanding of the economic-financial situation of the organization and represented the scientific base of the entire process. The qualitative research had as a fundamental element the interpretation method to assess the accounting information flow from the company used as an example.

4. Research – Case Study: The assessment of the global performance of company X, by analyzing the financial and non-financial indicators

The content of the present assessment illustrates a few theoretical concepts from specialty literature over which personal views are expressed, following the actual analysis of financial and non-financial statements of company X.

At first, it is necessary to present a couple of definitions of the concept „Value" as a leading point to any economic activity and not only. The concern to define the value phenomenon arised from antiquity and had as initiators some of the greatest philosophers: Aristotel, Xenofon, Platon. From this time on, have evolved two main directions of defining the value:

Value = Utility, and Value = Work

- Acquiring some things, actions, ideas, phenomenons, to correspond to social necessities and to the ideals generated by these;
- The sum of qualities that give meaning or price to an object, being, phenomenon, etc.;
- Importance, significance, price, worth.

To obtain value, capital and work have a balanced role, symmetric. The main factors that lead to getting value: earth/field, work, and capital get each compensation whose name differs from one factor to the other: rent, salary, profit. As such, work is the real measure of exchange value for all things (effort and difficulty to obtain it) (Adam Smith, *The Wealth* of *Nations*). When we deconsider the value of using the goods, the only attribute that remains to the goods is: the one of being the output of work, *where value = transformation.*

No matter the direction of defining the value, one thing is very clear: *value is the result of transformations that take place during a series of economic processes where the human activity is trained*. These processes are *production, distribution, exchange, and consumption*. The mechanism to obtain and manage the value cannot be built without the participation of the three types of systems – natural environment, society, and economy. Between these systems, there is a potential mutual exchange with positive and negative effects, over the processes that happen in those same systems.

Analysis of financial and non-financial statements of company X

The analyzed company is listed at the Stock Exchange, privately held mainly and tries to implement modern methods of management based on assessing the financial and non-financial indicators. The company has a production activity, with 288,000.00 tons of sugar in 2017, being in the range of the biggest companies from Romania.

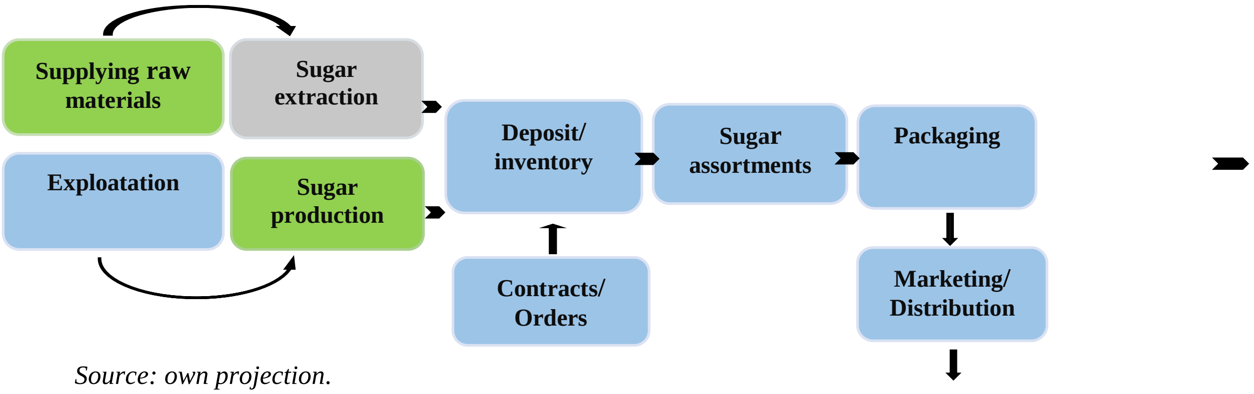
The company *clients* are final users and traders from Romania and worldwide. Over 80% of resulted production is distributed into the international market through the Stock Market Exchange based on long term contracts with clients from over 25 countries from all over the world and from the European Union.

The *strategy* of company X in the past 5 years: Has *invested* approximately 245 million USD in upgrading and developing the production capacity, including approximately 70 million USD in environmental protection and improving work security. These investments had as a result of the increase of sugar production from 187,052.00 tons in 2012 to 288,000.00 tons is 2017. Apart from the main investment made, the company focuses on *developing products with high added value:*

1. Primary products with added value, that include: raw sugar from sugar beet, raw sugar from sugar cane;
2. Processed products with added value: refined white sugar, brown sugar, crystal sugar, cubic sugar, powder sugar.

The company would like to increase its sales from 288,000.00 tons at the moment, to 315,000.00 tons in 2018.

Figure 1. The strategy of company X



Source: own projection.

Environment. Social responsibility. The company has developed automated monitoring programs of the factors that have an impact on the environment, in collaboration with the Environmental Governmental Protection Agency and the Public Health Direction. An environmental protection officer has been assigned to each company division.

In 2016 the company obtained the Integrated Environmental Authorisation, for 10 years, as a sign of recognition of the long term investment plan of the company, with a current value of over 20 million USD. The environmental authorization certifies the fact that all emissions made by the company are in complete alignment with European Union standards.

The organisation has replaced the gas sewage technology, increasing this way the efficiency of retaining from 65% to over 99%. Also, all evacuation gases are in compliance with the best-practice standards in the industry. The gas emissions have been reduced with over a quarter. The company built the first ecological dumping hole, a few years ago.

At the same time, the environmental protection investment programs have allowed the company to gain the ISO 14001 quality standard for environmental protection. The company implements eco-efficiency and safety measures throughout the entire production process and meets successfully the client requirements on this aspect.

Work safety. The company is convinced that its employees are the most important value and their safety is a priority. This is why, the organization is improving continuously work conditions to the highest standards, and the OHSAS 18001/2007 certificate, upgraded currently by ISO 45001/2018 certificate, that the company owns, serves as proof.

The create the complete context of company X analysis, were used company financial reports and statements from 2014, 2015, 2016 and 2017, reports to the National Commission of Securities and other non-financial data published and available in specialty publications. Another level of explaining the company context (other than though accounting assessments) is represented by the value creation illustrated by annual reports (investments) and also by published information about employee protection and social responsibility.

The accounting information at company X are presented for the following categories of receivers: The most important category, *shareholders*, is the most interested in the final result of each financial year and especially in the dividend distribution.

Assessing the increase ratio, it has been observed that in 2015 the company has a gross divided/share of 0,6062 RON, in 2016 of 0.2239 RON, and in 2017 of 0,1876 RON, but at the same time, the debts to the state have decreased and increased the investments.

Managers are required to make certain considerations, estimations, assumptions about accounting values of assets and passives that cannot be easily deducted from other sources by shareholders. Their estimations are founded on historical experiences and other relevant factors. The *bankers* also use the accounting information provided by the company, especially to guarantee the loans given. The agreements implied by these credit contracts impose, among other things, maintaining certain indicators within the limits agreed with the banks, like:

- Debt indicator, respectively current debt that carry interest/annual revenue calculated before interest, taxes, depreciation, and amortization.
- Net Capital/Total Tangible Actives indicator.

At the end of 2017 the company was fulfilling all indicators mentioned in the credit contracts, the cases where during the year were recorded deviating situations from the imposed limits of the mentioned indicators, have been negotiated with the banks and have been remediated. For stimulating the *employees*, through the collective employment contract, the company has engaged to give pension benefits. For this, the company records pension provisions, amounts that will be given at retirement.

The *clients* have advance payments given to the organisation and as such, they are interested in making sure that the orders are fulfilled and they will not be losing the amounts paid. Considering the fact that the organisation is dealing with the international market, based on client satisfaction depends on the notoriety and company image on the national market.

In regards to the *accounting information* provided to *the state*, this is most of the time mandatory and the published information can be processed (the implication of creative accounting) and provided in a different way and with a different meaning than the internal reporting. The state institutions are also involved in the way of transmitting the accounting information, by issuing mandatory procedures and laws: the harmonization program of Romanian accounting to international regulation and to the 5th Directive of European Economic Communities, Directive 2014/95/UE and to International Accounting Standards.

Financial analysts (like the ones from the Bucharest Stock Exchange) have access to a large part of the company information and based on them they calculate the increase perspectives of the company, results forecasting, certain investment parameters, and, at client, request can even calculate the rating of the company and make investment recommendations. The financial perspective is based on calculating a few indicators considered more important for the company like: liquidity indicators, risk indicators, fiscal revenue, return of investment, gross sales margin, average share price, the result per share and a few indicators of management. It is obvious that the company desires to gain good financial results and tracks its accomplishment by each employee, by departments, by types of products, giving first attention to the products (product outputs).

Following periodically the efficiency represents a management indicator because can be made corrections before having the effects visible in the financial result. Observing the calculated indicators and company strategy can be observed that the company wants to maximize the production to a set level, an improved productivity per employee, and a maximum efficiency of machinery. The main concern of *investors* is to modernize the production cycle and to supervise the degree of productivity/efficiency of this activity and how this is reflected in the end result.

Concerning the *human resources*, the main objective of the company is to keep the qualified personnel, given the limited number of available professionals in the industry. Considering the fact that specialized engineers are hardest to find, the organizations' principle is to train its own engineers, based on necessities. The company invests 150,000.00 USD annually in training programs focused on various fields. The fact that company X has invested in modernizing the production cycle and tries to keep its senior employees and industry specialists will lead to value creation for clients, even if this process is a long term one. To make the evaluation of global performance, a system of indicators has been created, where each of the two categories of indicators – financial and non-financial have equal importance, as follows: 60% importance financial indicators, 60% importance non-financial indicators. The environmental and social indicators will also be given equal importance, leading to system structure as follows: financial indicators 60%, social indicators 30% and environmental indicators 30%. Within the structure of the indicators system that assesses the global performance of the analyzed organisation, have been included financial and non-financial indicators, represented in the following table:

Table 1. Financial and non-financial indicators considered in constructing the system of assessing the global performance

Financial indicators	Non-financial indicators
Added Economic Value	Degree of Client Satisfaction
Return on Investment	Work Satisfaction
Financial Return	Work Motivation
Operational Cash-flow	Number of Complaints
Net profit per Share	Organisational climate
Instant Liquidity	Polution Degree
Degree of Debt	Respecting Environmental Regulations
Total Rentability of Shares	Emissions
Total Profit	Recyclable Materials
Revenue	Initiatives of reducing the emissions

Source: personal processing.

It is needed to integrate the social and environmental requests in a management system to be able to approach globally the organisation performance. Performance measurement must be done through a multitude of financial and non-financial indicators to diminish their limits and get a complete image of the company situation.

In the current study, it has been approached the subject of diagnostics, with the purpose of creating a diagnostic model of global performance for organisations, with the help of the 20 selected indicators. Testing the relevance of the information contained by the selected financial performance indicators of the company X, was made based on the financial statements from 2014 to 2017.

The tests founded on the available data of company X, exchanged at the Bucharest Stock Exchange, for the period 2014-2017, had shown that only three out of the nine financial indicators have an impact on the total rentability level obtained by shareholders, influencing this dependent variable. The three indicators are: degree of debt, net profit, and economic added value. It can be said with a probability of 95%, respectively 90%, that the coefficients of those variables are significant from a statistic standpoint.

Regarding the selected non-financial indicators, it was not possible to test their relevance over the market value of the entity, due to limited information about the non-financial performance factors. The purpose of the process was to establish, based on available information, the ratio of each selected performance in the diagnostic model.

Given that the relevance of non-financial indicators over the market value of economic entities could not be tested, they will be given equal importance in the model structure, each non-financial indicator will have a weight of 6%. Concerning the financial indicators, these will have a differentiated degree of importance, meaning that the three relevant indicators through their information content (economic added value, net profit and degree of debt) will have a weight of 8%. The remaining seven indicators will have equal importance, summing 36%, and individually will have an importance of approximately 5.14%. All these are summarized in the below table.

Table 2. The weight of performance indicators within the diagnostic model

Financial Indicators	Weight	Non-financial Indicators	Weight
Economic Added Value	8%	Degree of Client Satisfaction	6%
Degree of Debt	8%	Work Satisfaction	6%
Net Profit	8%	Work Motivation	6%
Total Rentability obtained by Shareholders	5,14%	Number of Complaints	6%
Net Profit per Share	5,14%	Organisational Climate	6%
Instant Liquidity	5,14%	Degree of Polution	6%
Operational Cash-Flow	5,14%	Respecting the evironmental regulations	6%
Return of Investment	5,14%	Emissions	6%
Financial Rentability	5,14%	Recyclable materials	6%
Revenue	5,14%	Initiatives to reduce the emissions	6%
Total	**60%**	**Total**	**60%**

Source: personal processing.

Evaluation of the global performance of an organisation through the diagnostic model created is based on points given to each analyzed aspect and leads in the end to obtaining the total points, after the following formula:

*Ptotal = 0.60*Quantitative aspects + 0.60*Qualitative aspects*

The model requires examining 20 criteria, out of which 10 financial criteria and 10 non-financial criteria. Each criterion gets a final score from 1 to 6, where 1 is minimum and 6 is the maximum. A total score is calculated after the above-presented formula, by combining quantitative criteria and qualitative ones, and to determine the final score is used the weighted mean, such that the assessed economic entities will be able to fall in one of the following performance categories:

Table 3. The scores of each performance category

Final score (weighted)	Performance Category
1,00-3,00	G1
3,00-4,00	G2
4,00-5,00	G3
5,01-5,50	G4
Final score (weighted)	**Performance Category**
5,51-6,00	G5

Source: personal processing.

Considering the number of points obtained after applying this model, company X assessed could fit into one of the following performance categories:

- G1 – weak global performance, not respecting the financial criterion or the non-financial criterion;
- G2 – acceptable global performance, with a worsening tendency of either the majority of financial criterion or non-financial criterion;

- G3 – average global performance, with a stagnation tendency of both criterion categories;
- G4 – good global performance, with an improving tendency of most financial criterion, as well as of the most non-financial criterion;
- G5 – high global performance, respecting both financial and non-financial criteria.

Therefore, it can be noted that we cannot find a perfect balance in the annual reports of the company, with accent, naturally, on the financial axis, that is dominant. The management based on Balanced Scorecard is heavy and most of the conclusions are taken from published news combined with personal opinions, views of other specialists and data resulted from public financial statements.

5. Results and discussions

Starting from the above information, a series of subjective conclusions have arised regarding the assessment of global performance at company X, by analyzing the financial and non-financial indicators, the reporting and the concept of social responsability. At company X, can be observed that it tends to accomplish all four aspects of responsibility: economic, legal, ethical, and social.

The results obtained following the assessment of the financial and non-financial indicators considered when constructing the global performance diagnostic system indicates that the company falls under one of the following performance categories: G1 – weak global performance; G2 – acceptable global performance; G3 – average global performance; G4 – good global performance; G5 – high global performance.

Regarding the place of value creation in the financial communication, the types of value, beneficiaries and the sources of value creation identified in annual reports, it has been concluded that the annual report is fundamentally based on accounting communication and financial statements, but also the value creation is substantial, especially about the human capital and structural company capital. There is shown a report of social value, through which the company seeks to get legitimacy with the public, responding also to the mass media and political pressure, but also offers more likely limited information, while the value statements explain clearly the value creation for shareholders.

These results concern this specific company and its adjacent context (privatization, public pressure, economic policies, a market economy, European integration).

6. Conclusions

The need to understand the economic-financial context of the organisation represents an essential request, but it happens often that the management does not have the correct and complete information to make decisions. BSC and especially the managerial performance systems exceed this obstacle, by a strategically oriented management, by using financial and non-financial performance indicators and achieving economic performance and reaching the set objectives.

Considering the above-presented information, it can be said that the conclusions are rather subjective in relation to the balance of reporting and the concept of social responsibility at company X.

From the moment when the company has become privately owned, the managers (investors) have brought to the organisation a modern and out of the box idea for that time: creating social value or company responsibility towards society. It can be said that this concept is well understood by managers and the actions taken in that area have been timely and appropriate. The environmental concern is reflected through investing in machinery, obtaining environmental certificates and even training employees. This way, the company tends to accomplish all four aspects of responsibility: economic, legal, ethical and social. From the shareholders' perspective, they will be satisfied as long as they receive earnings (dividends) to a reasonable level compared to the invested capital. Even from the beginning of the privatization, the managers had to reach also mandatory objectives from negotiating with the state (major investments, maintaining employees, paying debts), but at the moment, they look further to client satisfaction, market expansion and everything that would involve greater earnings.

The management relationship with the employees is very good, based on communication and information. The employees consider that they are informed correctly and completely. These think that the shareholders are not only interested in their own earnings, but also in the well being and the comfort of the employees. The bankers, clients and financial analysts do not have significant negotiation power with the company unless themselves are important actors in the industry. The state institutions have an important contribution to the organisation activity. Due to the privatization process, a lot of decisions and actions have been imposed, but at the same time were fundamented on political, economical and personal interests.

Further, I propose a couple of *ideas to improve performance*:

- The need to reevaluate the performance of the quality management system within the company, through financial and non-financial indicators specific to the developed activity, according to market requests and to the internal and international business environment;
- Reducing the extreme situations for the company management, supporting the creation of better conditions for planning, organization, and evaluation of management system;
- Developing an ensemble of documented practices that are maintained and revised continuously;
- Reducing the tendency to use wrong practices;
- Identifying the steps needed to mitigate any issues that require preventive actions;
- Verifying and evaluating the efficacity of the quality system periodically.

In the current scientific process, *The assessment of the global performance of company X, by analyzing the financial and non-financial indicators*, can be underlined the theoretical and practical contributions in the field of management accounting, specifically in the area of assessing the global performance of economic entities. Personal contributions to the research, aim at two main domains: the theoretical and the practical. A consistent part of the research has been focused on presenting the four dimensions of the global performance: economic, legal, ethical and social responsibility, and on the state of knowledge regarding the tools of performance measurement, specifically the performance indicators.

The assessment of global performance at company X has been made based on the empirical research developed with the purpose of determining the optimal structure of the model of evaluation of global performance. This was made by implementing a series of financial and non-financial indicators for each performance dimension within the Balanced Scorecard structure. Building a diagnostic model of global performance of the organization was a result of the process.

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