

**MINISTRY OF NATIONAL EDUCATION**  
**“1 DECEMBRIE 1918” UNIVERSITY OF ALBA IULIA**

**Accounting Doctoral School**

**PhD THESIS**  
**(Summary)**

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**Alba Iulia**

**2017**

**MINISTRY OF NATIONAL EDUCATION**  
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**ANALYSIS MODELS OF FINANCIAL POSITION  
AND ECONOMIC PERFORMANCE IN THE  
ENERGY SECTOR BASED ON THE  
INFORMATION PROVIDED BY THE ANNUAL  
FINANCIAL STATEMENTS**

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**2017**



Universitatea Valahia din  
Târgoviște

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Project financed by FONDUL SOCIAL EUROPEAN through

Human Resources Development 2007-2013 Sectoral Operational Programme

Priority Axis 1 “Education and training in support of growth and development of knowledge-based society”

Key Area of Intervention 1.5 “Doctoral and post-doctoral research support”

Contract no.: POSDRU/187/1.5/S/155450

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This PhD thesis has been prepared with the financial support of the project “Quality European Doctorate - EURODOC”, Contract no. POSDRU/187/1.5/S/155450, project co-financed by the European Social Fund through the Sectoral Operational Programme “Human Resources Development” 2007-2013.

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## KEYWORDS

Financial position, economic performance, energy sector, financial statements, balance sheet, profit and loss account.

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# INTRODUCTION

## General context of research

The current economic context, which is in constant change and economic and social reorganization, generates complex and detailed informational needs, but adapted to the informational needs of each beneficiary. Practically, contemporary society is characterized by redefining concepts, major changes in the system of values, reinterpretations of norms, all of these giving birth to diverse and original research directions. Current reality proves that these aspects manifest themselves in all the sides of economic, social, cultural, political activity, so that neither the financial sphere of business is excluded from this concept.

In this context, our paper, entitled "Models of analysis of financial position and economic performance in the energy sector based on the information provided by the Annual Financial Statements", aims to radiograph the annual financial statements (both as concept and the empirical way in which they pursue their intended purpose) in the process of assessing the financial position and economic performance. Thus, the integration of research in the current general context is given by the approach that follows the informational contribution that the annual financial statements bring to the different categories of stakeholders, but also by proposing ways to improve and increase the adaptability of the annual financial statements to the informational needs of the various stakeholder categories.

The concept of stakeholder and its derivative concepts are often found in the specialized literature. Since the 1980s, with the first research on this concept (Freeman, R. E., 1984<sup>1</sup>), business theory and practice have developed different approaches. Most of the specialized studies subscribe to the idea that stakeholders' decisions are influenced by the actions of the company and vice versa. From this approach comes the idea that any information published by a company will be the basis for decision making by the stakeholders. Often, stakeholders outside the entity rely in making their decisions on the information provided by the annual financial statements.

At the same time, decisions can also be made on the basis of compilation of the information produced by the accounting profession (and found in the annual financial

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<sup>1</sup> Freeman, R. E., (1984), *Strategic management: a stakeholder approach*, Boston, Pitman, ©1984;

statements) and information from other fields (technical, legal, human resources etc.). Moreover, there is an emerging tendency of accounting to adapt to other directions of business evolution. An example of this is the concept of sustainable accounting (environmental accounting, emissions accounting), whose analysis and dissemination is required, especially in the energy field. This concept (which itself can open new research directions) is only a component of the approach known as "sustainable development" (Milne, M.J., et al., 2009<sup>2</sup>).

Having in view the aspects mentioned above, we can state that the annual financial statements are far from being perfect; they are perfectible. Moreover, in economies in which financial reporting is carried out under a rigid framework imposed by law (as in the case of Romania), we can say that these financial statements are built to respond to a single category of stakeholders: governments. This aspect, as well as the importance of information as a neo-factor of production, makes us advocate for the improvement of the annual financial statements so that they best respond to the informational needs of all stakeholder categories.

The topicality of research is supported primarily by the frequent changes in financial reporting in recent years, with significant implications for the ways of expressing and interpreting the concepts of financial position and economic performance.

The financial position of an economic entity is a concept that may have different interpretations, depending on the stakeholder performing its analysis. In the energy sector, which is considered to be of high importance in the national economy, we consider that the most important stakeholder is the state, because ensuring the functioning of this sector is a basic condition for the development of other sectors within the national economy. Therefore, we can look at the informational needs of the other categories of stakeholders from the perspective of the condition "sine qua non" of the state regarding the functioning in optimal parameters of this sector, which is manifested as follows: the operation of the sector involves attracting investors, the functioning of the sector implies the existence of human resources, the functioning of the sector can not be ensured without the existence of commercial relationships involving suppliers and customers, and for the operation of the sector, there are often used various sources of financing. All these aspects give birth to categories of stakeholders interested on the parameters

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<sup>2</sup> Milne, M.J., Tregidga, H. and Walton, S. (2009), "*Words not actions! The ideological role of sustainable development reporting*", Accounting, Auditing & Accountability Journal, Vol. 22 No. 8, pag. 1211–1257;



in which the entities in the energy sector operate, one of the areas of interest being the financial position of the entities that fall within its scope.

The analysis of an economic entity is the act whereby initiated or uninitiated individuals, whether independent or not, are trying to assess the extent to which the analysed entity meets its objectives in the scope of analysis, in order to extract the information necessary to properly substantiate their decisions. Regardless of the field in which the analysis of an economic entity (economic, financial, commercial, legal, technical, personnel, informational, environmental etc.) is overlapped (or includes) with the concept of "performance" (economic, financial, environmental, commercial, technical etc.).

The measure of economic and financial performance is generally given by the indicators from the profit and loss account. According to IFRS, this document is known as "a statement of profit or loss and other elements of the global result of the period" or "a statement of income and expense". We can appreciate that any element that influences the indicators in this component of the annual financial statements will also affect the economic and financial performance of the entity. In particular, indicators such as net profit, sales revenue, results on different types of activities etc. are considered. Performance is also appreciated through other indicators deriving from the annual financial statements provided by the legislation. Any influence factor will also be reflected in the change of these categories of indicators.

The performance of entities depends on the existence and intensity of the manifestation of factors belonging to the entity's internal environment (marketing, production, management etc.) or factors outside the entity (national and international economic context, competition, interest or demand for products, services of the entity etc.). A pertinent performance analysis should not be limited to simply studying the components of the annual financial statements, but must go further so as to determine the influence of each factor on performance. These steps fall mainly in the responsibility of management, which has to decide what actions to follow starting from the analysis of the influence of each factor on the realised performance, in order to correct the negative influences and to maximize the action of the positive influence factors.

The analysis of the concept of financial balance continues to be a topical concern of financial-accounting researchers, due to its usefulness in assessing the financial position of an entity. The conception according to which the financial position of an economic entity is expressed by the indicators presented in the balance sheet is no longer up to date. The theory and

practice in the financial-accounting field has developed a number of specific practices expressing the financial position as well as other aspects. Thus, the balance sheet (which ultimately presents nothing but the patrimonial structure of an entity) remained the supplier of raw data to apply these practices.

Risk, as a concept found in the economic sphere of business, is a field of analysis often approached by financial-accounting researchers. Even though it is often viewed alongside profitability and value, as a basic element of finance (Stancu, I., 2007<sup>3</sup>), the risk has valences that often make it useful in analyzing other aspects of the economic sphere of business, such as its financial position and economic performance. From these valences, we consider the most appropriate for this purpose to analyze the ability of an entity to avoid bankruptcy, which is why we opted for analyzing different forms of bankruptcy risk, as a tool for assessing the financial position.

Treating all these aspects (and others) makes this paper a solid tool in the process of assessing financial position and economic performance based on the data provided by the annual financial statements, in the optics of providing a surplus of information to stakeholders, aspects that prove the alignment to the current general context. All these aspects represent in fact the **motivation** behind this research.

### **The importance of research**

Annual financial statements have been and continue to be a major area of interest to financial and accounting professionals and not only. This, reinforced by the frequent changes in the legislation, gives a lasting note to the studies that deal with this concept. In the present approach, we intend to highlight the main features that should be characterizing the annual financial statements so that they represent a solid source of information for all categories of users, considering that currently the only category of users who are fully informed is the state.

The importance of researching the issues related to the annual financial statements is easy to see from the first chapter of the paper. Thus, the first two subchapters must represent a source of motivation for **accounting professionals** (those responsible for preparing and presenting the

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<sup>3</sup> Stancu, I., Bălu, F., (2007), Utilizarea metodologiei VaR pentru măsurarea și prevenirea riscului valutar, Revista ECTAP, articol disponibil la <http://store.ectap.ro/articole/54.pdf> accesat în data de 04.11.2015;

annual financial statements) in order to cause them to present as much information as possible in the annual financial statements to provide for the decision makers a solid base. It is also of great importance to **researchers in the field**, those who can have a vision through which they open new directions for approaching the annual financial statements and also for **professional bodies** that have the power to propose solutions to improve financial reporting. Last but not least, the study presents also the importance for the legislators in order to make them aware of the fact that other categories of users of information extracted from the annual financial statements are entitled to a high level of information.

In the analysis of an economic entity, any interested party channels its attention to certain aspects that are useful to it in making decisions. Among these aspects, the financial position (together with economic performance) represent an important area of analysis for most stakeholder categories. Starting from the premise that a sound financial position is a basic condition for the compliance with the principle of continuity of activity (objective pursued by the majority of stakeholders in a solid economic and financial environment), it can be said that the analysis of this concept and its relevance for the stakeholders is always topical.

The importance of analyzing the concept of financial position and its influence on stakeholder decisions is reinforced by the large-scale study conducted by Martínez-Carrascal, C., and Ferrando, A., (2009)<sup>4</sup>, which demonstrated that the stakeholder investors' actions may be significantly influenced by the financial position of entities from the sphere of analysis.

From this point of view, the importance of our paper is highlighted in terms of the used approaches, aiming at a basic goal, namely providing more information for different **stakeholder categories**.

The annual financial statements are the entity's main business card in order to assess the financial position by the stakeholders. An important aspect that they are pursuing is the existence of a solid financial position, which, in practice, is manifested through the financial balance. This paper seeks to analyze the financial position of the Romanian companies that are representative to the energy sector based on specific indicators used for assessing financial balance. In order to reflect these aspects, indicators such as net situation, working capital, the need for working capital, net treasury etc. were taken into account.

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<sup>4</sup> Martínez-Carrascal, C., și Ferrando, A., (2009), *The impact of financial position on investment: an analysis for non-financial corporations in the euro area*, Paper provided by Banco de España in its series Banco de España Working Papers with number 0820;

The problem of profitability analysis divides the mass of theoreticians and practitioners from the economic and financial sphere of business into two camps: those who support the principles of analysis based on absolute indicators and those who rely mainly on the indicators of relative appreciation of profitability (Mica, I. G., 2009<sup>5</sup>). In our opinion, these two approaches both provide a certain amount of information for the users of the annual financial statements, they do not exclude each other, on the contrary, they complement each other and ultimately contribute to better informing the stakeholders, a basic condition for taking optimal decisions. Even if the analysis based on indicators that assess profitability in relative size has the undeniable advantage of making it easier to perform comparative analyzes between entities that have some common elements (space comparisons), there are many studies that highlight the superior utility of the indicators in absolute measure, even in spheres such as the expression of hidden volatility in the financial markets (Giles, D. E., 2007<sup>6</sup>). In addition, correlations between the volatility of the financial markets and the indicators in absolute measure of the profitability are highlighted by other authors (Franses, P. H., et. al., 2002<sup>7</sup>). Thus, the approach proposed in this paper is of great importance also due to the fact that the two methods of assessing profitability are treated as complementary.

### **Research methodology**

Taking into account the high importance of the concept of financial position and economic performance, it is necessary to carry out its analysis starting from the main objectives imposed by any scientific research: highlighting the current state of knowledge in this field, empirical analysis in order to render the practical way of manifestation of concepts, but also proposing alternative solutions based on empirical analysis and the vision of each researcher.

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<sup>5</sup> Mica, I. G., (2009), *Profitability And Risk. Essential Coordinates Of Our Existence*, Article provided by Romanian-American University in its journal Romanian Economic and Business Review, Volume 4, Issue 4, pp. 21-30;

<sup>6</sup> Giles, D. E., (2007), *Some Properties of Absolute Returns as a Proxy for Volatility*, Paper provided by Department of Economics, University of Victoria in its series Econometrics Working Papers with number 0706;

<sup>7</sup> Franses, P. H., et. al., (2002), *Modeling and Forecastin Outliersand Level Shifts in Absolute Returns*, Article provided by John Wiley & Sons, Ltd. in its journal Journal of Applied Econometrics, Volume 17, Issue 5, pp. 601-616;

In order to bring to light the current state of knowledge, we referred to the review of some specialized bibliographical references, aiming at highlighting the current conceptions regarding the studied aspects.

The empirical analysis has started from the importance of the energy sector in the national economy (the analyzed companies have accumulated a turnover of about 5% of the Romanian Gross Domestic Product and about 20% of the Gross Domestic Product obtained in the branch of industry) both as a macroeconomic value creation system and in terms of the importance of this sector for other economic and social sectors in Romania.

Considering these aspects, we believe that the paper has been compiled through a combination of *qualitative research* with *quantitative research*.

Research on financial position and economic performance can not be summed up to its analysis in a rigid way, referring strictly to the opinions of various authors in the specialized papers. This analysis should be carried out by referring to the informational needs of different categories of stakeholders, with relevance to the areas of interest within the analyzed economic sector.

Thereby, in this paper, both *deductive research* (starting from general and comprehensive concepts, descending to the expression of these concepts in current trends, in legislation and in the specialized literature, appealing to their manifestation in the energy sector and their confirmation), applied in all the chapters of the paper (especially in Chapters 1 and 5), as well as the *inductive research* (starting from the reality existing in the empirical analyzes, trying to identify regularities of manifestation of these realities and the formulation of hypotheses that can be converted into theories by confirmation), also applied in all chapters of the paper (with a higher intensity in Chapters 2, 3 and 4).

Specifically, the following research methods were used in the present paper:

- *literature review (descriptive method)*: given the fact that the literature abounds in various studies dealing with the informational power of the financial statements, as well as the concepts of financial position and economic performance, the present paper contains in all the chapters a theoretical component focused on the presentation of concepts considered significant in relation to the studies subject, in order to bring to light the current state of knowledge in this field. At the same time, the theoretical documentation allowed the presentation of the opinions of some authors regarding the concepts of financial position and economic performance.

- *econometric modeling*: used to provide added information to current and potential investors. For the statistical processing of data, the following software was used: Wessa, P. (2017), Free Statistics Software, Office for Research Development and Education, version 1.1.23-r7, URL <http://www.wessa.net/>

- *empirical analysis (case study)*: it has been used in all chapters, with the main purpose of confirming and verifying the formulated hypotheses, and also the various opinions found in the specialized literature;

- *correlation analysis*: used to test the correlation between some of the indicators used in the empirical analysis. This was done by using the Pearson coefficient for verifying the correlation;

- *comparative analysis*: used for numerous information from the financial statements of the entities in time and in space, both in terms of the basic components of the annual financial statements and also regarding the information presented in the explanatory notes to the annual financial statements;

- *the Du Pont analysis method*: used to highlight the different percentage with which the influence factors act on the dynamics of the analyzed indicators from one year to the next one;

- *operationalization*, respectively searching for correlations, algorithms, or methods that allow the correlation of the theoretical aspects with reality, but also choosing some indicators considered as representative for the studied concepts;

- *study of synthesis documents*: were taken into account particularly the annual financial statements of the analyzed entities, as well as audit reports, various reports according to the requirements of the Bucharest Stock Exchange etc.;

- *participatory observation*: by interpreting the results of case studies and issuing personal opinions in the entire content of the paper;

- *graphical representation*: it was manifested in the form of presentation of the results of the empirical analysis in order to increase the quality of the obtained information.

Summing up, the paper was based on studying specialized bibliographical references, the legislation related to the theme of the paper, the annual financial statements of the entities that formed the analyzed sample, various reports issued by the entities, various opinions and sources in electronic form and on discussions with theoreticians and practitioners in the field. Thus, the paper contains 249 bibliographical sources referenced by 243 footnotes consisting of books and

papers published by authors in publishing houses, articles and specialty studies published in various journals or conferences, national and international legal norms, and other sources of expertise (opinions, resources available in electronic format).

Basic financial data were taken from representative companies from the energy sector such as OMV Petrom, Romgaz, Transgaz, Transelectrica, Rompetrol Rafinare, Dafora, Electrica, Nuclearelectrica, Conpet, Petrolexportimport, Oil Terminal, depending on the availability and relevance of the provided information.

In the same time, 35 figures/graphics, 37 tables and 6 annexes were used for a more suggestive representation of the research results.

Starting from the main objective of any scientific research paper, by reporting to the chosen research theme, we mention that the **overall objective** of the paper is the analysis of the annual financial statements (both as a concept and also the empirical way in which they pursue their intended purpose) in the process of assessing financial position and economic performance and identifying ways to improve. In order to carry out the present paper, the following **specific research objectives** have been set in relation to the general objective pursued:

- Positioning the problem of the importance of analyzing the annual financial statements in the current context, the trends and norms relating to the annual financial statements in order to raise stakeholders awareness of the importance of analyzing financial position and economic performance based on the information provided by the annual financial statements;
- The analysis and conceptual delimitation of the concepts of financial position and economic performance and their manifestation in the energy sector, in order to highlight the current state of knowledge in relation to these concepts;
- Proposing models for assessing the financial position in the energy sector, based on the data provided by the annual financial statements, in order to provide additional information on the financial position for the stakeholders;
- Proposing models for assessing the economic performance in the energy sector, based on the data provided by the annual financial statements, in order to provide additional information on the financial position for the stakeholders;

- Analysis of the concept of performance in relation to sustainable development as an instrument that incorporates social, economic and environmental dimensions in order to identify possible correlations between the two concepts.

In order to achieve the proposed research objectives, the following **research hypotheses** were formulated:

- The annual financial statements are complex concepts in relation to which there are rules, currents and various interpretations that can be used by stakeholders to meet their informational needs;
- Financial position and economic performance represent concepts that are always topical and their manifestation in the energy sector is essential for the national economy;
- Classical approaches used to assess the financial position in the energy sector can be improved by validating new models of analysis;
- The set of models for analyzing economic performance needs to be improved by defining a model incorporating components related to business growth, profitability and risk;
- Sustainable development is a new concept and the companies from the energy sector have the "duty" to volunteer to promote, apply and report on how sustainable development is taking place.

In order to achieve the proposed research objectives, for each established research hypothesis, we formulated the following questions which we sought to provide answers in the paper:

- What are the concepts and norms that characterize the annual financial statements and how can stakeholders be sensitized, by a specific example, of the importance of the information extracted from the annual financial statements in the decision-making process?
- What is the overall perception regarding the financial position and economic performance and how do they manifest in the energy sector?



- What are the current limits of the vision regarding the financial position and what alternatives of analysis can be introduced in the energy sector?
- What are the constraints of the economic performance assessment system and which specific features should incorporate an optimal model of performance assessment in the energy sector?
- What is the way to apply the dimensions of sustainable development in the energy sector and what is the correlation between these concepts and the financial performance?

Taking into account the formulated research assumptions, the questions we have been seeking to answer, using the research methods and presenting the results as described, we consider that the specific research objectives, and implicitly the general objective of the research, have been achieved. Moreover, the paper opens up new possible directions of research.

### **Short content of the chapters**

From a structural point of view, the paper is divided into 5 chapters.

The first chapter, entitled "*Annual financial statements - source of information for the economic and financial analysis*", presents the general context and the issue of the role of the annual financial statements in contemporary economic and financial practice.

The first part of this chapter highlights the current state of research relating to the annual financial statements, while in the second part there are brought to light certain advantages that would be generated by a financial reporting with a higher informational power than the present one.

At the same time, in the first chapter we intended to approach the information contained by the annual financial statements from a qualitative and quantitative point of view. Regarding the qualitative side of the information presented in the financial statements, the question we propose to answer is "Do the annual financial statements provide adequate information in order to be the basis for making optimal decisions?" Obviously, the answer is "Not entirely," because, if the financial statements would provide adequate information, we would not find any wrong decisions. At the same time, we can assume that the information from the financial statements

are largely adequate from a qualitative point of view, but the way of interpretation or their modeling by the stakeholders leads to wrong decisions.

Another aspect to be analyzed refers to the amount of information presented in the annual financial statements. In our opinion, this is far from satisfying the stakeholders. In most cases, it is not sufficient to understand the gross information presented in the annual financial statements, but the stakeholders base their decisions on the processing of this information, according to their informational needs and interests. This differs from one category to another because different categories of stakeholders have different perceptions about the same concepts. For example, current and potential investors perceive performance through the return of their investment, managers are geared towards the overall performance of the companies they run, employees perceive performance through profitability and job stability, and creditors have an interest in the stability of the organization (Pintea and Achim, 2010<sup>8</sup>).

The second chapter of the paper, entitled "*Financial position and economic performance - conceptual delimitation*" is structured on two basic components.

On one hand, it was meant to highlight the main present approaches regarding the concept of financial position, as well as the main aspects taken into account by the main categories of stakeholders in their efforts to assess the financial position of the entities from the energy sector listed on the Bucharest Stock Exchange.

The results of the study showed that there are some basic requirements related to the stakeholders' informational needs regarding the financial position of the entities from the energy sector, and they are related to the appreciation of the concept of business continuity, global solvency, overall liquidity and indebtedness. As a result of the approach it was concluded that the principle of continuity of activity is difficult to assess using mathematical indicators. Instead, the analysis of global solvency, overall liquidity and indebtedness degree showed that over the last five years the analyzed entities from the energy sector had generally satisfactory developments, but also brought to light some entities where the level of the mentioned indicators is one that casts doubt on the existence of a balanced financial position.

Economic performance is a fundamental objective of the economic entities from the energy sector. The profit and loss account provides relevant information for performance

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<sup>8</sup> Pintea M.O., Achim M.O., (2010), *Performance - an evolving concept*, Annals of University of Craiova-Economic Sciences Series, Vol. no. 38;

analysis, but the assessment of the factors that led to the change of the financial result requires detailed analyzes based on specific techniques. Thus, the second part of the second chapter develops and implements an econometric model to analyze the relationship between pre-tax profit level and reversible asset write-downs. The issues presented demonstrate that the analysis of the impact of impairment on performance is likely to provide precious information to the stakeholders who are using the annual financial statements of companies.

Following this approach, performance was found to be significantly influenced by the magnitude of reversible value depreciations. This influence is demonstrated by the econometric model elaborated and tested in subchapter 2.2.

The third chapter of the paper, entitled "*Financial position analysis models*", is structured in four parts in which we analyze the financial position in terms of the patrimonial structure and in the way in which the management of the resources is reflected on the financial position, but also the analysis of the financial position as a concept that is characterized by balance and risk.

Thus, if the first part treats the patrimonial structure and the impact on the financial position, the second part starts from the hypothesis that the way in which resources (material, human, financial, technical etc.) are managed within an economic entity is an aspect that can have a significant influence on the financial position of an entity. Applying this axiom in the Romanian energy sector, a sector where financial management often has a high importance in general business management, due to the high degree of investment of financial resources, we can assert that the analysis of the impact that affects the financial position of the entities is desirable to study. The anticipated results of this analysis predict that the financial position of the analyzed entities from the Romanian energy sector is often significantly influenced by the way of managing the financial resources of an entity. By correlating these results with broader analyzes, such as those related to bankruptcy risk, we can assert that the usefulness of the study is a high one, by providing decision makers with a set of complex and useful information for making optimal decisions to maximize the benefits that they can obtain.

At the same time, we highlighted the ways of approaching financial balance and the impact and link between this concept and the financial position, but also the antithesis between the balance sheet and the financial balance sheet in the analysis of the financial balance. The results of the study showed that there are significant differences between the analyzes carried out on different types of balance sheets.

The analysis of the financial balance had as a purpose the determination of the value of the basic indicators that characterize financial balance (Net Situation, Working Capital, Working Capital Need, Net Treasury), of the entities from the energy sector, companies that were listed on the Bucharest Stock Exchange during the last 8 financial years. At the same time, the analysis aimed to define and apply some indicators expressed in relative magnitude, in order to appreciate the intensity of the unfavorable values of the classical indicators used for measuring the financial balance.

Another useful element of this study is generated by the analysis in antithesis of the financial balance on the basis of the Balance Sheet and the Financial Balance Sheet, which revealed the significant differences between the two approaches.

The last part of this chapter brings to light different approaches regarding the expression of the risk of bankruptcy. The results of the study show that there are quite significant differences in the analysis of the bankruptcy risk made by applying different models, suggesting that the Conan-Holder model is most suited to be used in the energy sector.

The fourth chapter of the paper, entitled "*Models of analysis of the economic performance*" presents different ways of assessing economic performance in the energy sector.

Thus, two complementary approaches used for analyzing economic performance are presented: the one based on absolute figures and the other based on relative figures. The final results confirmed both the utility of Du Pont's specific profitability rates in the relative analysis of performance, but also a high dependence on the proposed rates, which, in our opinion is a solid premise for an integrated approach of the concept of performance, both on the basis of absolute figures and relative figures.

At the same time, this chapter highlights two approaches regarding the added economic value: on one hand, the classical approach and on the other hand, an own approach. In our opinion, this approach is a viable alternative to the classical way of assessing performance based on economic added value, bringing an essential surplus of informational value to decision-makers.

At the same time, we highlighted, on one hand, an approach existing in the specialized literature, which expresses the economic growth through a modern indicator of assessing financial profitability. On the other hand, we have proposed our own vision regarding the economic growth of companies, starting with the definition of the concept of economic growth at

macroeconomic level and its transposition at microeconomic level. Thus, although in theory the two approaches would have had to generate unitary images (which, however, were obtained through different approaches and methods of analysis) of the same concept (the concept of economics growth of companies), this did not happen. Practically, the empirical analysis has highlighted the possibility that in a financial exercise, the same analyzed entity is characterized by positive and even solid economic growth, but also by negative economic growth.

In the last part of this chapter we proposed an econometric model for assessing the economic performance of the entities activating in the energy sector, a model incorporating indicators obtained and validated in the previous sections.

In the fifth chapter of the paper, entitled "*Assessing performance in the context of sustainable development*", we sought to define and propose a new side which, in our opinion, should be found in the content of the annual financial statements, namely sustainable development. Thus, we have attempted to present theoretically the concept of sustainable development (by developing the economic, social and environmental dimension of this concept), as well as identifying possible correlations between non-financial and financial performances.

## **FINAL CONCLUSIONS, LIMITS AND PERSPECTIVES OF RESEARCH**

### **Final conclusions of research**

At the theoretical level, based on the analysis from the first chapter, we can state that the annual financial statements are intended to ensure the informing of the stakeholders. Even though not all of these stakeholders are fully satisfied with the information that they received, they can correlate the information from the annual financial statements with other information they have at their disposal, or they can militate to increase the informational power of the annual financial statements.

The obtained results regarding the informational deficiencies that can be found in the annual financial statements show that there are various aspects, especially at the level of the explanatory notes to the annual financial statements, which, due to their low informational power, can lead to the wrong decisions.

Taking into account these considerations, we can conclude that the direction towards research regarding the annual financial statements should be directed is to provide more information for as many categories of stakeholders as possible. Practically, we believe that to achieve this goal, a process of separating accounting from taxation should be started. The fact that most of the information presented in the annual financial statements is strictly required by the relevant legislation gives birth to the idea that entities prepare annual financial statements as a constraint imposed by law, without realizing that the component of "voluntary reporting" could bring the much more benefits. Including the categories of stakeholders who are obviously disregarded as recipients and users of the information from the annual financial statements (employees, clients, suppliers etc.), despite their little economic knowledge, should take steps to increase the informational power of the annual financial statements, which can bring them greater benefits.

After analyzing the specialized literature and the case study within the first chapter, it was concluded that, in general, the analyzed entities (with some exceptions) prepare the reports by strictly respecting the legal requirements. This kind of reporting satisfies the informational needs of a single category of stakeholders, namely the government.

Thus, we can say that the content of explanatory notes in the annual financial statements is unsatisfactory. Correlating this aspect with the conclusion of Jianu, I., et. al., (2012)<sup>9</sup>, according to which the interest of the investors for the explanatory notes in Romania is low, we can conclude that the informational need of the stakeholders who are really interested on the informative power of these components of the annual financial statements will not be very soon covered. In our opinion, economic entities should consider the benefits that a set of financial statements with a high informative power for stakeholders could generate. At present, entities are focusing on providing the necessary information mainly to the state, without giving much weight to the information needs of other stakeholder categories (eg employees, investors etc.).

From the analysis of the econometric model determined in the last subchapter of the first chapter, it is revealed the relevant information for the stakeholders according to which the profitability that a capital market investment can generate for the companies in the analyzed sector is influenced by the evolution of the ROE indicator.

The analysis of the financial position is a continuous approach of the researchers in the financial and accounting field, and after the analyzes reflected in the second chapter of the thesis it can be concluded that the approaches to this concept are viewed from various points of view. Most approaches suggest that an entity's financial position is reflected by the indicators existing in the balance sheet. The conclusion reached by this study is that the raw information presented in the balance sheet is far from characterizing in this form the financial position of an entity. We believe that only by processing the information from the balance sheet, depending on the information needs of each stakeholder category, can be reached indicators that characterize the financial position of an entity.

Thus, based on the assumption that the balance sheet presents rather a patrimonial structure comprising assets, debts and equity, we consider that the financial position is given by the indicators that measure the interdependence of these elements, depending on the information needs of each category of stakeholders. At the same time, considering that we can judge the financial position as a balance and risk concept, we believe that managers should not be limited to the balance sheet as a tool that provides information for the analysis of the financial position. We consider that another useful tool is the cash flow statement that provides information of a

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<sup>9</sup> Jianu, I., Jianu, I., Gușatu, I., (2012), Study Regarding the Relevance of the Information Disclosed in the Romanian Financial Statement, Article provided by Danubius University of Galati in its journal *Euroeconomica*, Vol. 2012, Issue 4(31), pp. 21-32;

different nature to that presented in the balance sheet. Moreover, in the decision-making process, stakeholders should consider correlating these indicators with eventual items that are not in the balance sheet but can be detailed in the explanatory notes to the annual financial statements.

The case study developed in subchapter 2.1 shows that globally the energy entities analyzed have satisfactory annual levels of general solvency, patrimonial liquidity and indebtedness degree. However, some economic entities were identified in the study, with important deficiencies in relation to these indicators, with a possible negative impact on a balanced financial position.

Subchapter 2.2 shows that depreciation is a cost that affects the financial result of companies. However, these can not be avoided due to the moral wear and tear or conjuncture factors that lead to depreciation of the assets. The result of the research on representative companies in the energy sector has demonstrated the link between value depreciation and economic performance expressed through profit before tax. Econometric analysis has proven to be a useful tool to demonstrate the link between profits made and depreciation of assets in the energy sector.

Various factors act positively or negatively on the economic performance. Research on factors of influence on economic performance must be a continuous and sustained approach of professional accountants, as the continuous changes to the business economy affect in turn changes in the structure of the factors of influence on performance. Performance enhancement is a fundamental objective of economic entities and the analysis of factors that can influence performance is the role of providing information to amplify the effect of factors that lead to high performance and to minimize the effect of those that negatively affect performance.

The analysis of asset and debt and equity ratios has proved to be a useful tool in the dynamic analysis of OMV Petrom SA. Such analyzes present the undeniable advantage of the time comparison of an entity's financial equilibrium, but also of comparative analysis between entities belonging to a particular sector of activity. By addressing this point, in our opinion only this way can be highlighted the balance sheet as an instrument in which the financial position of an entity is reflected. In other words, without comparisons in space (allowing the determination of the place that an entity occupies within the sector to which it belongs, according to the definition of the "position" concept), the balance sheet remains a simple tool for reflecting the patrimonial structure (even if certain legal rules call it a "state of financial position").



The conclusion of the empirical analysis of the rates of patrimonial structure has revealed an entity characterized by a healthy financial balance as a whole without major fluctuations from one year to the next in the weights of the asset and equity groups. However, we express a slight reluctance with regard to the high volatility of the elements included in current assets and current liabilities. Moreover, the lack of correlation between the share of trade debts in current debts and the share of cash assets in current assets at the level of 2016 makes us recommending greater attention to identifying sources of short-term investment of temporary financial resources at the disposition of the entity.

From the analysis of the relationship between financial management and financial position, there is a close correlation between the financial position (expressed by the Conan-Holder risk model) and financial management (expressed in net assets, working capital and the need of working capital) . We note, in particular, the manifestation of a higher intensity of the working capital indicators and the need for working capital, and a lower influence of the net situation. In other words, we can conclude that the financial position is more strongly influenced by the practical way of managing the balance between economic resources and sources of origin (financing of current assets from short-term sources) than by the net wealth of the owners. This is an essential piece of information that should be understood and a motto for any business owner: financial management of the business itself is a greater fortune than wealth generated by the business with a view to liquidation (theory based on the approach of net situation, which shows that the wealth of the business owner lowering the total debts of the total assets, as if the entity ceased to exist).

Following the empirical analysis of the financial equilibrium, it was concluded that at the level of the analyzed sample (the conclusion can be extended to the whole energy sector as far as the stakeholders consider the sample to be representative), there is a financial equilibrium (characterized by Net Treasury as an indicator of both short-term and long-term appreciation) stable. Much more important than this is the fact that the trend of evolution from one year to the next is a positive one, which justifies us to say that the future in this field is a sustainable one.

However, the analysis found that some entities present unfavorable values of the indicators that characterize the financial equilibrium in terms of certain values (assets of shareholders / associates in the event of bankruptcy, short-term financial equilibrium or long-term financial equilibrium). From this point of view, the analysis focused on detailing the impact

that these unfavorable values may have on the financial balance, by proposing indicators expressed in relative amounts. The results of the analysis have shown that there may be objective reasons underlying poor signals of inappropriate use of funding sources. However, some of the maximum limits (which may be considered an equivalent of the materiality thresholds used in the audit) were proposed in the study above which the value of certain indicators should be considered to be of concern for a healthy financial balance.

The usefulness of the study on the analysis of the financial balance is high, as the information provided by such an analysis could be the basis for important decisions regarding the actions or inactions of different stakeholder categories. As it emerges from the study, sometimes it has been found values which characterize an unstable financial balance for entities such as DAFR and RRC. The fact that in 2015 these entities have applied for insolvency shows that this kind of analysis, if made in time and their conclusions are correctly interpreted, can constitute real investment guides for current and potential investors (since all entities of the analyzed sample are listed on the Bucharest Stock Exchange).

At the same time, it was concluded from the comparative analysis based on the Financial Balance Sheet and the Balance Sheet that the Financial Balance Sheet offers different results in terms of financial equilibrium (a thesis that is certainly valid for other aspects). The direction towards which financial theory and practice tends to be directed is the promotion of such optional reporting that meets the need to inform the different stakeholder categories. Both practitioners and the financial and accounting scientific environment and business economic analysis need to undertake sustained efforts to raise stakeholders' awareness of the issuance of a wider reporting system (even voluntary reporting), aware of them the value of the information they will get from these reports and analyzes.

The score method has proven to be a useful tool in assessing bankruptcy risk in the energy sector. This approach, however, should not disregard analyzes made by other methods, such as the analysis of financial balance or financial flows (possibly other aspects), all of those contributing to the determination of an entity's overall risk.

Given that bankruptcies will continue to exist, this being the starting point for analyzing bankruptcy risk, we believe that such studies are always topical. We appreciate the hypothesis

confirmed by Posada, M., G., and Mora-Sanguinetti, J., S., (2014)<sup>10</sup> in their study that the introduction of high costs for bankruptcy procedures would lead to mortgages for troubled entities, thus diminishing the number of bankruptcies, but we believe that this approach is not always the best solution. Generated mainly by a too high indebtedness, bankruptcies can not always be avoided by additional indebtedness. In our opinion, bankruptcies should be prevented by periodically developing bankruptcy risk analyzes as presented in this study (or other specialized analyzes) and taking appropriate measures at the right time.

A personal comparison between the bankruptcy risk analysis model analyzed in this study leads us to conclude that, in our opinion, the Altman model is most useful if both bankruptcy risk analysis and reverse-proportionate concepts that involve the absence of bankruptcy risk, concepts such as the continuity of an entity's activity. Although the Altman bankruptcy risk model is a highly standardized and rigid, the literature shows studies that show how easy it can be to change the classification into a risk category or another, depending on the nuanced mode in which it can be looked at concepts such as the working capital (Miroslava, D., 2014<sup>11</sup>).

At the same time, following the empirical analysis, we can conclude that the Conan-Holder model is the most useful model for bankruptcy risk analysis in the energy sector, especially due to the results of the Dafora and Rompetrol Rafinare analysis.

We believe that the Taffler model of bankruptcy risk analysis has placed the companies too easy in a high category of bankruptcy risk (not less than 8 out of 11 companies have a high bankruptcy risk of at least two years of analysis, and this is also true for the average calculated at the sample level). In our opinion, the model could be improved, not necessarily by revising the variables or weights that are taken into account when determining the score, but by redefining the intervals in which a company may be classified in a risk category or another.

Referring to the Robertson model, our conclusion is that it is useful when it is applied alongside other models of analysis to confirm or deny the findings of other models.

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<sup>10</sup> Posada, M., G., și Mora-Sanguinetti, J., S., (2014), *Are there alternatives to bankruptcy? A study of small business distress in Spain*, article provided by Spanish Economic Association in its journal *SERIEs*, Volume 5, Issue 2, pp. 287-332;

<sup>11</sup> Miroslava, D., (2014), *Which Altman Model Do We Actually Use?*, Article provided by University of South Bohemia in Ceske Budejovice in its journal *Acta Universitatis Bohemiae Meridionales*, Volume 17, Issue 2, pp. 103-111;

In fact, in a study published by Cîrciumaru, D., et. al., (2015)<sup>12</sup> it is shown that the risk analysis of bankruptcy risk by applying different models can lead to different results, proposing to correlate these results with other financial aspects of entities such as turnover, profit rates, rates of indebtedness, financial equilibrium etc.

The overall conclusion reached by the present study is that, unconcerned of the model envisaged, the Romanian energy sector (at the level of the analyzed sample, the conclusions being extended to the whole sector) is generally characterized by an average bankruptcy risk, meeting both companies with a sensitive situation (some who have already entered the insolvency procedure, others with a high likelihood of going into this situation), but also solid companies that are not facing the risk of bankruptcy in the near future.

The results of profitability research based on relative figures have highlighted the profit and loss account as an element of the set of annual financial statements that expresses the profitability of the entities under consideration. The absolute figures found in the profit and loss account have the unquestionable advantage of providing a solid information base on the evolution of revenue, expenditure and results over time, as well as on the detailed structure of the various elements within the specific indicators.

The results of the empirical analysis based on the profit and loss account showed a firm (OMV Petrom) with solid and rising profits in 2011-2013, followed by a steep decline in 2014-2015, with a slight recovery in 2016. In our opinion, this decrease is mainly due to the poor management of the company's core business, with sales revenue decreasing while direct sales costs increased, with negative consequences on absolute profitability.

At the same time, we believe that to the poor results of 2014 and 2015 also contributed the inadequate management of financial activity, but also the lack of efficiency of exploration and distribution costs. This highlights the limits of the profitability analysis in absolute figures but opens the opportunity to switch to relative profitability analysis.

However, we must admit that the information power obtained from such an analysis can be increased by correlating this data with other information related to the patrimonial structure, the structure of the capital elements, the general economic context etc. thus, in our opinion, this

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<sup>12</sup> Cîrciumaru, D., et. al., (2015), Return Versus Risk. Evidence From Romania, Article provided by University of Craiova, Faculty of Economics and Business Administration in its journal *Annals of Computational Economics*, Volume 1, Issue 43, pp. 7-28;

kind of analysis needs to be complemented by an analysis of relative profitability (based on profitability rates).

Rate-based analysis has proven to be a tool with a high utility and high informational power for stakeholders.

The use of the established rates of the Du Pont analysis highlighted a high dependency between all two groups (verified on the basis of the Pearson coefficient), as demonstrated by their factorial analysis. At the same time, the study showed that among the three pairs of two indicators of the Du Pont method, the closest correlation (dependence) is found between ROA and ROE, this aspect being verified both on the basis of the Pearson coefficient and on the basis of the factorial analysis.

The study of economic value added brings added value to most stakeholder categories that can make decisions based on complex and comprehensive information embedded in the concept of added value as a performance analysis tool. In practice, with the exception of very narrow categories of stakeholders (possibly only creditors who finance exclusively the financing activity, without being interested in other resource-consuming and/or revenue-generating sides), we consider that for most stakeholders is more important the overall view on the entity, including the financial result and the extraordinary result.

In this context, the analysis model as well as the proposed factorial analysis demonstrated the higher utility compared to the classic approach.

The results of this research show that EVA is a comprehensive tool for measuring the financial performance of entities. Our proposed approach has been validated in the case study presented and its extension from the entity level to the entire energy sector (or even to other sectors or even the emergence as an alternative to the classical EVA based analysis system) is a question of validation and acceptance by stakeholders, but primarily by theoreticians and practitioners in the financial-accounting field of business. Thus, we believe that the objectives proposed at the beginning of this study have been achieved, but we believe that business theory and practice should continually refine the methods and systems of analysis used.

Concluding on the results of the econometric model of appreciation of performance, we can assert that simply observing the data in the profit and loss account is not sufficient to quantify its economic performance. Economic performance is a much broader concept and is

based on a number of factors of influence that are not exclusively reflected in the profit and loss account.

The econometric model obtained highlights the impact that the economic growth of firms, the profitability of commercial exploitation activity and the risk of bankruptcy have on their economic performance. On the other hand, the model highlights the complexity of the phenomena that affect the economic profitability.

Moreover, we believe that the proposed model draws stakeholders' attention to the elements that need to be managed with high attention to generate high economic profitability, such as: gross margin in sales, indicators that count in Conan-Holder's bankruptcy risk score, but also on the indicators used to determine the indicator of economic growth of companies.

The results of the sustainable development study show that at the level of the entities analyzed in the energy sector there are different approaches in terms of both the application of the concepts of social responsibility, corporate governance and environmental responsibility as well as how to report on these issues. As regards the application of the concepts, we can admit that each economic entity has the freedom to find its own vision in this respect, related to how to report the application of these concepts, we believe that this must be done in a much greater to ensure comparability between different economic entities.

If we aim to observe the existence or inexistence of a link between the performance of the analyzed entities and their social responsibility we observe that it exists at all levels: we are dealing with highly performing companies that show a high degree of social responsibility (Petrom, Romgaz, Transgaz), but also with companies that have poor performance and show little social responsibility (Petrolexportimport, Dafora).

The above conclusion also applies to the interdependence between corporate governance and performance.

In other words, we can see that we are dealing with companies operating in a developing country where the principles of corporate governance are not yet fully aligned with the trends in developed countries. This mode of manifestation of corporate governance is not specific to Romania alone; In a study published by Duman, A., and Postalci, E., (2009)<sup>13</sup> it appears that at the level of companies operating on the Istanbul stock market, there are quite a number of

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<sup>13</sup> Duman, A., și Postalci, E., (2009), *Corporate Governance Networks in Turkey*, Paper provided by Izmir University of Economics in its series Working Papers with number 0904;

weaknesses, such as: in 54% of the companies analyzed there are directors who are relatives with significant shareholders, only a quarter of the members of the directorates are independent, directors hold significant shareholdings in 37.8% of the companies analyzed, or in 62.2% of the companies analyzed there are directors' remuneration in the form of share packages.

### **Own contributions**

We believe that our work, by reference to the proposed research objectives, manages in its own way to answer to the research questions. Synthesizing the conclusions of the paper, we can identify the following own contributions that our study brings:

- Identify the main informational deficiencies that stakeholders may encounter in the financial statements of companies in the energy sector;

- Evaluation of the main present approaches regarding the concept of financial position, as well as the main aspects considered by the main categories of stakeholders in their approach to assess the financial position of the energy sector entities listed on Bucharest Stock Exchange;

- Providing an answer to the question "Does the situation of the financial position provide sufficient information for the stakeholders to make economic decisions?";

- Presentation of the main advantages and limits that the balance sheet or other documents for the appreciation of the financial position have as source of information for the stakeholders;

- Presentation of key indicators that could be useful to different stakeholder categories in making their economic decisions;

- Evaluating the impact that reversible value depreciations may have on economic performance in the energy sector;

- Analyzing how different financial management indicators can influence the financial position of an entity in the energy sector.

- Analyzing the financial position of the Romanian companies from the energy sector on the basis of specific indicators of appreciation of the financial equilibrium;

- Evaluation of the main differences between the analysis of the financial balance on the basis of the balance sheet, in antithesis with the analysis based on the financial balance sheet;

- Presentation of the main advantages that the financial balance sheet would bring to the analysis of the financial balance, and the awareness of the stakeholders towards this approach;

-Evaluation of the current approaches regarding the analysis of the financial balance from the theoretical point of view and their application in the Romanian energy sector, within a sample of entities listed on the Bucharest Stock Exchange;

-Elaboration of methods for detailing the financial balance by applying different indexes;

-Analyzing the bankruptcy risk;

-Presenting theoretically the bankruptcy risk of an entity;

-Analyzation (from empirical and comparative point of view) by the method of scores the application of different models of bankruptcy risk analysis (Altman, Conan-holder, Taffler, Robertson) in the Romanian energy sector;

-Issuing an opinion on applying the optimal bankruptcy risk method analysis in the energy sector;

-Analysis of economic performance based on relative figures;

-Presenting the current state of knowledge of the profit and loss account as part of the annual financial statements expressing absolute performance of a company and empirical analysis of these concepts based on the information presented by OMV Petrom in the years 2011-2016;

-Vertically and horizontally analysis of the key indicators for measuring absolute profitability;

-Analysis of the evolution over time of Gross Margin, EBIT, Financial Results, Gross Results and Net Result;

-Expression the forming process of the Gross Profit through EBIT (which has been analyzed through Gross Margin and other specific items) and Financial Result (which in turn has been analyzed through various types of financial income and expenses);

-Analyzing the economic performance based on indicators expressed in absolute figures;

-Highlighting modern performance analysis models, which are comprehensive, adaptable and capable of meeting the information requirements of each stakeholder category;

-Presentation of the current state of knowledge in the field of performance analysis based on profitability rates;

-Proposing an own model of approaching the economic value added of economic value and applying it in parallel with the established model;



-Presentation of the current state of knowledge in the field of analysis based on the economic value added;

-Demonstration that the classical method of analysis based on the economic value added is a perfectible;

-Proposing an own indicator to express the economic growth of firms and the opportunity to use this indicator in a model for assessing the economic performance of firms;

-Proposing and implementing an econometric performance assessment model in the energy sector incorporating data on entity size, net result formation and bankruptcy risk;

-Analyzing the concepts of social responsibility and corporate governance, addressing both the literature and how this "ethical behavior" is felt at the level of entities active in the energy field;

-Evaluation of the extent to which ethical behavior of economic entities (manifested in this case through application and reporting on social responsibility, corporate governance and environmental responsibility) can influence the performance of an economic entity.

Our own contributions are relevant both at the level of the theoretical knowledge through the critical reporting at the level of the specialized literature and at the level of the empirical knowledge through the case studies approached. According to our knowledge, this is the first large-scale research in the Romanian energy sector regarding the financial position and economic performance appreciated on the basis of the financial statements of the entities considered to be representative of the sector. That is why we consider the research is useful for specialists in the sector, managers, investors, financial and governmental bodies, the academic environment and other interest groups interested in the two dimensions of the economic analysis and the situation in the Romanian energy sector.

### **Limitations of the research**

The analysis of economic performance and financial position based on the information provided by the annual financial statements is a complex and comprehensive research theme in which there are many possibilities for approaching. Under these circumstances, although we consider that the work achieved most of the proposed objectives, the exhaustive nature of the theme is difficult to assure. In order to validate and expand research results across the entire

energy sector or even in other sectors of activity, some inherent limits of research should be considered.

First of all, as it is shown in the analyzed sample, it was limited to companies listed in the energy sector listed on the Bucharest Stock Exchange. Although the number of these companies is limited, we consider that the representativeness of the proposed models is high because of the significant share of these companies' combined turnover in the industry. At the same time, in order to offer to the econometric models a high representativeness, the observance we aimed at least 15 observations for each proposed independent variable.

In our opinion, the high dependence between ROA, ROE and ROS, but also their presentation in different hypotheses (each rate of return being addressed both as an endogenous variable and as an exogenous variable) highlights the relevance of the information extracted from this kind of analysis, but on the other hand its limits. We can assume that through the cyclic dependence generated by the three rates of profitability analyzed, an image is formed that excludes other elements from the process of appreciating the performance. To this end, we believe that the information obtained in the analysis of profitability based on absolute indicators comes to complement the analysis based on relative indicators with a complementary impact in the process of gathering the appropriate information for making the best decisions.

Another limit of the research is considered to be the case when analyzing the economic value added. When performing EVA analyzes, in our opinion, particular attention should be paid to all the issues underlying the figures from which the EVA calculation is started. The most eloquent example in this respect is the type of amortization methods used or the policies for setting or resuming the provisions. These elements can have a significant impact on profit. If we admit that there are no changes in the methods from one financial year to the next, these elements should not lead to wrong interpretations based on EVA, but if there is a spatial analysis (for example, between several companies operating in the same economic branch), it can lead to the wrong conclusions. In these situations, before starting the analysis, we recommend that you carry out some restatements to start the evaluation from comparable information from the point of view of how they are obtained.

From the analysis of the manifestation of corporate governance and social responsibility for the sample considered, it appears that there is limited access to detailed and high-quality

information. The literature has not yet succeeded in imposing certain methodological approaches devoted to the application and analysis of these concepts.

The central question that arises and which should open new directions of analysis is related to the direction of influence and interdependence of the concepts being analyzed. It is hard to judge whether poor performance is an effect or cause of weak social responsibility and corporate governance policies, or whether good performance is a cause or effect of quality policies in the area of social responsibility or corporate governance.

Regarding the other side of the sustainable development, namely that related to environmental protection, the fact that in the sample of entities that we have been looking to analyze, there is only one entity that has presented in the annual financial statements the amount of environmental expenditures, we are cautious to extend the results achieved across the entire energy sector.

## **Proposals**

We believe that both accounting theory and practice should tend towards more ethical behavior in the process of preparing and presenting the annual financial statements, eliminating the idea that creative accounting aims to "cosmetize" somehow the information in the financial statements. We emphasize that there is a real need for creativity in accounting, but not in the sense of distorting (using legal techniques) the information presented in the annual financial statements, but in the sense of finding modern techniques to maximize the quality and quantity of information that characterizes the real and true situation of the entities by maximizing the informative power of the annual financial statements in order to appreciate as accurately as possible the underlying foundations of decision-making.

Given that the analysis relates to an area in which investments continue to play a very important role, especially for quoted entities haven in view, we believe that appropriate information from all stakeholder categories must include elements such as functional balance sheet, financial balance sheet and economic balance sheet.

In order to increase the informative power provided by the explanatory notes to the annual financial statements, we propose to fill them with detailed reports for each main category of stakeholders, on the model offered by the OMV Petrom company mentioned in the study.

The assessment of an entity's financial position and economic performance is often perceived by the general public as being limited to analyzes made on the basis of the annual financial statements, in particular the Balance Sheet and the Profit and Loss Account. However, we believe that today's financial reporting system no longer offers sufficient informative potential to assess the performance of an economic entity, and we support the widespread introduction of a supplementary reporting component (voluntary or required by legal regulations) to be considered as ethical behavior in the reporting process.

These considerations are nothing more than ways of expressing the social dimension of sustainable development. Practically, this social dimension is manifested at the level of the companies by the degree of implementation and control of the concepts of social responsibility and corporate governance and responsibility towards the environment.

We believe that the analyzed entities (and not just them) should not be limited to applying and reporting their actions of social responsibility and corporate governance according to a rigid framework (the Corporate Governance Code of Bucharest Stock Exchange). These elements are ways of expressing business ethics, and should be expanded by adding a component of voluntary involvement and reporting. Information such as budgets, forecasts, analyzes and results of social responsibility actions (based on the model offered by OMV Petrom) should be basic information to which any interested person has access.

We can conclude that most of the analyzed entities do not fully understand the concept of social responsibility and corporate governance and are not sufficiently informed about the benefits that these concepts might have for improving financial performance.

### **Perspectives of the research**

As a result of this approach, it is concluded that the vast majority of stakeholders are interested in a little-covered issue in the literature as an element by which the financial position can be defined, namely the observance of the principle of continuity of activity. A main research direction that emerges from this paper involves the identification of economic and financial indicators to express the extent to which the entities under consideration could quantify the way in which compliance with the principle of continuity of activity is ensured. An example could be the use of econometric models to characterize future developments in activity indicators

(especially the aspect related to their financial position), depending on deviations from budgets and forecasts from previous periods.

The different results obtained in the comparative analysis of the balance sheet and the financial balance sheet (in the context of the financial balance analysis) can open up new research directions, such as far more detailed analyzes based on the financial balance, but also raising awareness among stakeholders (except governments) by the fact that the balance sheet in the current form (given that its form is imposed by the legislator) has certain limits, and for a pertinent analysis of the financial position (financial balance) it is often necessary to use derivative forms of the balance sheet.

These approaches are in fact certain action lines of performance improvement.

The main findings of the business growth survey show that there are situations where the two approaches generate similar results, which would induce the idea that they are mutually excluded. At the same time, the study showed that in the 3 of the 7 analyzed years there were significantly different values between the analyzed indicators, which opened new directions of research. In practice, the study suggests that the two business growth indicators can give different images of the same concept (in this case, the concept of economic growth), which makes us carry forward the analysis and look at the two indicators as two independent variables in a model of appreciation of economic performance.

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