THE PROCESS OF FINANCIAL PERFORMANCE EVALUATING OF THE COMPANY

[a]ANNA JACKOVÁ

University of Zilina, Univerzitná 8215/1, 010 26 Žilina
email: [a]Anna.Jackova@pd.uniza.sk

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Abstract: Evaluation of the company's financial performance is a key and irreplaceable tool of the company's financial management, because the aim of the evaluation is to look for ways to improve the company's financial performance and thus manage and increase its competitiveness. Every company should have its own evaluation process, which is important not only for the data collection itself. It also affects the analysis itself, implementation into the company and presentation to stakeholders.

Keywords: Financial performance, traditional methods of financial performance evaluation, modern methods of financial performance evaluation.

1 Introduction

Today, the market is dominated by high competitiveness of companies. Since Slovakia's accession to the European Union, the economy has undergone changes that complicate business conditions in Slovakia. "Only those companies that respond flexibly to these changes in the business environment, which do not rely on current performance, but are looking for a way to continuously increase it will be successful. One of the main goals of financial management of companies can therefore be generally formulated as a continuous increase in company performance. The growth of a company's performance presupposes its effective evaluation and management based on its repeated measurements," (Pavelková, Knápková, 2009, p. 13).

In a way, every company monitors its financial performance at least once a year. Traditional methods of the financial performance evaluation of a company are becoming less and less effective, so it is necessary to implement the so-called modern methods of company performance evaluation to its management.

2 Financial performance of the company

Renowned economists define a company's performance as follows: "A company's performance is its ability to enhance the resources invested, generate profits, increase the value of the company and at the same time it is the ability to secure future development," (Wagner, 2009, p. 17). "The company's performance is the efficiency of the inputs transformation of the company's transformation process into outputs, while the obvious form of its manifestation is the company's financial situation. It is a phenomenon that predetermines the outputs (results) of the company, but at the same time it also results in them," (Zalai, 2010, p. 271). "Company's performance is the ability of a company to achieve the desired effects or outputs, preferably in measurable units. With this statement, the issue of performance is divided into two issues, namely:

1. What are the required outputs?
2. How to evaluate (and how to measure) their performance (in what units of measurement)?" (Lesáková, 2007, p. 22).

The most important part of company's performance is the financial performance of the company. "Financial performance is traditionally measured by value criteria, which are constructed on the basis of data from financial statements, with the greatest emphasis on generating profit using the resources obtained," (Fibírová, 2005, p. 7). Profit is thus one of the strategic goals of the company, but it is not the main goal. "It is a means to achieve the main goal and a measure of the evaluation of the company's economic results. Nevertheless, it cannot be considered as the only criterion that would comprehensively evaluate the company," (Živělová, 2007, p. 17).

3 Methods of evaluating the financial performance of the company

The literature presents a wide range of financial indicators, which can be used to evaluate the financial performance of the company. Among the most common indicators that characterize the company's performance in the financial perspective are indicators of traditional and modern methods of evaluating the company's financial performance.

Traditional methods are mainly based on profit maximization. The explanatory ability of traditional indicators is based on the display of information achieved in previous periods and thus do not provide an objective view of the potential growth of the company's financial performance in the future. Therefore, in assessing the future success of the company, modern methods of evaluating the financial performance of the company are also used, because modern indicators prefer to measure the performance of the company in terms of increasing its value.
In particular, information is needed to assess a company's financial performance. The predominant share of information sources is represented by the financial statements of financial accounting, but above all by the data contained in the financial statements.

The financial statements of the company inform about the conditions under which the reproduction process took place, what was its course and results. A lot of important information can be obtained from a relatively small space. The data on the company's activities are factually, temporally and formally correct. The method of preparation of the financial statements, its structure and the statements that make it up depend on whether the company accounts in the system of single or double-entry bookkeeping. Businesses of greater economic importance are generally required to account in the system of double-entry bookkeeping, which is often referred to as financial accounting. Its aim is to quantify the economic result of the company.

The double-entry financial statements consist of the balance sheet, the profit and loss statement and the notes. The balance sheet provides information on the company's assets and financial resources for its coverage, which characterizes the conditions under which the reproduction process took place. The profit and loss statement provides information on the income, expenses and profit or loss of the company, broken down by economic and financial activity. The notes contain information that explains and supplements the data in the balance sheet and profit and loss statement. From the point of view of the company's analysis, the cash flow statement is particularly relevant. It informs about the income and expenses of the company and their difference, i.e. the state of financial resources. Its need is due to the fact that in some cases the revenues of the company does not equal the income, the costs do not equal the expenses, and thus the economic result may not be (and usually is not) identical with the cash available to the company.

3.1 Traditional methods of financial performance evaluation

Traditional methods of evaluating the financial performance of a company use only financial analysis. Its subject is the financial situation of the company. "Financial analysis is used to comprehensively assess the financial situation of the company. It helps to determine whether the company is sufficiently profitable, whether it has a suitable capital structure, whether it uses its assets efficiently, or whether it is able to repay its liabilities on time. Ongoing knowledge of the company's financial situation allows managers to make the right decisions in obtaining financial resources, in determining the optimal financial structure, in the allocation of free financial resources, in the provision of business loans and in the distribution of profits," (Knápková, Pavelková, Šteker, 2013, p. 23). The aim of financial analysis is to use financial data to evaluate the past and current performance of the company and to assess its sustainability.

The most used methods of financial analysis include cross-sectional methods (technical and fundamental analysis) and elementary methods (analysis of absolute indicators, analysis of difference indicators, analysis of ratio indicators and analysis of summary indicators).

3.1.1 Cross - sectional methods

Technical analysis and fundamental analysis are part of the cross-sectional methods of financial analysis of a company.

Technical analysis
"Technical analysis uses mathematical, mathematical-statistical and other algorithmic methods for quantitative processing of economic data with subsequent qualitative economic assessment of results. In this sense, financial accounting is a suitable database, it provides information in quantitative, numerical form, in a uniform language of business communication," (Bartošová, 2020, p. 37).

Fundamental analysis
"Fundamental analysis is based on a large amount of information, processes qualitative data, but also uses quantitative information, from which it draws conclusions without the use of algorithmic procedures. The analyses are based on extensive knowledge of the interrelationships between economic and non-economic phenomena, on the experience of experts, but often also on the direct participants in economic processes and on their subjective estimates. The process of fundamental analysis is specific to each individual company and depends on the subjective attitude of the analyst. For this reason, too, there is no single concept or methodology governing the process of its implementation. Fundamental analysis considers several factors that illustrate the situation of the company and therefore it is appropriate to carry it out at the same time as technical analysis, which does not have such a wide scope, but has standardized procedures for company evaluation," (Bartošová, 2020, p. 38).

3.1.2 Elementary methods

Elementary methods are considered simpler in terms of mathematical procedures used (especially arithmetic and percentage) and in terms of ease of thought, respectively. trying to describe complex things simply. These include the analysis of absolute indicators, the analysis of difference indicators, the analysis of ratio indicators and the analysis of summary indicators.

Analysis of absolute indicators
Absolute indicators can be analysed using horizontal and vertical analysis. Horizontal analysis is often referred to as trend analysis. It is based on comparing the items of individual statements in several periods. The analysis is more readable if the development of items is expressed by the difference between the data of two adjacent years or by the index of year-on-year changes of these data. "Vertical analysis, also called percentage analysis, is the expression of individual items in the financial statements as a percentage of a single selected basis. For the analysis of the balance sheet, the total value of assets or liabilities is usually chosen as the basis, and for the analysis of the profit and loss statement, it is the size of total revenues or costs," (Knápková, 2010, p. 66).

Analysis of difference indicators
Differential indicators are mainly used to analyse and manage the financial situation of the company with an orientation towards its liquidity. The difference indicators include net working capital (total current assets - total current liabilities), net cash (ready cash - liabilities payable immediately) and net cash assets (total current assets - inventories - liabilities payable immediately).

Analysis of ratio indicators
Ratio indicators are the most popular method of financial analysis. They provide a quick and inexpensive picture of the basic characteristics of the analysed company. "Such basic characteristics include, for example:

- turnover (activity indicators),
- liquidity (liquidity ratios),
- financial structure, indebtedness (indebtedness indicators),
- profitability (profitability indicators),
- position on the capital market (market value indicators).

Each basic characteristic is expressed in the analysis by several ratio indicators, which always indicate it from a different point of view," (Kotulič, 2010, p. 58).

Activity indicators show the commitment of capital in various forms of assets. They make it possible to express, quantify and analyse how efficiently a company uses its assets. Adequate use is a condition of a balanced financial situation.

Liquidity indicators provide information on solvency, i.e. liquidity of the company. In essence, they compare the amount of what can be paid (indicator numerator) with what needs to be paid (indicator denominator). The liquidity of a particular asset expresses the ability of that asset to be converted into cash quickly and with the lowest possible loss.

Indebtedness indicators are used to monitor the structure of the company's financial resources. They express the extent of the use of equity and debt to finance the needs of the company. The share of own and foreign resources affects the financial stability of the company. A high share of own resources provides the company with stability, independence, with their low share the company is unstable, market fluctuations and credit uncertainty can have serious consequences.

Profitability indicators are used to assess the company's ability to generate financial resources from its own operating activities for operations, to finance investments, to pay out profit shares and to repay payables. They express the result of the company's efforts, i.e. the efficiency of the company's work. They show the combined effect of liquidity, activity and indebtedness on the company's net profit.

Market value indicators express how the company is evaluated by investors. The construction of indicators allows the comparison of their values between individual companies in the market. The basic market value indicators include net earnings per share, return on shares from profit and dividend yield on shares.

Analysis of summary indicators
These include creditworthiness and bankruptcy models, which represent an aggregate characteristic (synthetic quantity), into which the financial indicators with the greatest telling power are summarized, while they are assigned the appropriate weight. They serve for quick orientation of investors and creditors, as well as to classify companies according to their quality (performance and credibility) into pre-specified categories. "There is no precise boundary between creditworthiness and bankruptcy models, as they have a lot in common and their result is a fixed evaluation coefficient. We find the difference only in the purposes for which they were created and in the input data that were used," (Sedláček, 2008, p. 109).

Creditworthiness models reflect the level of quality of the company according to its performance and are oriented to investors and owners. Bankruptcy models are intended primarily for creditors who are interested in the company's ability to repay its obligations.

"Models based on empirical-inductive systems of indicators, which mostly use the following methods, are increasingly used in the prediction of financial distress of a company:

1. method of one-dimensional discriminant analysis - it is a mathematical-statistical method that predicts the financial distress of the company on the basis of a simple characteristic, using a single indicator (for example Beaver test),
2. method of multidimensional discriminant analysis - it is a mathematical-statistical method that predicts the financial situation of the company through various combinations of simple characteristics, using a set of multiple indicators, which are usually assigned different weights (for example Altman's model, Taffler's model, Springate's model, Fulmer's model, Beerman's test, creditworthiness index, IN indices, CH-index),
3. method of point evaluation - predicts the financial development of the company using point scales, which are usually determined by expert methods (Quick test, Argenti's model)," (Kotulič, 2010, p. 113).

3.2 Modern methods of financial performance evaluation

Modern methods of evaluating the financial performance of the company were created on the basis of criticism of previous traditional methods. The reason was that most of them are based on accounting methods and procedures that do not always correspond to the economic view of the company's performance. Therefore, modern methods work not only in terms of accounting profit but also in terms of economic profit, the costs of which are made up not only of accounting costs but also of alternative costs, which are also called opportunity costs.

The most popular modern methods include the EVA (Economic Value Added), MVA (Market Value Added), Excess Return, Shareholder Value Added and, most recently, the Balanced Scorecard (BSC) methods.

EVA
The main task of the EVA method is to measure the economic profit of the company, which the company achieves when not only current costs are paid, but also the costs of foreign and especially own capital (equity). It tells about the internal performance of the company. The basic formula for the calculation is:

$$EVA = NOPAT – C * WACC$$

where:
EVA is Economic Value Added; NOPAT is Net Operating Profit After Tax; C is Capital; and WACC is Weighted Average Cost of Capital.

EVA > 0 means that the return on capital is greater than its price, and then the company creates value for its owners. EVA < 0 means that the revenue is less than the cost and the company destroys the value.

MVA
The MVA method measures the difference between the market value of a company and the value of invested capital. A prerequisite for the rational behaviour of the investor is an interest in increasing their wealth, and the difference between these two quantities expresses the value created.

While the previous EVA method measures a company's success over the past year, the MVA method is a look to the future that reflects market expectations about the company's prospects. The MVA can be calculated assuming that the market value of equity is known as follows:

MVA = market value of equity - book value of equity

There is also another way to calculate MVA:

MVA = value of equity - total invested capital

Excess Return
"The Excess Return method, like the MVA method, is based on market value. The following relationship is used for the calculation:

Excess Return = actual value of wealth in period n - expected value of wealth in period n

where:

- the actual value of the wealth corresponds to the future value of the benefits to the owners (the future value of the dividends paid, the shares repurchased and the market price of the share in the company at the end of the reference period),
- the expected value of the wealth expresses the value of the invested capital at the end of the reference period, which company should achieve at the investor's required return.

The advantage of Excess Return over MVA is the fact that it takes into consideration the investor's requirements for capital evaluation. Otherwise, it has the same shortcomings and its calculation is more complicated," (Pavelková, Knápková, 2009, p. 48).

Shareholder Value Added
Share value added (SVA) expresses the difference in the value of the company to shareholders at the end and at the beginning of the measured period. The value of the company to shareholders is derived from the present value of the forecast of future cash flows, processed for about 5 to 15 years, and from the residual value of the company at the end of the predicted period. The observed SVA values are comparable to the reference value, which is the market price of the company's shares. The performance of a company in this method is assessed solely from the perspective of the shareholder investing in equity.

BSC
The modern value approach to business performance management is the BSC method. "It’s a strategic system for measuring performance, which together with the strategy interacts with at least four important components - financial, customer, internal business processes and learning and growth," (Varcholová, 2007, p. 146).

The main benefit of the BSC method is the extension and interconnection of measuring the performance of companies from purely financial indicators to indicators from other areas influencing the performance of the company - indicators of the driving forces of the future. The BSC method is an important communication tool for management, emphasizing that value and other indicators must be appropriately linked and transformed for managers at all levels of corporate governance. Managers should be informed in this way about the economic consequences of their own decisions, and thus motivated to influence them. It is a response to the increasingly criticized explanatory power of value criteria in measuring the performance of the company and assessing the success of its survival in the future. When implementing the BSC method, the benchmarking method also proved to be effective (copying and taking over experience from companies that work with this method with certain results).

4 Proposition of the process of evaluating the financial performance of the company

The proposed process for evaluating the financial performance of the company should serve to cover the identified deficiencies and thus ensure the minimization of losses during the accounting period. The previous chapters were devoted to traditional and modern methods of evaluating the financial performance of the company. The evaluated company must therefore be analysed by using these methods, to find out on the basis of which indicators the company evaluates its financial performance. It can be stated that companies mostly monitor their liquidity, or use some other indicators (for example profitability) of evaluation from traditional methods. They do not use modern methods of evaluation at all, or minimally. But when assessing the financial performance of a given company, the environment in which it is located and in which it operates must not be forgotten. Therefore, it is necessary to analyse the internal and external environment of the company. Only in this way will the company obtain, for the purposes of evaluating its financial performance, the necessary information about its internal environment, external environment, the current state of its financial performance and its prediction for the future. The proposed process for evaluating the financial performance of a company consists of the following steps.

The first step is to collect the data itself. It covers how information is used in the company, what information sources are in it, then the emergence of new information and knowledge, their flows within the company and into its external environment. The proposed documents for the evaluation of the financial performance of the company include financial statements of the company, annual reports, various statistical data and internal material of the company.

The second step is the analysis of the internal environment of the company, which examines and evaluates its internal environment. The analysis of the internal environment of the company in a clear form shows its strengths and weaknesses. In this sense, they can represent strengths of skills, abilities and potential that will allow a company to gain a market advantage in the form of better products, better services or optimization of business processes. Therefore, it is necessary to analyse the organizational structure of the company, its production program and human and information resources.

The third step of the proposed process is the analysis of the external environment of the company, which also affects its performance. The external environment in which the company is located consists of two spheres, namely the macro-environment and the sectoral environment. Therefore, the company should use competition analysis, PEST analysis, Porter's model and SWOT analysis. An analysis of the competition is important for the company, as it can use its own criteria in which it can be compared with the competition. In the PEST analysis, the company can monitor the external influences that affect it. For a company, this means summarizing an overview of political, legislative, economic, technical, technological and social impacts. Porter's model represents market research for the company, which is necessary and provides informative value from five important areas. It is appropriate if the company displays the results from the Porter model in a transparent model, where the forces affecting the external environment will be shown. The last analysis of this step is a SWOT analysis, by which the company can reveal the strengths and weaknesses within the company, but also the threats and opportunities that come to it from the external environment.

The fourth step of the proposed process for evaluating the financial performance of a company is its financial analysis, as the basis of traditional evaluation methods. It is this analysis that will serve the company as a comprehensive basis for a more detailed assessment of the current financial situation and performance. Financial analysis also serves to determine the health of the company. With its help, the company is able to evaluate the past, present and precondition for the future. The aim of this analysis is to identify weaknesses that could lead to problems in the future and to identify strengths on which the company can build in the future.

The last step is to evaluate the financial performance of the company using some modern methods, which are listed in the previous chapter.

It is important that, after each analysis performed, conclusions are drawn with specific findings and measures in place so that negative impacts can be minimized. Only by honest analysis can a company gain a competitive advantage, reveal its shortcomings and increase its financial performance.

5 Conclusion

As already mentioned, financial performance has the most important position in the performance of a company. This is because it is a subjective measure of how well a company can use assets from its core business and generate income. This term is also used as a general measure of the overall financial health of a company for a given period.

It is increasingly difficult for companies to secure long-term success on the market. Only a company that is able to face changes in the business environment will gain a stable position on the market. Therefore, the evaluation of a company's financial performance becomes a key and irreplaceable tool for the financial management of any company in order to constantly look for ways to improve it in order to maintain long-term competitiveness.

"When evaluating the company's performance, two basic principles of finance must be respected:

- The euro gained today has a higher value than the euro we get tomorrow.
- The safe euro has a higher value than the risky euro," (Kotulič, 2010, p. 131).

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