

An Evaluation of the Business and Financial Performance of the Company

Zhuzhuna Tsiklauri -Shengelia, Professor of GTU

Natia Shengelia, . Professor of GTU

Summary

Business and Financial Performance play an important role together in the evaluation of a company and based on the results in the formation of the corresponding future strategy. Ratio analysis enable us to analyze the financial performance of the entities; while the business competitiveness and the macro and micro environment can be estimated with the help of the SWOT and Porter's 5 Forces models. All these techniques can be regarded as a key management tool for assessing the company in a complex way, for evaluating as its financial health as well as its potential for growth and overcoming with the competitive pressures.

Keywords: Competitiveness, Business Analysis, Company, Financial Performance, Ratio Analysis, SWOT analysis, Porter's 5 Forces, Evaluation, Strategy.

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The estimation of the business and financial performance play a key role on the one hand for the business itself in order to help in the determining the strategies or developing plans, prognoses, on the other hand globally for the growth of economy. Ratio analysis enable us to analyze the financial performance of the entities; We can analyze the entity's business performance through understanding its macro and micro environment, the impact of the internal and external factors on the company, its competitiveness by using the different business models. There should be pointed out the SWOT (Strengths, Weaknesses, Opportunities and Threats) and Porter's 5 Forces Analysis techniques.

Ratio Analysis:

Ratio analysis is "an invaluable tool to a business management to determine the performance of a business entity and to take cost controlling measures as and when necessary, "a clear understanding about **profitability, liquidity, solvency and efficiency of business entity**" (LinkedIn, 2014).

The reason why I mentioned this accounting technique is that it helps "to learn more about a company's current financial health as well as its potential." (Zions Bank: zions business resource center, 1999-2005) Furthermore, it enable us: 1) to examine the performances of the company in comparison with the past periods in order to know the important changes that affected on it. 2) Also to compare its performance with its comparator from the same industry, to find out what was the main different successful project that my chosen company could have implemented and etc.

In the process of evaluation the following ratios can be used:

1. Profitability ratios: Net Profit Margin, Operating Income Margin, Return on Investment (ROI), Return on Equity (ROE). They help to examine the revenues-its types and changes in its trend f.ex. Revenue Growth, % of R&D, Marketing Costs to Sales; the reasons why the profit or gross margin has increased, f.ex. due to the changes in marketing costs, fixed or variable costs, to reduce prices.
2. Liquidity ratios- Acid Test or quick, working capital, current ratios. By analyzing them it is easy to understand the company's "attempt to measure a company's ability to pay off its short-term debt obligations..... a company with a low coverage rate should raise a red flag for investors as it may be a sign that the company will have difficulty meeting running its operations, as well as meeting its obligations" (Investopedia.com : Richard Loth, 2016).
3. Leverage ratios- Debt to Equity, Interest Coverage ratio, Capitalization Ratio and etc. They explain how much the company is dependent on the loan.
4. Investor ratios- Dividend Yield, Price/Earnings Ratio, Price/Sales Ratio and etc. These are the ratios which the investors rely on.
5. Efficiency Ratios: Cash Turnover, Fixed Asset Turnover, Accounts Receivable Turnover, Days payable outstanding and etc.

To sum up, Ratio Analysis has as many advantages as well as some limitations.

Advantages:

- ☐ Provisions of Analysis of Financial Statement in a systematic approach;
- ☐ Understanding the relationships between various issues, highlighting the main changes;
- ☐ Enabling to compare various businesses, comparator companies.

Limitations:

- "Ratios deal mainly in numbers – they don't address issues like product quality, customer service, employee morale and so on (though those factors play an important role in financial performance);
- Ratios largely look at the past, not the future. However, investment analysts will make assumptions about future performance using ratios;
- Financial information can be "massaged" in several ways to make the figures used for ratios more attractive. For example, many businesses delay payments to trade creditors at the end of the financial year to make the cash balance higher than normal and the creditor days figure higher too" (<http://www.tutor2u.net>, 2015). One of this technique is known as "window-dressing".

SWOT Analysis :

“The SWOT analysis is a classic strategic planning tool originating from business and marketing analysis that encourages groups (or individuals) to reflect on and assess the Strengths, Weaknesses, Opportunities and Threats of a particular strategy and how it can best be implemented” (BetterEvaluation, 2014). “The SWOT analysis headings provide a good framework for reviewing strategy, position and direction of a company or business proposition, or any other idea” (businessballs, 2016).

During the SWOT analysis the company is analyzed quickly in a complex, systematic approach. From its advantages there should be mentioned the following:

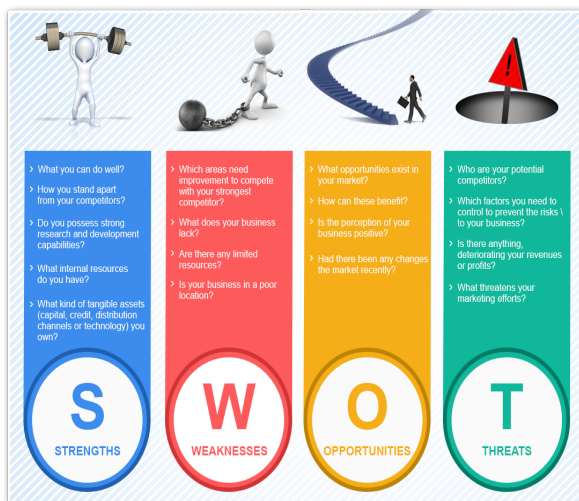
“Using a SWOT, you can:

- Understand your business better;
- Address weaknesses;
- Deter threats;
- Take advantage of your strengths;
- Develop business goals and strategies for achieving them” (Queensland Government, 2016).

Limitations:

“A SWOT analysis may be limited because it:

- Doesn't prioritize issues;
- Doesn't provide solutions or offer alternative decisions;
- Can generate too many ideas but not help you choose which one is best;
- Can produce a lot of information, but not all of it is useful” (Queensland Government, 2016).



From the strengths we can refer the leading position on the market, focus on innovations; Unsuccessful clinical trials may be the weakness for a pharmaceutical company; Strategic initiatives, such as creating joint ventures, diversions, extensions are the opportunities for the company; Government regulations, uncertain R&D outcomes can be the threats.

Porter's Five Forces:

“This theory is based on the concept that there are five

forces that determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organization's current competitive position, and the strength of a position that an organization may look to move into. Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes” (Chartered Global Management Accountant, 2013).

During “the fight for market share, competition is not manifested only in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry” (Porter, 1979).

So, Porter's 5 Forces estimate the company's abilities, strategies in the market in comparison with its comparator, and then make assumptions about its strengths, weaknesses; whether it would be able to grow further, to overcome with the difficulties connected to the new legislation, new entrants, and substitutes.

Advantages are:

“Porter's five forces can help to inform decisions relating to:

- Whether to enter a specific industry;
- Whether to increase capacity in a specific industry;
- Whether to develop competitive strategies” (Chartered Global Management Accountant, 2013).

Limitations are:

- “Analyzing the perfect markets, not considering regulations broadly;
- Too narrow focus on the industries with multiple interrelations, product groups, by-products, segments and intermediaries;
- Less suitable for analyzing highly collaborative markets” (Recklies, 2015).

Finally, all the accounting techniques, such as ratio analysis and the business analysis models, that were discussed above: SWOT and Porter's 5 Forces are an important management tool for the evaluation of the company in a complex way, to assess as its financial health as well as its potential for growth.

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