

THE DIMENSIONING OF PERFORMANCE IN METALLURGICAL INDUSTRY FROM ROMANIA

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The paper shows the importance of using the indicators for the analysis the financial performance, corresponding with the particularities determined by branch, object of activity or size. Also, our paper aims to identify the state of financial performance in metallurgical industry, taking into account the data recorded at the level of some enterprises in the metallurgical sector in Romania for the period 2009 - 2013 as well as the level of entire branches.

Key words: metallurgical industry, economic growth, performance, Romania

INTRODUCTION

The activity carried out in enterprises follows maximizing their value or ensure of profitability and the ability of pay. The achievement of these goals, involves a series of actions related at the level of management system, based on decisions founded on a concrete analysis of information provided by the economic and financial indicators.

The necessity of their use cannot be challenged, at least the following respects: summarizes the results of the global activity, with the reflecting of the contribution of its components; highlights the current general situation of the entity; reflects the ability to effectively manage the capital invested; allow decisions to be taken in real time to correct failures or management errors. Yet, it is necessary to complement the set of financial indicators used with a range of information on the economic environment in which it operates and forecasts regarding its evolution.

The complexity of the activity undertaken at the level of enterprises from the metallurgical industry impose the use a system of indicators that highlight links between business processes and financial performance. It should be noted the fact that the specific of the activity influences the indicators of performance (e.g. the high share of fixed assets in total assets, the high value of investments required; increased sensitivity to fluctuations in energy prices). In addition, the high sensitivity to fluctuations in the economic environment, determines the inclusion of macroeconomic indicators in the variables used for making forecasts necessary to substantiate the development strategy of metallurgical enterprises. In the context of these explanations, the paper aims to identify the trajectory recorded of metallurgical

industry after the onset of the crisis from 2008 in Romania, the presentation of the differences between performance and profit, and requirements of an optimal diagnosis of economic and financial performance.

THE EVOLUTION OF METALLURGICAL INDUSTRY AFTER 2008 IN ROMANIA

The economic and financial crisis started in 2008 has influenced the world economy. Romania's economy has been affected significantly, being contaminated by structural problems. In 2009 was recorded a negative growth (- 7,1 %) compared to the previous year, the trend was maintained in 2010. The year 2011 was characterized by a positive economic growth rate, but the GDP recorded a lower value than the potential. A positive level of growth was determined by increasing the supply of goods internally and externally and the dynamics of gross value added in agriculture and construction. In 2012 there was again a reduction of economic growth (from 2,2 % to 0,7 %), due to the negative influence exerted by the agricultural sector and the decline in gross value added in industry, construction and investment. The economic growth by 3,5 % from 2013 it being explained of economists by the contribution of agriculture, exports and foreign investment [1]. Unfortunately, this growth wasn't real, because another macroeconomic indicator had not a positive evolution: the unemployment rate rose in 2014 (some economists considered that the economic growth was the result of the decrease of the GDP deflator in the context of decreasing demand) [2].

The effects of the crisis triggered in 2008 were found in the metallurgical industry worldwide [3]. In the EU, demand reduction and the existence of a high volume of production, along with rising energy prices affect producers in this branch, many operators being forced to reduce production, the number of employees or even to

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declare bankruptcy. In Romania, the situation is currently extremely unfavorable at the level of the most important companies from metallurgical industry. Thus, these have been affected both by the reducing of consumption of specific products in the European space as well as by the increase in energy tariffs, rising commodity prices or the exchange rate volatility, the net result of the financial exercises from the analyzed period been predominantly negative. Many companies have opted for waving at certain products, divesting of assets less important, reducing production capacity, reducing staff or working program, the stimulation of the voluntary departures, or entry into insolvency (the situation of company with Russian capital COS Targoviste) etc.

But, the evolution of the industry sector has been influenced not only by worsening market conditions caused by the economic crisis, but also of fiscal measures taken by the Government, which have negatively influenced the business environment. Many metallurgical companies have requested the Ministry of Economy tax incentives to improve the financial situation (a reduction of tax on reinvested profit or differentiated taxation of export profits). These proposals have not been legislated, and the situation has not improved in metallurgical companies, a fact reflected in the trend recorded by the volume of production from this industrial branch, presented in Figure 1 (production in metallurgical industry fell by about 34 % in 2013 compared to 2008, while production in the manufacturing industry increased by 12 %). It should be noted that metallurgical industry was affected to a greater extent than other industries. The total index of industrial production decreased by 6,9 % in 2009 compared to the previous year, while at the level of the metallurgical industry the reduction was from the 31,3 %. Moreover, after 2011, the positive trend was reversed again, the specified indicator reaching the lowest level from the period under review in metallurgical industry (53,1 %, having the year 2010 a basis for comparison).

All these aspects demonstrates the fragility of this sector in the context of the manifestation of a strong financial and economic crisis. The use of a system of performance indicators that allow identification and, especially, the prevision of some difficulties, can determine the reducing of negative results and improving managerial activity.

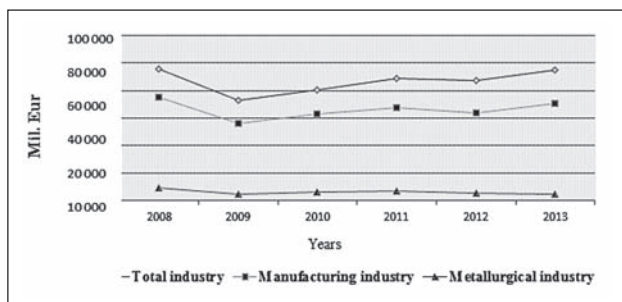


Figure 1 The evolution of the industrial production on activities in Romania

CONCEPTUAL CLARIFICATION REGARDING THE PERFORMANCE

The need to obtain positive effects in the work of operators of metallurgical industry is incontestable, both in terms of the importance of created goods in this branch for any economy as well as their contribution to economic growth. In this context, the achievement of the objectives of financial and economic performance of the metallurgical companies must be a goal for any manager. Although, the concept of performance has many meanings, most managers identify through the ability to get profit. Therefore, we consider that some clarification is required for this aspect. First, it requires a distinction between performance and financial results (between which is included and the profit). Performance is demonstrated by the degree of achievement of objectives while economic and financial results reflect the absolute or relative size of the indicators which are used to measure the efficiency of the activity.

In this respect, it is considered that the size of the performance can be analyzed using the following elements: competitiveness; financial performance; resources used; quality of service; flexibility; innovation; social performance; environmental performance [4]. Secondly, the realization an accounting profit it is not the equivalent of a positive situation if it is not accompanied by a corresponding cash flow.

At the microeconomic level, there may be an equivalence between a performance and a state of competitiveness: „performance is a state of competitiveness of the economic entity, achieved through productivity and efficiency level which it ensures a sustainable presence on the market” [5].

Competitiveness in metallurgical industry is considered „ability of Firms to Continuously upgrade technological facilities to produce goods, in order to Provide the services Able to compete at international level year” [6].

The issues presented enable the formulation a conclusion regarding the possibility of optimizing the economic and financial performance of metallurgical companies, in the sense of implementing a system by financial diagnostic for the carried activity, based on the information from a series of documents which include a set of indicators requested by the management team.

In addition, the identification of the corresponding information for sizing of performance, the existence of some sufficient and real dates and the use of relevant criteria are fundamental elements in ensuring a real evaluation, with direct implications in grounding future strategy. Also, the analysis of the deviations from the predicted results and reporting on the results of the best competitor must be permanent elements in the appreciation of the performance.

THE APPRECIATION OF ECONOMIC AND FINANCIAL PERFORMANCE AT THE LEVEL OF METALLURGICAL COMPANIES FROM ROMANIA

The information necessary for the determination of the indicators that enable substantiation of a financial diagnosis are included in financial statements prepared in accordance with legal regulations.

The data available on the BSE Bucharest website highlights a fact undesirable: many companies from the metallurgical industry face with losses in the last five years, measures taken by their managers (cessation of production at the level of the machinery ineffective, divesting of assets unimportant

for activity, collective redundancies or stimulating the voluntary departures, reducing the working hours or entrance in insolvency) being insufficient for recovery the activity. In this sense, the information presented in Tables 1, 2 and 3 are relevant.

It is noted that two of the three companies analyzed have made losses in the last five years, while the third (Artrom Slatina) has redressed her financial situation after 2010, but, the profit realized had a significant decreasing trend between 2011 - 2013 (by over 80 %). The negative situation is now highlighted and per whole of this branch, affected and by the entry on the market in Romania by products supplied at dumped prices by

companies from other countries (in total export, metallurgical products accounted for 9,6 % in 2013 while that at the level of imports their share was 10,7 %).

CONCLUSIONS

The metallurgical companies differ from other enterprises primarily through high value of realizing investments, with a long operating time. This feature influences the financial results through the value adjustments related to depreciation, but and through the high value of interest paid to the use of borrowed capital to finance long-term assets. Also, the dimensioning of the financial performances in these companies requires the use of non-financial criteria and information on market trends and competitors. From the data analysis recorded at the three companies in the metallurgical industry for the period 2009 - 2013 as well as the situation recorded in the entire branch, result the fact that the state of financial performance remains a goal in the context which are not taken measures at the national level, which to consider the main characteristics of this sector (important consumer of energy, interdependence with related industries, continuous production flows, large number of employees, the use of a large volume of raw materials).

The analysis performed allows the formulation of following conclusions:

Table 1 **The evolution of economic and financial indicators at ArcelorMital tubular products Iași / EUR**

Indicators \ Years	2009	2010	2011	2012	2013
T	25 455 133	40 338 637	51 462 814	58 106 295	51 420 459
TD	12 894 796	18 372 984	33 458 834	48 877 553	53 204 151
K	2 7625 317	25 639 131	17 018 027	12 782 208	9 705 702
Gi / %	13,17	34,94	123	207,19	141,68
PN	- 9 262 602	- 2 165 984	- 8 403 122	- 2 808 252	- 2 948 451

Source: own transformations by using [7, 8]

Legend: T – turnover; TD – total debts; K - equity ratio; GI - degree of indebtedness; PN- net income
For transformation we used the medium course communicated by National Bank of Romania

Table 2 **The evolution of economic and financial indicators at ArcelorMital Hunedoara / EUR**

Indicators \ Years	2009	2010	2011	2012	2013
T	31 385 899	67 084 541	91 574 302	97 755 306	113 071 737
TD	71 925 799	23 607 833	36 851 229	11 890 442	118 489 836
K	13 341 945	81 127 826	72 344 192	60154 815	52303 429
Gi / %	6,3	-	-	44,61	44,63
PN	- 3 766 416	- 15 319 554	- 4 674 759	- 8 440 965	- 6 737 787

Source: own processing by using [7, 8]

Table 3 **The evolution of economic and financial indicators at Artrom Slatina / EUR**

Indicators \ Years	2009	2010	2011	2012	2013
T	31 385 899	67 084 541	91 574 302	97 755 306	113 071 739
TD	71 925 799	23 607 833	36 851 229	11 890 442	118 489 836
K	13 341 945	81 127 826	72 344 192	60 154 815	52 303 429
Gi / %	6,3	-	-	44,61	44,63
PN	- 32 766 416	- 15 319 554	- 4 674 759	- 8 440 965	- 6 737 787

Source: own processing by using [7, 8]

- the situation of the companies from metallurgical industry remains extremely difficult: restructuring of their activity both from a technological point of view as well as financially or socially has not canceled the negative effects of international economic climate, market stagnation for the specific products, rising energy prices and raw materials or currency volatility, most financial statements revealing negative financial results for at least four consecutive years;

- the activity of the metallurgical companies is affected by numerous risks, the most significant being: credit risk (for credit - customer and loans); specific risk activity to supply and sales; external risks (manifestation of difficult periods from an economic point of view; use of prices dumping from countries with significant production and tradition area); currency risk. In this context, we consider that the adoption of measures to stimulate this sector, extremely important to the whole economy, both in terms of contribution to value added and creating by jobs as well as by providing a significant amount of budgetary resources generated of taxes paid.

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Note: The responsible for English language is S.C. Purtrade S.R.L. Târgu Jiu, Romania