

RELEVANCE OF ECONOMIC-FINANCIAL DIAGNOSIS IN SUSTAINABLE DEVELOPMENT OF BUSINESS

Associate Professor Ph.D. Mădălina ALBU
Petroleum-Gas University of Ploiești, Romania
E-mail: malbu@upg-ploiesti.ro

Abstract: *The analysis of the economic and financial activity is a very important and very complex component of the process of substantiating and realizing the strategy of an organization, because with it, it gets a complete picture of the activity, which leads to the identification of strengths, weaknesses and of the causes of their occurrence. The economic-financial diagnosis offers managers the opportunity to make both qualitative and quantitative analyzes of the current situation of the company they lead, but also of its prospects. The aim of the need to know the economic situation of a trading company is to give an overview of its activity in order to formulate measures of efficiency by using research means used by the economic and financial analysis. This paper attempts to implement a theoretical aspects in a case study conducted at the Oltina Impex Prod Com Company. The analysis of the financial field of the company shows that it managed to manage intelligently the financial resources it had in the analyzed period, registering profit every year. As a result of the SWOT analysis at the organization level, proposals for development of the activity could be formulated to help managers to take timely decisions.*

Key words: *economic diagnosis, financial diagnosis, sustainable development.*

Classification JEL: *O12, D57, D22.*

1. Introduction

The company is a very complex system, the development of which is difficult to conceive, being the result of several variables. The attempt to encompass all these variables as well as the interactions between them in the mind of a manager is not a solution just as it is not a solution nor leaves solving the problems of various complex systems to intuition alone. Companies are currently confronted with a very common strategic issue, namely the timely choice of the best response to environmental changes, but above all the question of implementing an integrated strategic management site.

Sustainable development is a major goal for all businesses. The major difficulty of implementing this goal is the difficulty of properly translating the specific directions of sustainable development into the current business of a business, in its financing and in finding consumers willing to pay the price of sustainability of benefits.

The implementation of the concept of sustainable development in the business model is important both for the achievement of competitive advantages for companies and for an efficient and responsible development (Danciu, 2013, p.21).

Making pertinent analyzes of the firm's activity is the starting point in designing and implementing a sustainable development strategy for the future. The economic and financial diagnosis has the capacity to provide important information and conclusions, aimed at setting medium and long-term objectives for a strategic reinvention of the firm. The sustainable development of the business is a desideratum of all entrepreneurs. However, in order to achieve this objective, account must be taken of the financial side of sustainable development. For this, the realization of an economic-financial diagnosis of the business is of particular relevance, due to the information it provides.

Diagnostic analysis is a process of broad-based investigation of the main aspects of an organization's activity, which may be of an economic, technical, sociological, legal and managerial nature, with the purpose of conceiving recommendations, proposals for improvement and development of the organization by identifying the strengths and dysfunctions that occur at its level, as well as the causes of their production (Russu and Albu, 2005, p. 12).

Diagnosis is both a method in which special research and analysis techniques are used, as well as a phase in conducting a study to determine changes at the organization level.

The importance of bakery, pastry and milling products in meeting the food needs of the population is a factor driving the rapid development of the bakery industry in Romania along with other branches of the national industry.

It is precisely these reasons that represent my motivation to choose the case study presented in the paper. I believe it is very important that the Romanian companies active in this field of bakery and milling to participate positively in achieving the objectives of the Romanian bakery industry, focusing on ensuring food security, using and embracing competitive technologies and production processes on the market European standards, bringing Romanian standards to European and international standards.

2. Economic and financial diagnosis of the company - case study conducted at the company Oltina Impex Prod Com.

The environment in which an organization operates is composed of components on which it has a decisive influence and theoretically an absolute control. It is necessary to study the environment of the organization, because it identifies the source of the resources it has and can determine the degree of accomplishment of the chosen strategy.

S.C Oltina Impex Prod Com SRL is located in the town of Urlati in Prahova county and has as its activity the bakery and milling, namely the production of bread, bakery and pastry specialties, wheat and maize flour and their distribution. The importance of bakery, pastry and milling products in meeting the food needs of the population is a factor driving the rapid development of the bakery industry in Romania along with other branches of the national industry.

2.1. Analysis of the economic and financial domain

The analysis of economic and financial activity is a very important and very complex component of the process of substantiation and realization of the strategy of society, because, with the aid of it, a complete "radiography" of the society is achieved, which leads to the identification of strengths, weaknesses and of the causes of their occurrence.

The economic-financial diagnosis is an extraordinarily important stage because it gives managers the opportunity to express and draw judgments of both qualitative and quantitative value regarding the current situation of the society they lead, but also its dynamics and perspectives.

The purpose of the knowledge of the economic situation of Oltina Impex Prod Com SRL is to give an overview of its activity in order to formulate efficiency measures by using research tools used by the economic and financial analysis.

In order to carry out this analysis we used data from the public accounting records on the Ministry of Finance's website from 2011 to 2016.

A first step in the analysis of the financial field of the society is the analysis of the evolution of the main indicators of S.C. Oltina Impex Prod Com S.R.L, presented as follows in the following table.

$$\text{Result of the exercise} = \text{Income} - \text{Expenses}$$

Turnover analysis is needed to assess the position of the company in its industry and market, its possibilities to launch and develop various activities in a profitable manner. Depending on the turnover, it can be said how important or negligible is the participation of the company in the sector of activity or the market.

Table no. 1. Evolution of the main indicators of S.C. Oltina Impex Prod Com S.R.L in the period 2011 - 2016

Indicators (thousand lei)	Period					
	2011	2012	2013	2014	2015	2016
Net turnover	79394256	110318424	113087749	126189354	105210502	135851617
Total income	93157143	130209518	129141653	137569939	118671536	146631734
Total expenses	86102663	115619190	126507219	131737456	114123561	137215582
Operating income	90243652	121405631	103204182	137304230	118606990	119212664
Expenses from exploitation	81258462	132345724	101446820	129431509	112983488	111620872
Net income	5976121	12491745	2237303	5021092	3907165	8147061
The result of the exercise	7054480	11561919	2634434	5832483	4547975	9416152

Source: Processing after accounting reports S.C Oltina Impex Prod Com S.R.L.

It can be noticed how the result of the exercise is growing in the period 2013-2016, it rising by 6781718 lei in 2016 compared to 2013, but it is also noticed how in 2012 the highest value of the analyzed period is 11561919 lei. This major difference can be attributed to the expenditures registered following the decision to change by extending and refurbishing the whole society, implemented in the period 2009 -2011, but also on the revenues generated by this activity.

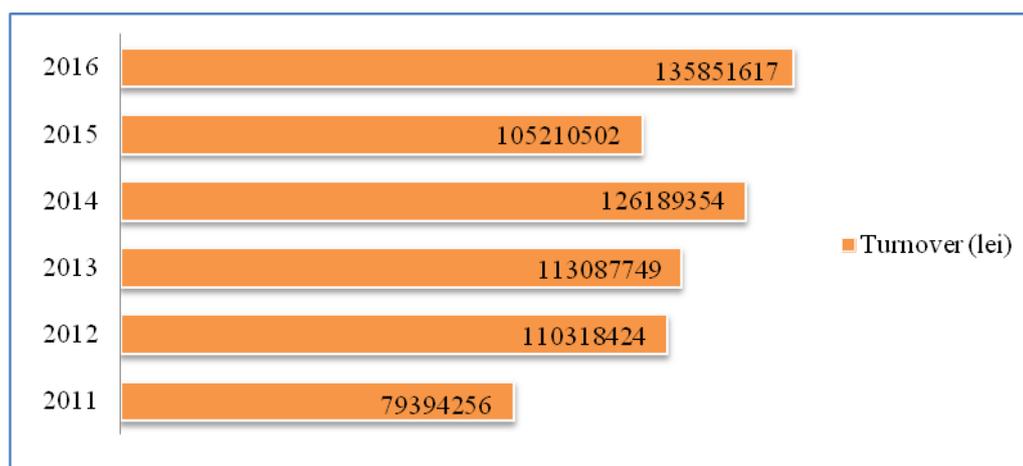


Figure no. 1. Evolution of turnover (lei) in the period 2011 - 2016

Source: Processing after accounting reports S.C Oltina Impex Prod Com S.R.L.

Thus, in terms of net turnover it can be seen how it increased during the analyzed period in 2011 by 71.1% compared to 2011, amounting to ROL 135,851,617 thousand and compared to the previous year with 29.1%. It can be said that this increase of turnover was an important factor in obtaining the title of leader on the market in Prahova of the company Oltina Impex Prod Com S.R.L.

Operating expenses are down 1.2% from year-over-year in 2016, with material and fuel savings.

The second step in the analysis of the financial field of S.C Oltina Impex Prod Com S.R.L is the analysis of the market share of the company. The calculation of the absolute market share was based on the fidelity rate and the attractiveness rate (table no.2).

Table no. 2 Calculation of the absolute market share

Indicators	Period		
	2014	2015	2016
Market share (lei)	126189354	105210502	135851617
Fidelity rate (%)	-	90	85
Rate of attraction (%)	-	4	10
Absolute market share (Pi)	16,73	18,62	20,34

Source: Processing after accounting reports S.C Oltina Impex Prod Com S.R.L.

Absolute market share:

$$P_i = \frac{CA_i}{CA_t}$$

where:

CA_i = the turnover of the firm analyzed;

CA_t = the total turnover of the sector in which the firm operates;

$$P_{it} = \alpha \times P_{i(t-1)} + \beta(1 - P_{i(t-1)}),$$

where:

P_{it} = the global market share of the firm analyzed at time "t" when analyzing;

$P_{i(t-1)}$ = the global market share of the firm analyzed at the previous time "t-1" against which the analysis is made;

α = rate of fidelity;

β = rate of attraction of customers

It can be noticed that although customer satisfaction has decreased, the absolute market share has risen year-on-year, from 16.73% in 2014 to 18.62% in 2015 and 20.34% in 2016. It seems that attracting new customers has offset the decrease in satisfaction.

The rate of fidelity was calculated at the company level as the percentage of customers who at the time of the analysis bought bakery products from Oltina and in the previous year did the same thing.

The rate of attraction of customers was calculated at the company level as the percentage of customers who at the time of the analysis bought baking products from Oltina and in the previous year were not the clients of the company.

The results were taken from company accounting reports.

2.2. Analysis of the general situation of the production and trading activity of the company Oltina Impex Prod Com S.R.L

The analysis of the dynamics of the production and marketing activity aims to highlight the objectives established in accordance with the achievements of the previous periods, the level of achievement of these objectives, the reasons for the deviations that may occur and the measures necessary to correct the unfavorable situations that may arise at a certain time.

The data necessary for calculating the value indicators necessary to determine the dynamics of the production and trading activity of the company Oltina Impex Prod Com S.R.L. are presented in table no. 3.

Table no. 3. Value indicators and value indices of S.C Oltina Impex Prod Com S.R.L

Indicators (lei)	Years			Indices (%)		
	2014	2015	2016	2015/2014	2016/2012	2016/2015
Turnover (CA)	126189354	105210502	135851617	83,37	107,65	129,12
Production of manufactured goods (Q_f)	116001640	9732068	127585671	83,89	109,98	131,09
Production of the exercise (Q_e)	125615318	107205502	137116973	85,34	109,15	127,90
Value added (VA)	15984268	16816246	37740315	105,20	236,10	224,42

Source: Processing by S.C Oltina Impex Prod Com S.R.L, Balance Sheet.

Analyzing previous data, we see a decrease in turnover in 2014, equal to the decrease in production. Equality between turnover and production of manufactured goods shows that the balance between the company's stock dynamics and the dynamics of deliveries will be maintained.

In 2016 turnover and production made the highest values of the analyzed period, increasing by 29.12% compared to 2015 and by 7.65% as compared to 2014, which is a favorable situation for the analyzed company.

Another good thing for the company is the amazing evolution of value added over the 2014-2016 period, as it practically doubles its value in 2016 as compared to 2014, rising by 119%. This percentage represents, for S.C Oltina Impex Prod Com S.R.L, the wealth plus obtained from the development of the technical-productive activity and the confirmation that the company is constantly developing.

The evolution of the main value indicators of the production activity is shown graphically in figure no. 2.

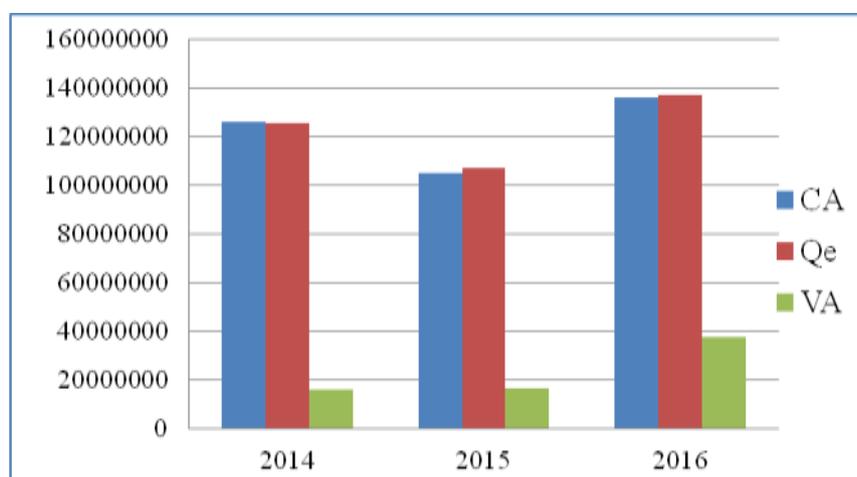


Figure no. 2. Evolution of the main value indicators of the production activity

Source: Processing after accounting reports S.C Oltina Impex Prod Com S.R.L.

Based on the data presented above, the relationships presented in table no. 4.

Table no. 4. Static ratio of value indicators

Current number	Report	2014	2015	2016
1.	CA/Q_f	1	1	1
2.	Q_f/Q_e	0,92	0,91	0,93
3.	VA/Q_e	0,13	0,16	0,27

Source: Processing after accounting reports S.C Oltina Impex Prod Com S.R.L.

In general, the results of previous reports that are ≥ 1 are generally considered to be favorable to the firm. The first report, that of the turnover and the production of manufactured goods, expresses the evolution of the stock of finished products and other incomes besides the financial and extraordinary ones. The second report shows the evolution of company stocks as well as domestic consumption. It can be seen from table no. 4 that its value does not exceed 1 but is close to it. The company records an unfavorable situation as to the result of the ratio between value added and output of the exercise; it indicates that although the purchasing costs have declined over the period under review, the result is still not expected. The ratio between value added and output of the exercise highlights changes in material expenses. The situation is considered to be favorable when the ratio is over-unitary (Maxim, 2008).

2.3. SWOT analysis of the activity

The SWOT analysis (Strengths, Weaknesses, Opportunities, Threats, Weaknesses, Opportunities, Threats) is a very effective method used in strategic planning to identify potentials, priorities and outline a common vision of development strategy development society (Russu and Albu, 2005, p. 99). Following the analysis carried out on Oltina Impex Prod Com SRL, the following strengths, weak points, opportunities and threats were identified:

Table no. 5. The SWOT analysis of Oltina Impex Prod Com Company S.R.L

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> – High manufacturing line flexibility; – High quality products; – Diversity of products; – Good brand image; – Good sales department; – Own shops network for own products marketing; – New contracts with new clients; – Specialized staff 	<ul style="list-style-type: none"> – The absence of a marketing compartment; – Reduced advertising versus company size and product diversity; – No parking for the employees of the company; – Large fluctuation of distribution personnel; – Existence of inadequate infrastructure
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> – Attracting new partners; – Existing large demand for products marketed by the company; – Attracting customers of its competitors; – Existence of fairs and exhibitions. 	<ul style="list-style-type: none"> – Changing customer preferences; – Downward trend in bread consumption at national level; – Easily substitutable products; – Strong competition.

Following the SWOT analysis can be made the following proposals for decisions by confronting the elements of the analysis, as follows:

- a. Decisions resulting from the confrontation of strengths with opportunities:
 - Maintaining and improving the image of society;
 - Maintaining leadership;
 - Creating a marketing compartment;
 - Participation in fairs and exhibitions;
 - Development of own network of stores
- b. Decisions resulting from the confrontation of weaknesses with opportunities:
 - Making investments in distribution staff to reduce fluctuation (staff motivation);
 - Creating a marketing compartment;
 - Making publicity in the media (radio, TV);
 - Car parking for employees of the company;
- c. Decisions resulting from the confrontation of the strengths with the threats:
 - Making branded "star" products, only recognized as Oltina products (with special ingredients / patented techniques);
 - Researching consumer preferences;
 - Concentration of the company's attitude on the client;
 - Entering new markets from different counties;
- d. Decisions resulting from confronting weaknesses with threats:
 - Making publicity in the media (radio, TV);
 - Engage staff more seriously in order to respond more promptly to customer requests;
 - Making surveys to see to what extent the customer is satisfied with the services provided.

3. Sustainable business development

A sustainable business development strategy can be defined as a set of decision-making processes necessary to choose the right variants of the company's objectives as well as the factors (resources, activities etc.) that these objectives achieve in a certain period of time (Danciu, 2013, p. 16).

The development strategy aims to achieve results that are superior to the previous ones (both qualitatively and quantitatively), by enhancing the competitive capacity of society. This strategy implies the achievement of very important qualitative changes in the field of activity of the society (Pană and Pană, 2006, p.43).

To meet customer needs, in order to reduce the risk of loss of actual or potential buyers and to achieve an upward trend in turnover, it is necessary to create a development strategy that aims to enrich the content of the company's offer and increase its quality.

Thus, analyzing the situation of Oltina Impex Prod Com SRL based on the strengths and weaknesses of its departments, but also taking into account the threats and development opportunities, compared to the situation of the competitors, in order to obtain a good share in the market where it operates and of a high reputation, a sustainable development strategy can be proposed in order to maintain a leading position on the market in Prahova.

S.C Oltina Impex Prod Com S.R.L is a company that has as main mission the production of bread, bakery and confectionery specialties, the production of wheat and maize flour as well as their distribution.

It should be kept in mind that the activities and products offered must be constantly improved to ensure competitiveness and satisfaction of stakeholders (associates, employees, customers).

The main strategic objectives pursued are:

- Maintaining and improving the image of society;
- Developing promotion channels;
- Providing a range of diversified and high-quality products;
- Customer loyalty and attracting new customers;
- Development of own network of stores;
- Professionalizing and empowering employees;
- Participating in fairs and exhibitions.

Through the analyzes carried out during this work on the activities of the company Oltina Impex Prod Com SRL, especially the production of bread, bakery and pastry specialties, wheat and maize flour, as well as their distribution, two main aspects: on the one hand, it was proved that the analyzed company is constantly developing with a very good position and image at local and county level (it obtained the leading position on the market in Prahova).

From the analysis of the financial field of the company Oltina Impex Prod Com S.R.L, it emerged that it managed to intelligently manage the financial resources it had in the analyzed period, registering profit every year. It has also been demonstrated by analyzing the relative market share that the company is a leader in the Prahova market.

Following the financial analysis, S.C Oltina Impex Prod Com S.R.L had financial results in the last 5 years of profit. Thus, the shareholders of the company have the option to realize these proposals for development and improvement of the company's activities - self-financing.

4. Conclusions

The ability of a firm to have a sustainable activity depends greatly on how the company is responsive to changes in the environmental and social environment.

A performance management must take into account both business development goals and, at the same time, must include in the company strategy and concepts of sustainability and sustainable development. The firm must be able to move beyond the main market dominance and be able to use existing resources taking into account future prospects. Including risk management and innovative development strategies in the company strategy is a step forward in developing the firm's ability to act sustainably.

Making pertinent analyzes of the firm's activity is the starting point in designing and implementing a sustainable development strategy for the future. The economic and financial diagnosis has the capacity to provide important information and conclusions, aimed at setting medium and long-term objectives for a strategic reinvention of the firm.

Sustainable development is a major goal for all businesses. The major difficulty of implementing this goal is the difficulty of properly translating the specific directions of sustainable development into the current business of a business, in its financing and in finding consumers willing to pay the price of sustainability of benefits.

Defining objectives capable of responding to these requirements and successfully implementing strategies capable of providing the company with healthy growth and sustainable development can no longer take place without taking into account the sustainability of actions taken and their impact on the environment, of the efficiency of their own activity.

The economic and financial diagnosis conducted at S.C. Oltina Impex Prod Com S.R.L has shown that this firm has the resources to implement modern technologies that focus on the development of production in close connection with the concept of sustainability.

References

1. Brezoi, A.G., Teodorescu, C.D., Albu, M. and Mihai, V., 2015. *Current challenges in the performance audit for the programs implemented with grants – case study- sustainable development of SMEs in Romania*. Proceedings of the International Scientific Symposium „Information society and sustainable development” 2nd Edition, April 24-25, 2015 Azuga, Prahova County, Romania.
2. Danciu, V., 2013. The sustainable company: new challenges and strategies for more sustainability. *Theoretican and Applies Economics*, 9(586), pp.4-24.
3. Maxim, E.L., 2008. *Diagnosticarea și evaluarea organizațiilor*. Iași: Editura Sedcom Libris.
4. Pană, V. and Pană, I., 2006. *Dezvoltarea durabilă a întreprinderii – primul pas spre dezvoltarea durabilă*. Analele Universitatii din Oradea. Stiinte Economice, Revista de Științe Economice, pp.110-114. [pdf] Available at: <<http://steconomiceuoradea.ro/anale/volume/2006/economie-si-administrarea-afacerilor/9.pdf>> [Accessed 21 January 2018].
5. Popescu, R., 2005. Excelența durabilă a întreprinderilor industriale. Evaluarea acumulărilor de sinergie. *Revista Economia. Seria Management*, VIII(1). [pdf] Available at: <<http://www.management.ase.ro/reveconomia/2005-1/13.pdf>> [Accessed 21 January 2018].
6. Russu, C. and Albu, M., 2005. *Diagnosticul și strategia firmei*. București: Editura Tribuna Economică.
7. Vasilescu, I., 2004. *Eficiență și evaluarea investițiilor*. București: Editura EfiCon Press.