

# THE PERFORMANCE OF COMPANIES LISTED ON THE STOCK EXCHANGE

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## Abstract:

*Companies that think and tend towards sustainability and sustainable development must register and present certain levels of performance, so as to ensure the sustained support of all the company's stakeholders. The objective of the work is the synthetic presentation of the aspects related to the theories of the performance of companies listed on the stock exchange, the utility of stock indices, it proposes indicators to be taken into account by investors and other stakeholders. Also, specific stock market performance indicators are calculated for two Romanian pharmaceutical companies, emphasizing their role for stakeholders (like Earnings per Share, Dividend per Share, Equity per share or net asset per share, Stock market capitalization, Marketability, etc), starting from the information published in the annual financial statements (submitted to the competent ministry), as well as the stock market quotations. Unfortunately for stakeholders, companies present and publish information favourable to their image, which is sometimes considered unrealistic and superficial. The conclusions of the paper summarize the importance of standardizing the presentation of the performance indicators of the companies, in order to ensure a faithful image of the company, as well as the success of an existing or potential investment.*

**Key words:** Indicators, performance, shares, stock exchange

**JEL classification:** D6, L25, M41, P17

## 1. INTRODUCTION

The issue of knowing and measuring the company's performance is an essential element for assessing and improving the efficiency and effectiveness of economic activities (Danila, 2014; Morosan-Danila, 2014). For Stern, Shiely and Ross (2002) performance is an unstable level of an enterprise's potential, obtained as a result of the optimization of the value-cost relationship and which makes the enterprise competitive in certain strategic sectors.

The research objectives aimed to analyse the specialized literature on the concept of performance of companies listed on the capital market, the importance of different specific indicators, exemplified through two companies listed Bucharest Stock Exchange, Biofarm S.A. and Sintofarm S.A.

Research methodology uses research methods, working techniques, to collect and interpret data. In the case of the present work, quantitative research methods are found. These are research techniques used to collect quantitative data: information that includes numbers and everything that is measurable; statistics, tables and graphs, these are often used to present the results of these methods (Bordeianu and Morosan-Danila, 2013). The present work uses theoretical documentation as a working technique.

## 2. THEORIES REGARDING THE PERFORMANCE OF COMPANIES LISTED ON THE STOCK EXCHANGES

The Romanian accounting regulations and the general conceptual framework for financial reporting of the IASB state that the objective of the annual financial statements is to provide information about the financial position, financial performance and cash flows of an entity, useful to a broad category of users (Grigoras-Ichim and Morosan-Danila, 2020b).

Information about the performance of an entity, especially profitability, is necessary for evaluating potential changes in the economic resources that the enterprise can control in the future, anticipating the entity's ability to generate cash flows with the help of existing resources and formulating judgments about the efficiency of using new resources.

Starting from the origin of the word "performance", it comes from the Latin language (*performare*) and means to complete a proposed action. In 13th century France, the word "performance" was used with the meaning of "to fulfil, to execute". The English language also took over this word at the end of the 15th century, also with the meaning of "to achieve, to execute, to fulfil" an activity.

Without trying to make a literary interpretation of the word, several levels of understanding of enterprise performance have been identified in economic theory. "The first of these refers to the yield or profitability of the enterprise. So, it refers to the accounting and financial measure of performance or efficiency, these lead to the idea of optimal result. The second level refers to social efficiency indicators where the notion of conflict is the starting point for its assessment. It is about appreciating the social climate of the society. The third direction of understanding performance concerns the organizational domain" (Danila, 2014).

So, there are, in economic theory, a multitude of considerations regarding the definition of the concept of enterprise performance, so that there is no generally accepted definition in this regard. Therefore, some economists approach performance from the perspective of the objectives pursued by the enterprise, referring to the degree of their achievement, others see it as a measure of the value created by the enterprise, while a last category considers performance in terms of productivity and effectiveness of the enterprise's activity.

A similar definition is proposed by Niculescu and Lavalette (1999), showing that the company's performance aims at "achieving organizational objectives regardless of their nature and variety". Thus, performance, in their opinion, depends only on the degree of achievement of objectives, without taking into account the specifics of each enterprise. However, returning to the meaning of the notion of performance, the same authors describe it as "a state of competitiveness of the enterprise, achieved through a level of effectiveness and efficiency that ensures a sustainable presence on the market".

Efficiency, as defined by Peter Drucker (2006), means "doing things the right way", while effectiveness means "doing the right things". Thus, in economic terms, efficiency involves either maximizing the results obtained given a certain amount of resources (value maximization), or minimizing the amount of resources used in order to obtain a certain result (cost minimization).

What is of particular interest not only to theory, but also to managerial practice in Romania, are managerial performances, without which it is not possible to achieve economic, financial, etc. performances in the areas managed. The conditions unanimously recognized by specialists, in this perimeter of scientific concerns, are clear: "only a high-performing management, exercised by professional managers, is capable of managerial performances, generating economic - financial, social, commercial, etc. performances" (Şuşu, 2016).

Over time, a number of authors have analysed economic-financial performance. Thus, Niculescu (2003) approaches „financial performance through the lens of acceptance and measurement tools, having an important role in knowing and understanding this concept". Several authors, including Jianu (2007), followed "financial performance as evaluation, presentation and analysis methods, by carrying out an extensive study on this concept".

According to Niculescu (2005), "the approach to economic performance is related to competitiveness, since a competitive (performing) enterprise is an efficient enterprise, capable of meeting the expectations of all social partners at the same time."

Economic performance, like financial performance, has different meanings such as: growth, profitability, productivity and return.

The current legislation in the field of accounting stipulates as the objectives of the financial statements presented by economic agents the reflection of the financial performance and the financial position.

Information about an enterprise's performance, particularly its profitability, is useful for "assessing potential changes in the economic resources that the enterprise will be able to control in the future and for anticipating the ability to generate cash flows with existing resources" (Burja, 2006). Also, based on performance, reasoning is formulated regarding the efficiency with which the enterprise can use new resources.

### **3. THE UTILITY OF STOCK INDICES IN PERFORMANCE ANALYSIS**

The financial system is "the multitude of markets, individuals or institutions, laws, regulations, and techniques by which stocks and other securities are traded" (Caraganciu and Darovanaia, 2005).

The financial system represents one of the most important investments of modern society. Its primary task is to allocate scarce monetary funds from those who save to those who want to use these funds for consumption or investment purposes (Grigoras-Ichim, 2022). In building up those necessary funds for borrowing, the financial system provides the means by which modern economies raise the standard of living of their citizens.

The development of economic and exchange relations is the basis of the new European economic construction. In this framework, a new organizational identity of the monetary and capital financial market appears as a necessity. The systematic approach to the economic content and the financial market gives us a general framework of its characteristics representing "an economic-financial space, where the demand and supply of financial assets meet" (Dumitraşcu, 2011).

The financial market can also be defined as: "the long-term capital market on which securities are issued and traded that serve as a support for capital exchange" (Mocanu, 2020).

According to Caraganciu et. al. (2005), the financial market is "the mechanism by which financial assets are issued and introduced into the economic circuit. The circuit of financial assets takes place between the multitude of fund providers (investors) and the multitude of their users, in order to achieve a single goal: the satisfaction of the economic need, the completion of which is profit" (Niţu, 2008).

Investors are those who make investments, by placing funds for the purpose of capitalizing them, and users are those who mobilize the funds, to finance their own economic activity (Morosan-Danila and Grigoras-Ichim, 2020; Morosan-Danila, 2018). In this way, a part of the existing financial resources in the economy is transferred, from those who own them, through redundancy, to economic agents, who use them, either by initiating an activity, or by maintaining and developing an existing business. At the same time, a feed-back relationship is born, from the users of funds to the initial investors, by distributing the profit obtained from the capitalization of financial resources.

In a market economy, the distribution of profit can, however, always be replaced by the distribution of risk, in the event of an unprofitable distribution of the funds that were the object of the transfer.

A financial market, in general, is efficient if "the prices on that market fully reflect all available information that is relevant to the valuation of listed securities. This means that all information about the issuer of the securities must be available in the market so that investors can access it. The information mainly refers to the following elements: revenues, dividends, historical credits, present and their future estimates, estimated growth rates, the issuer's risk level. Information with reference to the economic situation of the industrial branch in which the company operates, the ability of the management and even the state of health of the one who controls the company's activity are also important, with relevance in the general trends of the price of securities" (Caraganciu et. al., 2005).

### **4. RECOMMENDED STOCK INDICES IN PERFORMANCE ANALYSIS**

The formation and development of the capital market in Romania and the establishment of its organized forms (the Bucharest Stock Exchange) are essential components of the process of

restructuring the economy in Romania. The processes of establishing and developing a capital market in Romania are inextricably linked to the process of privatization of enterprises with state capital, from different fields of activity: industry, agriculture, trade, transport, public food, etc.

The constitution of the capital market and stock exchange in Romania was regulated by Law 52/1994 on securities and stock exchanges. The administration, implementation, as well as supervision and compliance with the provisions of Law 52 was carried out in the first phase by the National Securities Commission (CNVM), an autonomous administrative authority with legal personality, subordinate to the Parliament. Therefore, the capital market institutions in Romania include the Authority of Financial Supervision (ASF), the Bucharest Stock Exchange, the Central Depository, the Bucharest Clearinghouse and the Investors' Compensation Fund.

The complex activity of a stock exchange necessarily implies "the existence of a system of statistical indicators, which quantitatively and qualitatively quantifies the transactional processes, the impact between demand and supply, as well as the trends in the near future on the respective market" (Caraganciu et al., 2005).

A stock index can be defined as a measure of the value dynamics of a stock market, as a whole, or of a certain industrial or service sector. The world's major financial markets have assigned themselves one or more stock indices that capture what is most representative of each stock market. Thus, the growth of a stock market index reflects the fact that the demand for securities is higher than the supply, indicating, within certain limits, a positive economic-financial activity of companies listed on the stock exchange.

The fundamental analysis of a stock consists in particular in the calculation and correlated interpretation of the most important rates of return, indebtedness, liquidity, solvency, as well as stock market rates. Stock market rates are considered the final expression of the market performance of listed companies because they incorporate information on the stock market price, but also financial - accounting information on the net result of the year, sales per share, dividend per share, book value per share, etc.

The share price is the barometer of a company's overall performance, officially recognized by the public on the capital market. But the stock price variation is determined not only by the evolution of the company's economic and financial results, but also by investors' expectations regarding its development possibilities, as well as by the evolution and prospects of the business sector in which the company operates. The most important factor that ultimately determines the price of a stock is the ratio of supply and demand in the capital market.

Thus, the financial-accounting reports provide the capital holders with useful information regarding the strategy and policies of the company, the competitiveness of the products and its position on the market, the competitive potential, the competence and experience of the managers and the staff, the evolution of the stock exchange rate of the shares, the past economic-financial results, etc.

Stock market indicators are extremely useful not only for the current investment process, in which, depending on their comparable values, it is decided whether the financial securities are undervalued or overvalued and accordingly buy/sell decisions are adopted, but especially in the evaluation of companies or shareholdings in the evaluated companies, according to the approach based on the market comparison.

The calculation and appreciation of market rates requires the prior determination of stock market indicators at the share level, such as net profit for the year, sales per share, dividend per share, book value per share, etc. These indicators, like stock market rates, are particularly useful for analysing the profitability and risk of capital investments, but being expressed in absolute terms, they have less informational content and relevance than stock market rates.

This explains the particular preference of investors and financial analysts for the correlated fundamental analysis of financial rates and stock rates. Similar to traditional financial ratios, stock ratios lend themselves particularly well to sectoral or global capital market analysis, as they ensure comparability with sector averages or international standards.

Next, we propose some indicators to take into account by the investors, based on two Romanian companies active in the pharmaceutical field, namely: BIOFARM S.A. (one of the most important producers of medicines and food supplements in Romania) and SINTOFARM S.A. (a major producer of basic pharmaceuticals, medicines for human use). The data are based on the information declared and published by the companies in the annual financial statements for the fiscal year 2021 (table no. 1). The information published in the annual financial statements are the most important source of information for all stakeholders (Grigoras-Ichim and Morosan-Danila, 2020a, 2020b, 2015; Boghean et. al, 2011, 2010, 2009).

**Table no. 1. Balance sheet indicators of BIOFARM S.A. and SINTOFARM S.A.**

FINANCIAL INDICATOR	BIOFARM S.A.	SINTOFARM S.A.
Net result $R_n$	60,676,606	441,078
No of shares $N_a$	985,375,350	3,860,764
Turnover $CA$	239,044,656	9,569,108
Dividends distributed	21,678,258	252,935
Gross operating surplus	71,801,603	2,307,879
Other operating income	1,298,675	47,891
Financial income	1,550,500	7,388
Other operating expenses	28,451,498	1,813,540
Financial expenses	673,000	158,919
Profit tax	9,198,337	0
Equity	332,787,317	10,036,239
Share price $C_a$	0.598	5
Equity per share	0.34	2.60
Number of shares traded	75,213,662	500,000

Source: Data published by the companies in the annual financial statements, available on <https://www.bvb.ro/>

In table no. 2, to demonstrate performance analysis based on stock market indicators, share level stock market indicators and stock ratios were calculated.

**Table no. 2. Stock market indicators of BIOFARM S.A. and SINTOFARM S.A.**

INDICATOR	CALCULATION FORMULA	BIOFARM S.A.	SINTOFARM S.A.
Earnings per Share EPS	$EPS = \frac{R_{net}}{N_a}$	0.06	0.11
Sales per Share SPS	$SPS = \frac{CA}{N_a}$	0.24	2.48
Dividend per Share DPS	$DPS = \frac{\text{Dividends distributed}}{N_a}$	0.022	0.07
Self-financing capacity CAF	$CAF = \text{Gross operating surplus} + \text{Other operating income} + \text{Financial income} - \text{Other operating expenses} - \text{Financial expenses} - \text{Profit tax}$	36,327,943	390,699
Self-financing capacity per share CAF <sub>a</sub>	$CAF_a = \frac{CAF}{N_a}$	0.04	0.11
Equity per share or net asset per share	$C_{pra} = \frac{\text{Equity}}{N_a}$	0.34	2.60
Stock market capitalization $C_b$	$C_b = (N_a) \times (C_a)$	0.598	5
Price Earnings Ratio PER	$PER = \frac{C_b}{R_n}$ or $PER = \frac{C_a}{EPS}$	9.76	43.77
Price to Book Values Ratio P/BV	$\frac{P}{BV} = \frac{C_a}{\text{Equity per share}}$	1.76	1.92
Dividend Yield DIVY	$DIVY = \frac{DPS}{C_a} \times 100(\%)$	0.037%	0.014%

Pay Out Ratio POR	$POR = \frac{\text{Dividends distributed}}{Rn} \times 100(\%)$	0.36%	0.57%
Price to Sales Ratio P/S	$\frac{P}{S} = \frac{C_a}{SPS}$	0.36%	0.57%
Earnings Yield EY	$EY = \frac{EPS}{C_a} \times 100 = \frac{1}{PER} \times 100$	0.10%	0.022%
Marketability $L_a$	$L_a = \frac{\text{Number of shares traded}}{Na}$	0.08%	0.13%

Source: Authors' own processing based on the data published by the companies in the annual financial statements, available on <https://www.bvb.ro/>

Based on the results obtained, we can conclude:

- The positive trend of the indicators Profit per share (EPS) and Sales per share (SPS) for the two analysed companies reflects a healthy growth, by increasing sales and, implicitly, by improving the financial situation, so in general it shows a clear sign of activity development.

- The low level of the distribution rate (DPS) of the net profit of the 2 companies represents a favourable signal of the orientation of the funds towards various development projects, so a favourable moment to buy the respective share.

- Self-financing capacity (CAF) reveals the enterprise's ability to self-finance, that is, to finance itself from its own internal sources, generated by current operations. During the analysed period, BIOFARM S.A. has a positive percentage of 0.04, and SINTOFARM S.A. of 0.11, which means that they can finance their activity going forward, without additional financing costs.

- The value of the PER indicator indicates how many times the profit per share is capitalized. In other words, the profit per share of the company BIOFARM S.A. for the year 2021 it is capitalized 9.76 times, and for the company SINTOFARM S.A. capitalized 43.77 times.

- A share's price-to-book value (P/BV) ratio measures how much a share's book value is covered by its price. Therefore, the proportion of coverage of the accounting value of a share on account of the price of the company BIOFARM S.A. is 1.76, and at SINTOFARM S.A. in a ratio of 1.92.

- The analysed dividend yield indicator (DIVY) is very important for society, but especially for investors who are looking for constant high and relatively safe incomes, so with low risk. The dividend yield for the 2 analysed companies for 2021 is quite low. In the case of the company BIOFARM S.A. this registered a percentage of 0.037%, and SINTOFARM S.A. of 0.014%.

- Regarding the dividend distribution rate, the resulting value for the company BIOFARM S.A., as well as for SINTOFARM S.A. related to the year 2021, it is quite small, which shows that it is impossible to attract buyers.

- Regarding the liquidity of the share ( $L_a$ ) for the year 2021, the traded shares issued and in circulation are in the proportion of 0.08% for the company BIOFARM S.A., lower by 0.05 of SINTOFARM S.A. when it was 0.13%.

The objective of these companies is to become a pharmaceutical company appreciated by both employees, collaborators, investors and their customers. Another mission of the companies is to improve people's health by offering quality products.

In conclusion, we can say that the development strategy of BIOFARM S.A. and SINTOFARM S.A. it also includes improving the company's presence in the retail market, continuing to develop the sales force and increasing the number of products. Continuous investments in research, launch and promotion of own products will help strengthen the company's position in the market.

## 5. CONCLUSIONS

Following this paper, we can affirm that performance is a reference concept in theoretical approaches and, at the same time, a permanent concern in practical action. The notion of

performance is increasingly used in various fields, especially in the economic one. So, in a broader sense, performance represents a special achievement in a field of activity.

The economic-financial performances are necessary to be able to ensure the convenient remuneration of all the factors involved, to maintain the organizational potential corresponding to the requirements of a constantly changing economy and to ensure a reasonable expansion on the market.

Stakeholders should always have access to as many performance indicators as possible (economic, financial, stock market, etc.), so that they can make decisions about the respective company as quickly as possible (for the purchase/sale of shares, the realization of investments, launch of new products, withdrawal of investments, restriction of activity, etc.). Unfortunately, companies from Romania (as well as from many other countries) are not obliged to present a standard list of indicators, choosing to present only the information favourable to their image.

In this context, the stakeholders must calculate different indicators and indexes by themselves. In the example presented in the paper, it is observed that the companies present a stable and favourable situation on the stock market, but at the same time it reveals a low short-term gain for investors.

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