Enterprises Financial Performance in a Globalized World

Ivana Podhorska[1,*] and *Anna* Siekelova[2]

[1]University of Zilina, Department of Economics, Univerzitna 1, 010 26 Zilina, Slovak Republic
[2]University of Zilina, Department of Economics, Univerzitna 1, 010 26 Zilina, Slovak Republic

Abstract. World globalization has a significant impact on the financial performance and financial health of enterprises. The aim of the paper is to analyse and compare the financial performance of selected enterprises under the conditions of globalization. Paper will work with six selected enterprises from the IT sector, which represents one of the fastest growing sectors in the globalized world. Each of them will be from the Slovak Republic. As input data will be used their financial statements during years 2015-2018. These data will be obtained from the Amadeus database - a database of comparable financial information for public and private companies across Europe. The methods of financial-economic analysis will be used to analyse these data. Especially, the paper will be work with selected financial ratios from analysing of liquidity, profitability, indebtedness, and activity. The theoretical part of the paper will contain a literature review and historical development of financial performance assessment and theoretical aspects of enterprise financial performance. The practical part will contain the application of selected methods of financial-economic analysis in the database of enterprises. Paper findings brings evaluation of financial performance of enterprises in IT sector under the conditions of globalized world.

1 Introduction

In 1494, the monk Luca Pacioli of Florence formalized the first accounting system in which he described the meaning of the books. His accounts included accounts payable, capital, deposit, loan, but also receivables and inventories. [1, 2, 3] Further development of this field was recorded in the years 1900 - 1919 when several ratios were created. Also in 1919, Alexander Wall created the first major financial plan. In 1935, Winker and Smith compared the ratios on a sample of businesses. Roy A. Foulke and Paul J. Fitzpatrick are among the others who dealt with ratios. [2, 4, 5, 6] There are few records of the overall development of the financial analysis. Authors dealing with this topic include I. Brown, J. Horrigan, V. Kovalev, and T. Salmi. In Slovakia, several authors are currently dealing with financial analysis. [3, 7, 8, 9]

In 2009, professor Cisko described the methods of performing the analysis and later, in 2016, together with professor Klieštik, he devoted himself to financial analysis in much more detail. They described methods of predicting the financial situation and also analyzed

* Corresponding author: ivana.podhorska@fpedas.uniza.sk

the relationships between financial indicators. In this thesis we draw a lot of information from the book by Karol Zalai. In his book, he devoted himself deeply to financial analysis, which, in his view, assesses the economic activity of an undertaking on the basis of the factors which caused it. [1, 2, 9, 10, 11, 12]

Bartosova and Kral (2016) state that the basic impulse for the financial and economic analysis of the company is the knowledge and evaluation of its financial health. The impulse results from the primary function of financial-economic analysis, which is to provide a comprehensive view of the financial situation of the company. [2, 11, 13, 14] Financial-economic analysis brings together the evaluation of the company's past, present and effort to predict the financial management and financial stability of the company in the future. In the words of the authors: "it is very difficult to imagine a quality manager of a company who has no idea how profitable his company is, what is the average maturity of receivables, what added value is created by his employees, etc." [12, 15, 16]

Sponte (2018) argue that what the resulting financial-economic analysis of an enterprise will look like (content, scope, methods used, etc.) ultimately depends on who it is addressed for, the size of the enterprise, the industry classification, and so on. In order to achieve success and relevance of the results of the financial-economic analysis, high-quality input data must be used for its implementation. The primary data base includes the financial statements of the financial accounting of the enterprise, However, there are other sources of data for financial-economic analysis, usually having a supportive, respectively. secondary character (eg interim or annual company reports, company payroll reports, etc.). [16, 17, 18] In order to gain a better picture of the financial-economic position of any enterprise and to increase the informative power of the results of the financial-economic analysis, it is desirable that the selected findings be compared with the median values for the sector concerned. [6, 19, 20]

The aim of the paper is to analyse and compare the financial performance of selected enterprises under the conditions of globalization. Paper will work with six selected enterprises from the IT sector, which represents one of the fastest growing sectors in the globalized world. Each of them will be from the Slovak Republic. As input data will be used their financial statements during years 2015-2018.

2 Methodology

Following chapter shows the methodology of the research. Its focused on the data sample and analysis of the financial performance of six selected enterprises from IT sector in globalized world.

2.1 Data

Data sample consist of the six enterprises from IT sector, which represents one of the fastest growing sectors in the globalized world. Each of them will be from the Slovak Republic. As input data will be used their financial statements during years 2015-2018. Table 1 shows their basic characteristics. Enterprises are labelled as E1-6. The data was obtained from Amadeus database - a database of comparable financial information for public and private companies across Europe.

Table 1. Data characteristic

	Registered office	Number of employees	Legal form	Age of Enterprise	Sales [€]
E1	Žilina	25 - 49	s. r. o.	18	5 032 248
E2	Žilina	25 - 49	s. r. o.	21	4 714 202
E3	Žilina	25 - 49	s. r. o.	6	4 008 724
E4	Žilina	25 - 49	s. r. o.	22	2 036 586
E5	Námestovo	25 - 49	s. r. o.	4	1 588 047
E6	Martin	25 - 49	s. r. o.	13	1 464 872

2.2 Ratios

The methods of financial-economic analysis will be used to analyse these data. Especially, the paper will be work with selected financial ratios from analysing of liquidity, profitability, indebtedness, and activity. Table 2 show using financial ratios for analysis and comparison the financial performance of selected enterprises under the conditions of globalization [5, 7, 8, 10, 12, 15, 17, 21, 22]

Table 2. Financial ratios

Ratio	Calculation
Cash ratio	(cash/current liabilities)
Quick ratio	(cash + short-term receivables)/current liabilities
Current ratio	current assets/current liabilities
Inventory turnover ratio	inventory/sales * 365
Total assets turnover ratio	total assets/sales * 365
Average collection period	short-term receivables/sales * 365
Return on Assets	EBT/total assets * 100
Return on Sales	EAT/sales * 100
Return on Equity	EAT/equity * 100
Total indebtedness	debt/total liabilities * 100
Equity Multiplier	equity/total liabilities * 100

3 Results

Chapter results provides results of paper research focused on the assessment of the financial health and performance of selected enterprises from IT sector under the conditions of globalized world.

Table 3. Liquidity ratios

	Cash ratio				**Quick ratio**				**Current ratio**			
Period	**2018-2015**				**2018-2015**				**2018-2015**			
E1	0.16	0.98	0.90	0.61	1.45	2.13	1.46	1.58	1.46	2.24	1.59	1.57
E2	0.31	0.35	0.32	0.31	1.20	1.38	1.36	0.78	1.68	1.43	1.42	0.97
E3	0.05	0.30	0.26	0.40	0.92	0.53	0.53	0.86	0.89	0.55	0.53	0.86
E4	0.40	0.17	2.83	2.00	0.75	0.65	3.41	2.69	0.88	1.21	4.08	3.24
E5	0.15	0.50	0.20	1.15	1.40	0.98	1.12	1.17	1.38	0.97	1.12	1.17
E6	0.01	0.02	0.02	0.01	0.43	0.35	0.41	0.39	0.32	0.26	0.19	0,25

Based on the results of cash ratio, we concluded that the most liquid is enterprise 4, which in 2017 reached the value for L1 of 4.08. We consider the least liquid enterprise 6, which in all the monitored years reaches the value of the indicator in the range of 0.01 - 0.025. As the table shows that most quick liquidity values are in the range of the recommended values of 1 - 1.5, we can conclude that enterprises 1,2,4 and 5 achieve satisfactory values in almost all years. Undertakings 3 and 6 are less satisfactory. The best value of current ratio was again achieved by the enterprise 4. In 2015, the L3 result reached the value of 4.03, which is the highest value. The lowest results were again achieved by the enterprise 6, which, although it has a rising tendency compared to previous years, is still below its satisfactory level. Its resulting value in 2017 was 0.32, which causes distrust in the solvency of the company.

Table 4. Efficiency ratios

	Inventory turnover ratio				**Total assets turnover ratio**				**Average collection period**			
Period	**2018-2015**				**2018-2015**				**2018-2015**			
E1	7.11	15.4	10.1	222	223	189	7.11	15.4	109	61.3	66.4	109
E2	18.8	7.16	14.3	118	174	134	18.8	7.16	43.9	82.6	67.7	43.9
E3	3.56	4.10	1.79	311	394	463	3.56	4.10	23.7	42.2	66.7	23.7
E4	21.5	29.3	26.7	205	202	237	21.5	29.3	29.9	24.2	25.0	29.9
E5	0.00	0.00	0.00	47	48.1	31	0.00	0.00	28.8	26.7	17.1	28.8
E6	3.60	4.91	2.63	172	179	133	3.60	4.91	49.0	49.4	42.0	49.0

All monitored enterprises achieve relatively low values in inventory turnover ratio. The most acceptable results are achieved by the enterprise 5 which in all monitored years reaches the zero value of the indicator, which is caused by a very low stock level, that is, they do not have a large amount of funds. On the contrary, the highest value reaches the enterprise 4, where the value of the indicator did not fall below 20, which means that stocks are bound in the enterprise for about 20 days. The total assets turnover ratio shows that the worst value in all years is achieved by the enterprise 3. In 2017 it reached the value of 311.60, which means that the assets were tied in sales for approximately 311 days. In the period under review, the best time to turnover of total assets was the enterprise 5, the assets were tied up in sales of approximately 31 days, in other words, the length of the transformation into sales was 31 days. While average collection period in enterprise 2 there was a significant decrease in the value of the indicator from 82.69 days to 43.94 days in

2017. On the other hand, in enterprise 1 we saw a significant increase from 61.38 days to 109.11 days.

Table 5. Profitability ratios

	Return on Assets				**Return on Sales**				**Return on Equity**			
Period	**2018-2015**				**2018-2015**				**2018-2015**			
E1	5.9	23.7	32.4	30.43	4.02	10.58	21.1	15.6	13.2	35.2	70	60.82
E2	29	-4.3	33.2	43.2	10.9	-1.67	13.8	15	60.8	-17.2	87	686
E3	-14	-1.5	-3.3	-11	-11	-1.5	-4.9	-16	-50.9	-166	-168	-149
E4	22	55.	25.1	31.24	17.85	21.1	18.3	19.40	44.61	84.39	30.45	38.38
E5	31	-4.2	4.03	1.41	3.11	-0.8	0.47	0.23	104.6	495.8	38.13	10.19
E6	3.6	0.1	2.26	-13.8	1.47	0.05	0.88	-6.50	30.60	1.48	25.42	-184.0

Based on table 5, we can say that the highest appreciation of total capital was reported by the enterprise 4 in 2016, amounting to almost 56 %. The lowest values were reported by the enterprise 3, which achieved negative results in all monitored years, and the indicator has a decreasing character caused by negative economic result in all monitored years. At the return on sales, the enterprise achieves 3 negative results in 2017 with a value of -11%. This result shows that the enterprise is poorly managed and has high operating costs. Enterprise 4 is at its highest, although it has seen a slight decline but is still in good numbers. In the last reference year, the ability to increase the value of sales resulting from the company's activities is 17 %. When evaluating the results of return on equity, we came to the conclusion that the lowest value is again reached by the company 3, which in all years reaches negative values up to -166.80 % in 2016. In 2017, the value has already decreased to -50.98 %, which could be due to an increase in equity. The best return on equity indicator in 2017 was reported by the enterprise 5.

Table 6. Leverage ratios

	Total indebtedness				**Equity multiplier**			
Period	**2018-2015**				**2018-2015**			
E1	55.47	32.74	53.78	49.97	44.53	67.26	46.22	50.03
E2	51.01	0.35	0.32	0.31	48.99	24.98	38.15	6.29
E3	71.86	99.05	98.03	92.59	28.14	0.95	1.97	7.41
E4	49.10	34.06	17.55	18.59	50.90	65.94	82.45	81.41
E5	70.20	100.86	89.44	86.14	29.80	-0.86	10.56	13.86
E6	88.14	93.79	91.10	92.48	11.86	6.21	8.90	7.52

In the monitored years, we recorded the lowest total indebtedness in enterprise 4, which was indebted to approximately 17 % in 2015, but this value has been increasing in the following years. In 2017 we can be considered the best enterprise 4, which was indebted to 49 %. The worst value is again achieved by the enterprise 3. Although its value in 2017 fell from the original 99 % to 71 %, it can still reduce its performance, because foreign capital, although cheaper, is also more risky. One reason for high indebtedness may be the high proportion of short-term liabilities, specifically the value of loans, but also long-term liabilities. The best value in equity multiplier is achieved by the enterprise 4. In 2017 the share of own funds in the total assets of the enterprise was almost 51% and we can say that

€ 1 of assets is covered by 51 cents of equity. The lowest value is achieved by enterprise 3, which is largely financed by external resources.

4 Discussion and Conclusion

The information technology sector is one of the fastest growing sectors. If someone asked why the IT industry was doing well, one of the answers might be that people were interested in technology entry into ever-new areas.

We evaluated the financial health of companies by means of financial-economic indicators. We consider enterprise 2 to be the most successful. Enterprise 1 achieves the unsatisfactory value of the selected criteria and ranked last.

Financial-economic analysis of the company forms an integral part of financial management and occupies an irreplaceable position in the evaluation of the current state or financial health of the company, but also in predicting the financial situation of the company in the future. At the same time, the financial-economic analysis acts as a feedback for the company on whether the financial and economic decisions taken were right, where the company got them, in what areas of financial management he managed to meet the set goals and where on the other hand failed to deliver the expected results. Financial-economic analysis can not only create a database for making the right decisions in financial management but at the same time reveal the causes of success or failure in previous decisions and the intensity with which these factors have influenced the development to date.

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