PROFITABILITY AS THE FORM OF COMMUNICATION OF THE VALUE OF AN ENTITY THAT WORKS FOR PROFIT

Lecturer Ana CARP PhD *(karp_ana@yahoo.com)*
„Artifex„ University of Bucharest
Maria MIREA PhD Student *(mirea_maria@yahoo.com)*
Bucharest University of Economic Studies

Abstract

Profitability can be defined as the positive result obtained by an entity that operates for the purpose of profit, through the efficient use of material, financial and human resources, in a manner that enables it to operate in optimal conditions for financiers, employees and Business partners but especially to ensure future performance. There is a direct correlation between the performance of economic entities in an economy and its well-being. Profit is calculated according to strict tax rules and, at least theoretically, is the expression of the minimum use of resources in order to obtain maximum results. Constant long-term profitability ensures recognition of the value of an economic entity through performance and efficiency. In this article, the authors present the main aspects regarding the use of the statistical tool in the analysis of the company's profitability.

Keywords: *profitability, statistical indicators, solvency, net profit margin*

JEL Classification: *C10, O12*

Introduction

Mechanisms through which constantly increasing turnover, from one financial exercise to another, in a sustainable way, are influenced by several determinants such as resources, labor force qualification, technology , Economic growth, fiscal policies, public institutions' functionality, cultural factors, climate, political stability. Without minimizing the importance of other factors, I believe that an important factor in maintaining the development trend of a long-term entity is the human resource, first of all through the efficiency of using the various technologies but above all by the ability to develop new technologies, Innovative services to ensure sustainable growth from their own resources.

Literature review

Anghelache et.al. (2012), Anghelache and Anghelache (2009) approach the profitability-risk system. Anghel (2014) describes the indicators used in the financial analysis of a company. Berheci (2010) is preoccupied with the verification of information included in fnancial reporting. Anghelache (2007) studies the usefulness of econometrics in measuring economic profitability. Dumbravă (2010), David-Sobolevschi (2015), Ciobanu (2006), Slade (2004) realize complex presentations of methods and models used in companies' profitability analysis. Anghelache (2010) describes the analysis of performances and risks in financial-banking activity. Anghel (2015) applies the main methods and models specific to financial analysis. Stefan and Păunică (2014) consider the performance audit of resource consumption as tool for financial management in time of crisis. Spătaru (2011) focuses on the role of financial analysis in company management. Anghelache and Anghel (2014) is a reference book on economic modeling. Robu, Anghel and Şerban (2014) describe the methodology of financial analysis. Draca, Machin and Van Reenen (2011) consider the correlation between minimum wages and firm profitability. Păunică and Tănase (2014) evaluate the role of budgets within the financial management process. Anghelache (2008), Lazăr and Lazăr (2012) present the usefulness of statistics in economic analyses. Manole (2008) has developed a multidimensional data structure for economic and financial analysis.

Research methodology and data

• Measures to measure profitability

Known performance measurement tools are indicators. Many definitions of indicators are known in the economic literature. A performance indicator is a quantified date that measures the efficiency and / or the total or partial efficiency of a process or system (real or simulated) in relation to a determined norm, plan or goal within the enterprise's strategic framework. The main features of an indicator are as follows: performance performance to be at a level similar to the one at which the activities that generate it are generated; Indicators must be set in line with the objectives; Performance measures must be easy to quantify and control (relative to control and management mechanisms); People who measure performance must be able to control it; Measurements must be adaptable as frequent and validated.

It is impossible to use a unique indicator of performance measurement, due to the complexity of the economic phenomena and processes and the variety of particular situations in which the activities of the various enterprises take place. For a good outline of the financial performance, it is necessary to use a system of indicators that also express the strategic orientation of the enterprise, the characterization of its internal and external relations, the efficiency of the activity, the capacity of adapting the enterprise to the market requirements. Undertakings are differentiated according to: business sector, leverage and refinancing capacity, growth rate, enterprise maturity and management methods. The role of using economic and financial indicators to measure enterprise success is actually the way to reflect economic and financial performance.

• **Aspects of the concept of profitability**

Profitability or profitability defines an enterprise's ability to make profits from its activities. As a result, the profitability analysis becomes a high level segment of the economic and financial analysis as it includes or characterizes the entire economic and financial activity of the firm, all the processes that take place in the firm, all the functions of the firm. Profitability is the ability of a company to generate profits. Profitability is reflected in the company's profit and loss account. In general, everyone interested in a company's business is particularly interested in solvency and profitability.

Profitability depends both on the company's activity and exogenous factors, independent of the firm. It is appreciated in absolute terms (as the profit mass) and in relative terms (as a rate of return). At the microeconomic level, it represents the form of efficiency, re-selecting the effects that result in the results obtained at a unit of effort, with the factors of production. A company's financial reports are analyzed internally by managers and externally by investors and creditors.

Solvency is the ability of a company to pay out debts on time. The solvency is reflected in the company's balance sheet. Yves Bernard and Jean Claude Colli consider the solvency „ability of a person to meet their commitments with all the resources that constitute his assets or assets", the liquidity of „the ability to quickly honor the financial commitment," ie „the immediately available amount that allows for a financial commitment „.

The concept of solvency is defined as the ability of an enterprise to settle its maturities by its own sources. There are two types of solvability: general and patrimonial.

General Solvency (Sg) is the ratio between total assets and total liabilities of the enterprise:

$$\text{General Solvency } = \frac{\text{Total assets}}{\text{Total debt}}$$

With the help of this indicator, it is possible to measure the security enjoyed by the creditors of the enterprise. It is necessary that the total value of the assets is double the total debts.

The rate of financial autonomy or patrimonial solvency (Sp) is calculated as the ratio of the equity to the total amount of the capital of the enterprise:

$$\text{patrimonial solvency} = \frac{\text{Equity}}{\text{Total capital}}$$

The normal rate of this rate is 50% and its minimum accepted value is 30%.

The profitability of an enterprise's production needs to be continuously analyzed, with available information on the goods and inputs market, with the aim of choosing the optimal level and structure of production, establishing the level of future investment and reporting the results of competition to its own results, in order for the company to compete.

• **Indicators or profitability rates**

Economic indicators are the numerical expression of the quantitative aspects of economic phenomena and processes, under specific conditions of place and time. Profitability indicators are the expression of the activities performed by a firm for the purpose of obtaining a profit. In the overall economic and financial indicators, the rate of profitability fulfills the function of a synthetic indicator of the efficiency of the enterprise's activity.

As an indicator of efficiency, the rate of return takes different forms, depending on how gross profit is taken into consideration or net profit per number, and gives an insight into the efficiency of various aspects of the enterprise's economic activity. Return on Equity (ROE) is calculated as the ratio of three indicators: net profit, corporation tax and equity. Return on equity is the most important measure of enterprise performance measurement, the objective of which is to evaluate the extent to which the investments made by shareholders have resulted in increased profit.

Percentage, the net profit brought by a monetary unit of capital, is given by the formula:

$$\text{ROE} = \frac{Net\ Profit}{Equity} \text{ x } 100,$$

where:

ROE = Financial Return Rate (return on equity).

Return on Assets (ROA) measures financially, the earnings for each money invested in the assets of the enterprise. It is calculated as a ratio between net profit and total assets. Return on assets is one of the most important cost-effectiveness indicators of an enterprise.

It is calculated as the ratio between net profit and total assets thus:

$$\text{ROA} = \frac{Net\ Profit}{Total\ Assets} \text{ x } 100,$$

where

ROA = rate of economic return (return on assets)

Basic earnings per share is calculated as the ratio between the net profit or loss of an enterprise and the number of ordinary shares outstanding over a period. From the financial point of view, this indicator contributes to comparing the results of an enterprise over a period of time or is used when comparing with the results of similar enterprises over several years.

• **Business profitability indicators**

The most important indicators of internal profitability are related to: net profit margin; The rate of return on total assets; The rate of return on equity.

a) Net profit margin As a financial indicator of profitability, the net profit margin, highlights the profitability of a company's total activity in percentage terms. The higher the percentages, the more stable the company and the good financial standing in terms of profitability. Net profit margin is the ratio between the net profit of the company and the turnover, as follows:

$$M_{pn} = \frac{Net\ Profit}{\text{Fiscal value}}$$

in which:

MPn - net profit margin.

Turnover is a quantitative indicator of the firm's activity, which must be considered in relation to the company's goal of maximizing its value.

b) Profit rate reported for total assets. It is a measure of the profit for each RON invested in assets. ROA characterizes the efficiency of the set of committed capital (own and borrowed). This rate can be calculated using the relationship:

$$Pn_A = \frac{Net\ Profit}{\text{Total assets}}$$

in which:

PnA - the net profit ratio reported for the company's total assets;

c)The rate of return on equity is a measure of how shareholders are satisfied with the investments made in the firm. ROE, in its accounting sense, is a basic measure of the bottom line.

$$Pn_{cp} = \frac{Net\ Profit}{Equity}$$

in which:

PnCp - the rate of return on equity.

• **Results and analyzes**

Returning to the Company's profitability indicators or the „Net Profit Margin", we can analyze a sample of nine commercial companies in the top 50 commercial companies in our country, ranked according to the turnover achieved Over a five-year period. Using the following statistical data published by ‚c' ,, the net profit margin indicator was calculated over the period 2011-2015 for all nine selected companies:

Automobile Dacia

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	13177841584.00	12742145319.00	18402497788.00	18833365417.00	19164558589.00
Net profit	275111397.00	277239794.00	337444120.00	371670175.00	447938323.00
Net profit margin	0.02	0.02	0.02	0.02	0.02

OMV PETROM MARKETING S.R.L.

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	13684564230	15092697104	14510619117	14196935640	14776387601
Net profit	125396136	253603314	294768933	304820560	331008143
Net profit margin	0.01	0.02	0.02	0.02	0.02

Orange România

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	3981959733	4119424689	4337177113	4319549251	4585755248
Net profit	805637899	517785638	500809864	403648350	262151267
Net profit margin	0.20	0.13	0.12	0.09	0.06

ARCELORMITTAL GALAŢI S.A.

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	4663330401	5418682167	3713378235	3592087513	3803508731
Net profit	-620130335	-231066763	-741659810	-482230382	-297616460
Net profit margin	-0.13	-0.04	-0.20	-0.13	-0.08

Coca Cola

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	1738623539	1939420892	1811277918	1831649673	2112882161
Net profit	137399050	148409857	83624137	102355587	242721956
Net profit margin	0.08	0.08	0.05	0.06	0.11

Ford România

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	797674088	2479148106	4843240327	4053284595	3756336413
Net profit	-471350988	-480681010	68859686	25358617	-81518971
Net profit margin	-0.59	-0.19	0.01	0.01	-0.02

TAKATA-PETRI ROMÂNIA SRL

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	1522320748	1545861999	1683160358	1978144756	2269669664
Net profit	46228727	-7103649	67735700	97794133	-96438
Net profit margin	0.03	0.00	0.04	0.05	0.00

PHILIP MORRIS TRADING SRL

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	2362448641	2281851765	2043167837	2124666980	2246771053
Net profit	14966343	17986737	-8370591	-4641503	25448363
Net profit margin	0.01	0.01	0.00	0.00	0.01

CARGILL AGRICULTURA SRL

Indicators from the Profit and Loss Account	2011	2012	2013	2014	2015
Fiscal value	2897665343	2057112179	2411616451	2326266342	2091862355
Net profit	31583472	29852901	-32141059	-89221005	-82745406
Net profit margin	0.01	0.01	-0.01	-0.04	-0.04

Conclusion

It can be seen from the results that the net profit margin recorded low values in all selected companies and almost invariably in all the financial years under study. We do not know whether the economic results obtained in each fiscal year are the goals of the investors and the concrete results of the direct interaction between each society taken as a whole as possibilities for economic expression and the economic environment offered by our country.

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