

THE FINANCIAL PERFORMANCE OF ENTERPRISES – A PREMISE FOR THE ECONOMIC INTEGRATION OF THE REPUBLIC OF MOLDOVA INTO THE EU AREA

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Abstract: Under market economy conditions, enterprises in the Republic of Moldova have exhibited diverse trends, being largely influenced by the external economic environment. Currently, domestic enterprises face challenges related to market access, while the Republic of Moldova's aspiration to become part of the European Union represents one of the key pillars supporting their activities, with a strong emphasis on developing export relations within the EU. In this context, the results of the activities of economic entities that reflect financial performance will play a decisive role in accessing the European market. The ways to improve financial performance represent a key catalyst for the development and growth of an enterprise, without which its long-term existence would simply become impossible within the rigid framework of the market economy system.

The purpose of this study is to evaluate the financial performance of companies in order to identify ways to improve it, with the aim of ensuring European economic integration. Thus, the financial performance of companies is essential for ensuring sustainable development under current conditions

Keywords: enterprise finance, financial performance, economic integration

JEL Classification: G30, F15, O16

INTRODUCTION

Financial performance is a complex concept, characterized by a system of indicators that reflect the availability and allocation of funds, the actual and potential financial capabilities of an enterprise and the effectiveness of their use.

The relevance of this problem has largely determined the development of various methods of analysing the financial performance of enterprises, aimed at preparing information for making managerial decisions, assessing the financial condition and developing a financial management strategy.

The financial performance of an economic entity is characterized depending on the financial result recorded by the enterprise. Thus, the financial result of the enterprise's activity is characterized by the sum of profit (loss) and the level of profitability achieved.

Financial results complete the business cycle of the enterprise, which includes the production and sale of products (work performed, services rendered) and, at the same time, serve as a premise for the next stage of its operations.

Financial results strengthen the state budget through tax revenues, contribute to the investment attractiveness of the company and increase its activity in the production and financial sectors.

MATERIAL AND METHOD

The definition of "performance", found in the explanatory dictionary of the Romanian language, specifies that this concept implies a good result obtained by someone or something (engine, device, person, etc.) [Explanatory]. From an economic point of view, performance implies a direct financial gain, motivating the workforce, as well as improving control. Moreover, etymologically, the term "performance" has its origin in the Latin language - "executa" - representing the achievement of objectives [Marinescu, C.]. In a narrow sense, performance is the result of an action and in a broad sense, it represents a set of logical steps to achieve the proposed objective.

In the specialized literature we find different opinions regarding performance at the microeconomic level, being the premise of the research for Niculescu M., Lavalette G., Verboncu I, Zalman M., Jianu J., Mironiuc, M., Anghelache C. which highlight the following: performance involves the efficiency, effectiveness and competitiveness of companies and their procedural and structural behaviors at the four decision levels (metapolitical, strategic, tactical and operational) and each level has a performance level attached (social, financial, commercial and physical).

The etymology of the word "performance" comes from the substantivisation of the English verb "to perform", which in translation applicable to the business context means "to fulfill", to execute a task, while the noun "performance" signifies only the act, the process of fulfilling tasks.

From a semantic point of view, several notions are used in economic literature to describe the qualifier "performance".

Russian scholars Sheremet A. and Saifulin R. in presenting the proposed methodology for analyzing the financial results and profitability of an enterprise, note that the financial result of an enterprise's activities is expressed in the change in the value of equity for the reporting period [20].

O.V. Efimova defines the financial result of an enterprise's activities as profit, but notes that the final result is actually one that the owners have the right to manage. In international practice, financial results are understood not as profit itself, but as an increase in net assets [16].

N.A. Tolkacheva gives a fairly broad definition. She believes that financial results can be viewed as an increase or decrease in the capital of an organization during its financial and economic activities in the reporting period, which is expressed as total profit or loss [26].

Beloglazova G. [208, p.305], Lavrushin O. [219, p. 105], Zhucov E. [215, p. 92] etc. use the terms efficiency and effectiveness, transposed from English "efficiency" and "effectiveness", which characterize "the results of the economic activity of the entity, characterized by the relationship of the received economic effect, the result of the consumption of factors, resources, which conditioned the achievement of this result", while in the practice of financial management as a notion of "efficiency" the term "performance" has become widespread.

The concept of efficiency can be considered as a relationship between the outputs of a system and the corresponding inputs used in their production. In the literature on financial efficiency, efficiency is treated as a relative measure, reflecting deviations from a maximum achievable power for a given level of input, argue English and Yaisawarang [English M., Yaisawarang K. Output Allocative and Technical Efficiency of Banks. In: Journal of Banking and Finance, 1993, Vol. 17, pp. 349-366].

Table 1: The content of the concept of "financial performance of the enterprise" under various scientific views

Source	Content of the definition
Niculescu, M., Lavalette, G.	Performance as a state of competitiveness of the economic agent, which has reached a level of productivity and efficiency that ensures a sustainable presence on the market [41, pp. 256 - 258].
Verboncu, I; Zalman, M.	Performance as a special result, obtained in the field of management, economics, commerce, etc. and involves the efficiency, effectiveness and competitiveness of companies and their procedural and structural behaviours [66, p. 72].

Gruian, C.	Performance can be achieved only by assuming risks that can be managed by the entity or the banking system. Performance includes the ability to gain access to resources, allocate and use them optimally for the purpose of sufficient remuneration to cover the assumed risk and justify the interest in sustainable development in the future [29, pp. 243 - 255]
Albu, N; Albu, C.	Performance characterizes the capacity of a company to progress due to constant efforts [1, p. 30].
Jianu, J.	The concept of "performance" is associated with success, growth, effort [32, p. 375].
Michel Lebas and Ken Euske (2002)	The performance of the economic entity can be interpreted as the possibility of achieving the planned result. The degree of achievement of objectives can be used to determine performance within an organization [<i>A conceptual and operational delineation of performance.</i>].

Source: developed by the author based on the sources mentioned in the table

Following the analysis of the specialized literature, we can state that there are different acceptable conceptual approaches to performance, depending on the sector in which the enterprise operates and the context of use. Thus, according to Bonvoisin et al. (2008), performance can be interpreted as follows:

$$\text{Performance} = \text{Effectiveness} + \text{Efficiency} + \text{Economy} + \text{Relevance} (1)$$

[Bonvoisin, J., Halstenberg, F., Buchert, T., & Stark, R. (2016). *A systematic literature review on modularproduct design. Journal of Engineering Design*, 27(7), 488-514]

A publication of the French Ministry of Industry (Ministère de l'Industrie (1993). Guide de la performance industrielle. Paris: Ministère de l'Industrie, De l'énergie et de la Communication.) equated performance with lean production, competitiveness, cost reduction, value and job creation, growth and the long-term survival of enterprises. In short, "performance" is one of those "suitcase words" [Bourguignon, C. (1995). Peut-on définir la performance? *Revue Française de Comptabilité*, 269, 60–5] in which everyone places the concepts that suit them, letting the context take care of the definition.

In the context of services provided to the public, performance can be viewed as "the extent to which the activity is carried out within the specifications established for goods and services, at the overall level of satisfaction of the clientele served, within constrained costs and limited time, and in such a manner as to support or contribute to the achievement of the organization's objectives".

RESULTS AND DISCUSSION

Economic efficiency is the relationship between the effects obtained (results) and the efforts (expenses) made in an economic activity during a certain period of time. The level of efficiency is higher when the useful effect per unit of effort spent is greater, or when the effort consumed relative to a unit of useful effect is smaller.

The general criterion of efficiency in economics is value, which represents a subjective notion, in the sense of someone's desire to possess a certain good. Assessing value is quite difficult, especially under the requirement of maximizing it (profit and utility of a good or service), which implicitly involves normative aspects related to recommendations of economic instruments and policies, based on the comparison of several policy alternatives.

The efficiency of economic and financial activity is characterized by financial results and profitability. Financial results (profits or losses) represent the difference between revenues and expenses.

In the process of carrying out economic and financial activities, the enterprise uses and consumes economic resources, called assets in the balance sheet. The efficiency of their use

determines the enterprise's ability to survive financially, to attract cash from customers, and to pay its debts within the established deadlines. One of the most important indicators of efficient asset utilization is return on assets (ROA), which is calculated according to the formula [13, pp. 58–64].

$$\text{Return on assets} = \frac{\text{Profit ("loss") before tax}}{\text{Average value of assets}} \times 100\% \quad (2)$$

Return on assets in analytical theory and practice is also called economic profitability. According to its economic content, it reflects the level of profit obtained from each leu of the means invested in the enterprise's circuit, regardless of the source of their financing. If the enterprise makes accounting losses, the level of this indicator will be negative and will reflect the level of losses obtained from each leu of the enterprise's assets.

Currently, this indicator is given special attention, because its level demonstrates the ability of the economic unit to use its assets as efficiently as possible.

In the process of carrying out economic activity, the enterprise consumes financial resources and it is necessary to check whether these resources are used in a sufficiently efficient manner to obtain the financial result, which will ensure the financing of the necessary investments and the repayment of the enterprise's debts. For this purpose, it is necessary to carry out an analysis of the return on equity.

Return on equity reflects the ability of the enterprise to use its own capital in order to obtain profit, by it "we understand the ability of the enterprise to enrich its owners". Through this indicator, capital owners assess the efficiency of their investments, that is, it characterizes the amount of profit obtained for each leu invested in equity.

Return on equity expresses the link between the financial result and equity, that is, it is determined based on the ratio between profit before tax (or net profit) and the average value of equity [13, pp. 58-64].

$$\text{Return on equity} = \frac{\text{Profit (loss) before tax (or net profit)}}{\text{Average value of equity}} \times 100\% \quad (3)$$

To improve the performance of economic entities, it is necessary to develop an effective plan that will bring results, and this plan must take into account the internal tasks and work of the company, as well as all changes in the external environment. Combining this with the peculiarities of the moments of production or provision of services, ways will be identified to increase production efficiency and achieve the desired result quickly enough.

Each enterprise must choose the right path of development, purely individual for any company. There are only a few basic rules that apply to any of them:

1. Reducing costs that do not affect the quality of production or services. Many managers solve this problem by reducing staff or purchasing cheaper materials. In this case, attention should be paid to the fact that the speed can decrease significantly, and the enterprise will lose profit;
2. Modernizing and automating the workflow. This should be done only after a detailed analysis of performance;
3. Identifying new ways of organizing and managing the economic entity. A management update will help bring fresh ideas and give new strength to the implementation of profitable projects;
4. Adequate marketing. Advertising plays an important role in increasing the company's turnover. A well-designed scheme for attracting customers can generate revenue growth at a relatively low cost;

Detailing each of these aspects can bring the desired result. But we must not forget that in any company, first of all, the people who work in it. It is worth encouraging the initiative of employees, rewarding them for good ideas. In this case, the economic entity will get a team interested in promoting the enterprise at all levels.

For an effective integration of the economy of the Republic of Moldova into the EU, an important mission falls on the demonstration by domestic enterprises of a high level of competitiveness, which would allow integration processes to accelerate and generate higher financial performance. Taking into account competitiveness can be represented as an integral part of market research, which is the basis for developing a strategy and tactics for the subject on the market and determining the correct way to improve the technical level and quality of production.

Figure 1 shows step-by-step processes for ensuring the competitiveness of an object, and it already has the property of competitiveness.

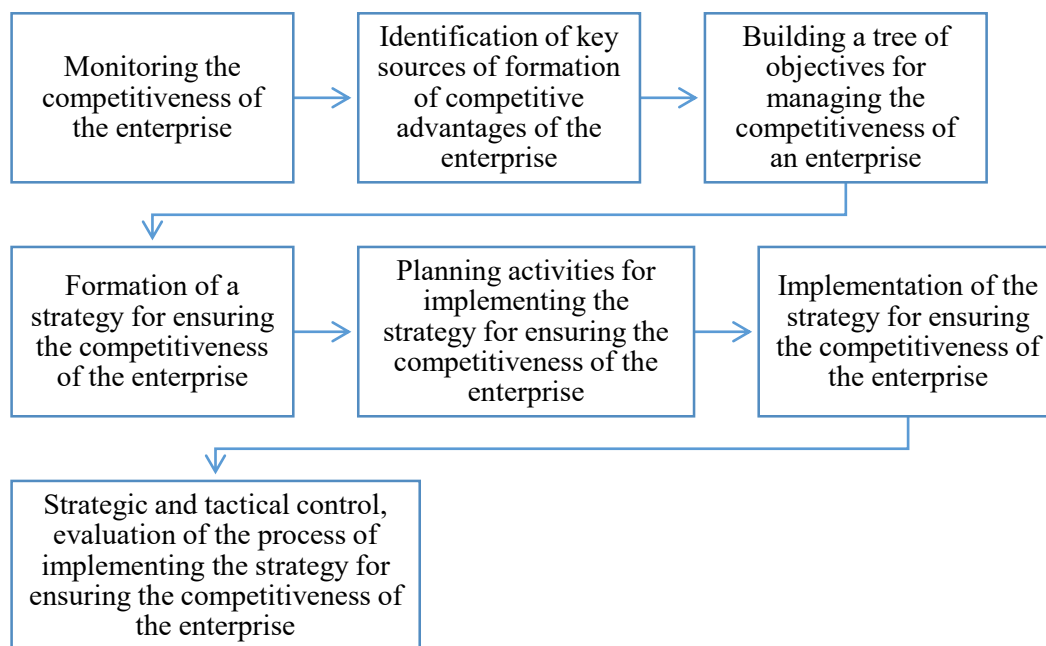


Figure 1. Stages of ensuring the competitiveness of the enterprise

Source: developed by the author

In general, competitiveness is an evaluation characteristic that reflects its ability to produce competitive products; much better than competitors. Also, the use of available resources and the development of activities, determine the place and role of competitiveness in the industrial market system at the EU level. Ways to increase competitiveness are presented in figure 2.

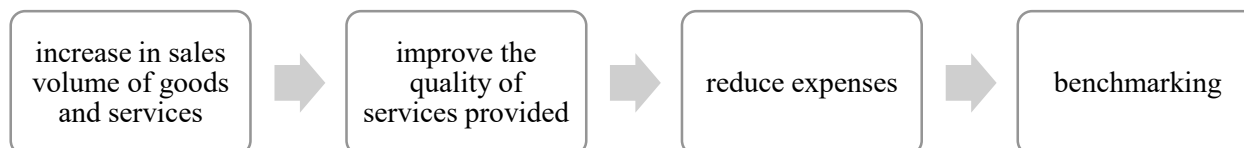


Figure 2. Ways to improve the competitiveness of the enterprise

Source: developed by the author

So, first of all, it is recommended to increase sales. Along with the effective organization of the production process or provision of services and planning volumes in accordance with the chosen direction, it is necessary to solve priority tasks. The higher the production efficiency, the more profitable the enterprise's activity can be, especially in a competitive environment.

The second priority direction may be to revise the structure of services provided and goods sold, its renewal, revision of used production resources.

Thirdly, such a factor as concentration of production is highlighted, which is achieved through investments in the innovative development of an enterprise.

Another effective tool for increasing the competitiveness of an enterprise is benchmarking. This method is a continuous search and study of the best practices of competitors, enterprises in related industries.

Thus, in order to ensure the highest competitiveness of the enterprise, it will be possible subject to continuous and long-term improvement of all components of competitiveness. In this regard, in Figure 3 we propose a model for increasing the competitiveness of an enterprise.

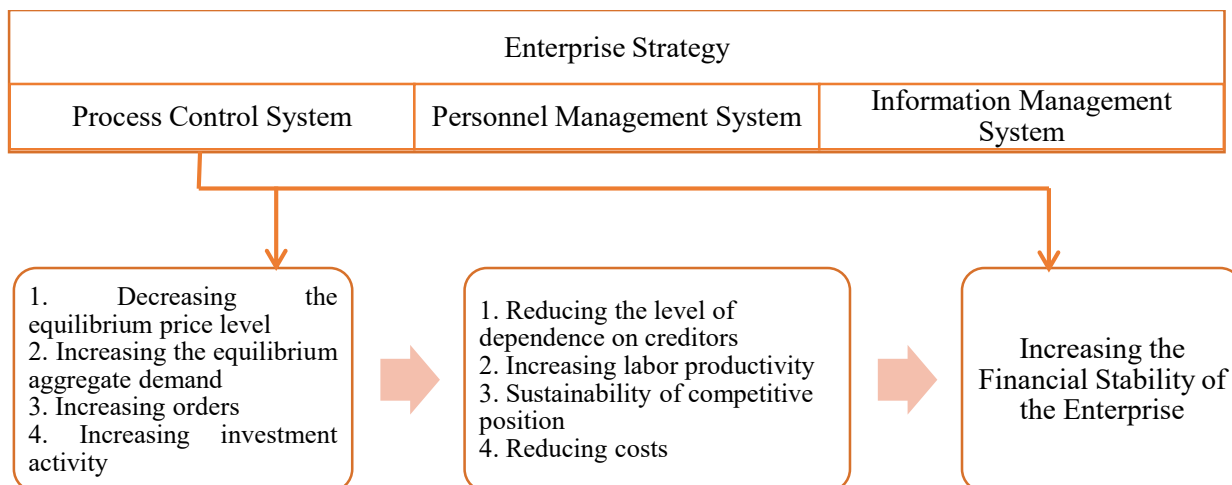


Figure 3. Model for increasing enterprise competitiveness

Source: developed by the author

It is worth noting that an increase in financial profitability can be obtained, under certain conditions, by increasing indebtedness. Contracting loans can determine an increase in the profitability of the capital invested by the owners in two ways:

- the gain achieved between the difference between the economic rate of return of the enterprise and the interest rate paid to creditors for the capital invested by them in the company;
- the tax savings obtained by the commercial company by deducting the interest expenses paid, implying a cost of borrowed resources lower than the interest rate related to the contracted loan.

Regarding the "deficiencies" of the financial profitability rate reflected by the capital used in the calculation, we specify - if the historical accounting cost is used, the capital used is undervalued; the undervaluation of capital and the overvaluation of profit, as cumulative effects of the historical accounting cost, lead to an overvaluation of the profitability rates.

Despite all the shortcomings noted, profitability rates remain basic indicators in characterizing the performance of enterprises. A systematic approach to the issue of profitability allows the correct positioning of the enterprise in the strategic system to which it belongs and, at the same time, the objective substantiation of the perspective orientations.

CONCLUSION

In conclusion to the above, we specify that one of the key objectives of any enterprise is to maximize positive financial results, expressed as the amount of profit obtained during the reporting period. The level of financial results has a direct impact on:

- the level of market stability of the enterprise;
- the motivational behaviour of potential investors;
- the rate of return on invested capital;
- the level of liquidity and solvency of the enterprise;
- opportunities for social development of the team, etc.

For any enterprise, obtaining a financial result means the recognition by society (market) of

the results of its activities or obtaining results from the sale of the enterprise's production in the form of goods, works or services.

Thus, financial performance is the main criterion for assessing the performance of most enterprises and is characterized by an increase in the volume of equity (net assets), the main source of which is profit from core activities, investments, financial activities, as well as as a result of other circumstances.

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