

ASSESSMENT OF FINANCIAL INDICATORS FOR EVALUATION OF BUSINESS PERFORMANCE

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The evaluation of small-companies performance includes financial and non-financial indicators of companies. The main source of information about financial indicators of business activities is the financial statements of a company; basing on them there is performed the evaluation of the company's business activities and financial status. The evaluation of small companies business performance and financial status have a significant role in making financial managerial decisions, as it help assessing the risks and potential benefits planning the perspective performance of the company.

Exploration and evaluation of the meaning of financial indicators, successful solution of business management problems can be reached by the development of a single financial indicators assessment system in the context of complex analysis of business performance. Despite the fact that in scientific literature the number of publications on this theme increases, the researchers have not arrived to a common view on the essence and composition of the financial performance indicators, as well as their measurement and assessment methods. The content of the article reveals various theoretical approaches to the understanding of the essence, classification of financial indicators and types of their measurement.

According to the official statistical data each day every fourth company faces the insolvency procedure. The data of the Latvian businessmen survey show that the owners of small enterprises need a definite system of financial indicators to manage efficiently the financial situation in the company.

The most characteristic feature of small enterprises is limited financial resources and difficulties in receiving them. Due to it this theme has become very topical in the context of borrowed capital, for example, getting bank loan.

In order to evaluate the creditworthiness of the borrower financial institutions usually use the data about the average indicators of the branch calculated by LR Central Statistical Bureau and LTD "Lursoft". Concerning financial indicators there are at least three aspects to be improved:

- *applied models of financial indicators used by the institutions mentioned above were developed more than 10 years ago and they are considered to be universal, they do not consider the size of the enterprise and the form of business organization;*
- *simple selection of financial ratios is the basis of these models with any logical interrelations;*
- *the most complex issue is the quality of information included into financial statements basing on which financial ratios are calculated; international standards are not taken into account and there is no information whether financial statements are drafted according to the international standards.*

The ratings of companies published basing on such information by financial ratios sometimes can mislead the users of financial statements taking into consideration the conditions mentioned above.

The aim of the paper is to make recommendations on the development of the financial indicators system on the basis of study and generalization of the scientific publications, and analysis of Latvian practice in the field of a company performance, which the owners of small enterprises in Latvia could successfully apply for evaluation of the company's financial position.

The offered system of financial indicators can be used in the future as a basis for developing a complex model for the evaluation of the financial status of small enterprises.

In order to reach the aim of the research the following tasks have been put forward: to investigate the essence of financial indicators and financial ratios, and to show their role in company performance; to provide critical evaluation of the approach to the evaluation of financial indicators used in Latvia to assess business performance; to develop recommendations for designing a financial indicators system for evaluation of a small company's business performance and its practical implementation.

The research is based on the analysis and evaluation of special literature and scientific publications on the financial indicators of business activities and their role in the evaluation of business performance. The following methods have been used in the research: logical analysis ad synthesis, content analysis and a monographic method.

The articles analyses and evaluates prior researches on the financial indicators of business performance, considered and systematized financial indicators for the evaluation of small companies' business performance.

The results of the give research could be useful not only for the owners of small enterprises in Latvia, but also for private and public institutions having access to financial information about companies performance in Latvia.

Keywords: *financial indicators system, business performance, evaluation*

Introduction

The financial indicators of companies and their volume taking into consideration their variety are the focus of interest for persons directly related to a company (managerial staff, owners, employees) and persons indirectly related to a company (potential and existing cooperation partners, creditors, mass media, etc.).

Exploration and evaluation of the meaning and role of financial indicators, successful solution of business management problems can be reached by the development of a single financial indicators assessment system in the context of complex analysis of business performance.

Many authors (Hafeez, 2002; Philips, Louvieris 2005; Craig, Moores, 2005; Lau, Sholihin, 2005; Fernandes et.al., 2006; Prieto, Revila, 2006; Wier et.al., 2007; Chen et.al., 2009; Cardinaels, van Veen-Dirks, 2010) have researched complex evaluation of business performance including a system of financial and non-financial indicators; however, there are problems to apply practically this system of indicators because there is no single approach the identification, classification, measuring and evaluation of non-financial and financial indicators.

The topic of the paper is insufficiently researched in Latvia, thus the authors of the paper have analysed and evaluated foreign researches on the financial indicators of business performance, assessed classifications of financial indicators, theoretically scanned the information databases in Latvia regarding the financial ratios used in companies as the most widespread category of financial indicators, analysed the main financial ratios of companies in general and by kinds of activities.

The research of the practice of financial analysis has identified a number of problems which have arisen due to the willingness of the user to get the answers to the following questions:

- is the financial information objective; can it be trusted;
- how many and what kind of users are necessary;
- how do I look like in comparison with competitors;
- is the given information useful.

The real situation shows that in many cases it is difficult for the financial analysts to give the answers to the questions of the users. In this concern the authors of the paper have determined the following groups of problems of practical application of the financial indicators:

- the quality of preparation of financial reports on the basis of which the financial indicators are calculated;
- the methodology problem during the development of the system of financial indicators corresponding to the environment of the company's activities;
- lack of adequate and objective database of average indicators of the industry, due to which it is difficult to objectively evaluate the company's financial position in the market;
- problem of interpretation of financial information according to the strategy and aims of company's development, due to which many entrepreneurs do not pay significant attention to the evaluation of business performance.

However, according to the official statistical data each day every fourth companies faces the insolvency procedure.

The data of the Latvian businessmen survey show that the owners of small enterprises need a definite system of financial indicators to manage efficiently the financial situation in the company (Kuzmina, 2012).

The mentioned above circumstances have determined the actuality of the theme of the research and have determined the research object and subject. Research **object**: financial indicators of business performance. Research **subject**: a system of financial indicators to be applied in small companies.

The aim of the paper is to make recommendations on the development of financial indicators system on the basis of study and generalization of the scientific publications, and analysis of Latvian practice in the field of a company performance, which the owners of small enterprises in Latvia could successfully apply for evaluation of the company's financial position.

In order to reach the aim of the research the following tasks have been put forward:

- to investigate the essence of financial indicators and financial ratios, and to show their role in company performance;
- to provide critical evaluation of the approach to the evaluation of financial indicators used in Latvia to assess business performance;
- to develop recommendations for designing a financial indicators system for evaluation of a small company's business performance and its practical implementation.

The following methods have been used in the research: logical analysis ad synthesis, content analysis and a monographic method.

Research methodology

The aim of the research and the formulated tasks has determined the logics of the structure of the paper and methodological basis of the research. In the first part of the paper the theoretical research is conducted which is based on the analysis and evaluation of special literature and scientific publications on the financial indicators of business activities and their role in the evaluation of business performance.

The result of the theoretical research is the comparative analysis of the system of key financial performance indicators in the interpretation of various researchers and critical evaluations of the authors of existing opinion system and different concepts of the nature and meaning of financial indicators.

Practical part of the research is built on the basis of the analysis of statistical information provided by "Lursoft Ltd." and Latvian Central Statistical Bureau, which are the biggest "information providers" in Latvia. The results of the research have identified different methodological approaches to the evaluation of financial indicators. Combining two approaches the authors have created a list of financial indicators and made the analysis of companies' activity financial indicators that allowed to get a general impression about the activities of all Latvian companies and to find out main tendencies for the 5 years period (table 6), as well as to evaluate the financial indicators of the most important fields of non-financial sector (table 7).

The results of the research allowed the authors of the paper to make recommendations on the development of the

system of evaluation of financial indicators in relation to small companies, which the owners of small companies in Latvia could successfully apply for evaluation of the company’s financial position.

Financial indicators as one of the main criteria for evaluation of business performance

Hopwood (Hopwood, 1972) believes that financial measures can lead to favourable subordinates’ behaviours because of the objectivity and the reduced uncertainty of such measures.

Kaplan and Atkinson (1998) consider two main reasons for the widespread use of financial performance measures. First financial performance measures, such as profit, articulate directly with the organization’s long-run objectives, which are almost always purely financial. Second, properly chosen financial performance measures provide an aggregate view of an organization’s performance. An aggregate financial performance measure, such as corporate or division profitability, is a summary measure of the success of the organization’s strategies and operating tactics.

Financial measures are considered “lagging” indicators in the sense that they are the results of other former actions mostly of quantitative nature (Cohen, et.al. 2008).

Kaplan and Norton (Harvard Business Review, 2008) have created balanced scorecard (BSC), where one of the groups of indicators is financial indicators. BSC method is widely used around the world to evaluate business performance. For example, opportunities to evaluate business performance of small and medium-sized enterprises using BSC are analysed in the companies of England (Sousa et al., 2006), organization of manufacturing companies performance (Fernandes et.al., 2006), evaluation of tourism business performance (Phipips, Louvieris 2005), strategic planning of family business (Craig, Moores, 2005).

Taking into consideration the aim of the research the authors of the article will analyse further in the research the financial indicators included into BSC System.

Figure 1 depicts the role of financial indicators in the improvement of company’s performance indicators and how an organization can improve its financial results and capacity having consecutive steps in a closed cycle.

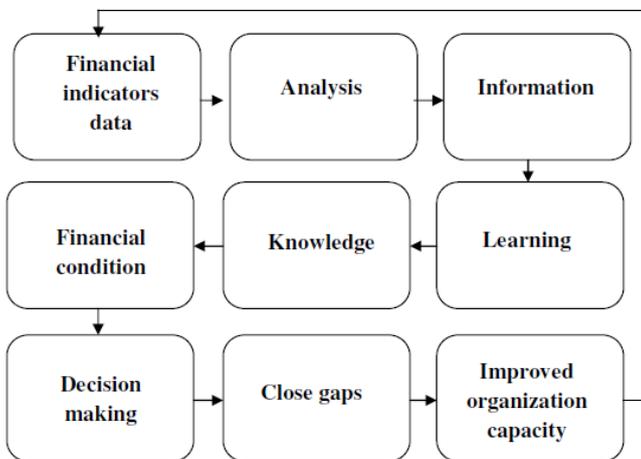


Figure 1. Use of financial indicators with continuous quality improvement to improve organizational capacity (Suarez, et al., 2011)

The analysis of financial indicators, getting additional information and knowledge about the financial status of an organization shall be used in making decisions, but elimination of drawbacks creates conditions for the improvement of the organization performance and its results can be evaluated by financial indicators. The authors of the article believe that this scheme can also be applied in the evaluation of business performance using the information of financial indicators.

Kaplan and Norton (Harvard Business Review, 2008) considered that BSC is not a pattern which refers to business in general or even within one branch. There are differences in the market situation, product strategies and competition requiring different BSC. BSC are adapted to the evaluation of companies’ performance, which correspond to the mission, strategy, technology and culture of specific companies. Table 1 provides summary of the main financial indicators using BSC financial perspective in the manufacturing, tourism, family business and fashion business.

Table 1. Key financial performance indicators 1 (summarized by the authors)

<i>Manufacturing</i> (Fernandes et al., 2006)	<i>Hotel sectors</i> (Phipips, Louvieris 2005)	<i>Family firms</i> (Craig, Moores, 2005)	<i>Fashion business</i> (Cardinaels et al., 2010)
Revenue growth Return on equity Unit cost Economic value addition EBIT	Gross operating profit Net operating profit Sales achieved Adhering to budget Meeting financial targets Achieving predicted room and occupancy rates Revenue per available room Cash flow	Revenue growth Productivity improvements	Sales margins (%) Sales growth per store ((%) Inventory turnover Percentage of sales from new stores (%)

The financial indicators summarized in Table 1 describe a different approach to offered indicators basing on the peculiarities of company’s activities. Along with the traditional financial indicators: revenue growth, return on equity and EBIT (Fernandes et.al., 2006); gross operating profit, net operating profit and sales achieved, etc. (Phipips, Louvieris 2005); sales margins and inventory turnover (Cardinaels et.al., 2010) and revenue growth (Craig, Moores, 2005) there are indicators describing: the peculiarities of a manufacturing company - unit cost and economic value addition (Fernandes et.al., 2006); a tourism company, for example, achieving predicted room and occupancy rates and revenue per available room (Phipips, Louvieris 2005); family business - productivity

improvements (Craig, Moores, 2005) and fashion business – sales growth per store and percentage of sales from new stores typical of a sales company (Cardinaels et.al., 2010).

Some authors have more detailed classification of indicators. For example, Craig and Moores (Craig, Moores, 2005) consider that financial indicators represent 2 interests: of business and families. For example, a business interest of revenue growth from the side of a family is to prepare for retiring generation, but a business interest productivity improvement from the side of a family is constant reinvention to keep future generations interested in joining the business. Financial indicators have 2 critical success factors: profitability (includes gross operating profit, net operating profit and sales achieved) and budgetary control (includes adhering to budget, revenue per available room etc.)

Within BSC method the financial performance indicators (Table 1) have specific volumes of indicators or aims to be reached, which the authors compare to the actual indicators (Cardinaels et al, 2010; Fernandes et.al., 2006). For example, to increase revenue by 10% within a year, etc. (Fernandes et.al., 2006).

A group of Greek scientists (Cohen, et.al., 2008) has researched interrelations of financial and non-financial indicators and concluded that the volume of financial indicators is determined by the influence of non-financial indicators: innovations and learning positively influence the results of the company’s internal performance, which, in their turn, influence the relations between the company and its clients and the quantitative indicator is company’s financial indicators (Figure 2).

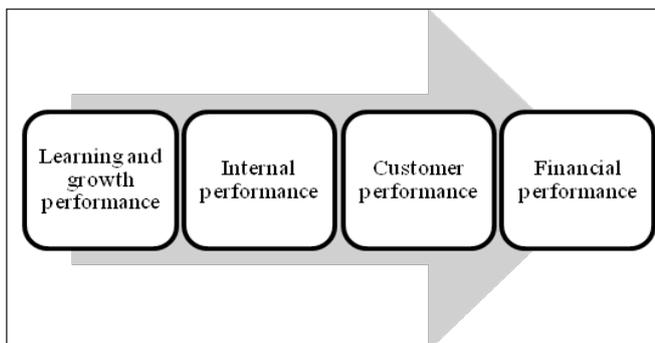


Figure 2. Cause-and-effect concept in BSC (Cohen, et. al., 2008)

As a result of the research a group of Greek scientists (Cohen, et.al., 2008) concluded that companies, which ROA and ROE have increased during 3 years, have invested more in innovations, modern technologies, cooperation of companies and information exchange in comparison with the companies, which ROA and ROE have decreased. It can be concluded that the non-financial performance indicators positively influence financial performance indicators.

In Table 2 financial performance indicators include such indicators as market share (Chen et.al., 2009) and sales growth (Prieto et.al., 2006), which are described by researchers’ opinions as the indicators of growth or competitiveness as it is seen in Table 3.

Table 2. Key financial performance indicators (summarized by the authors)

(Chen et.al., 2009).	(Prieto et.al., 2006)
Enhancing sales and profitability of firms	Return on assets
Profitable	Profitability
Profit and sales objectives	Improvement in work productivity
Market share	Improvement in production cost
	Sales growth

The authors of the article consider that such indicators as sales growth, market share and others, which are not directly related to the company’s financial performance, shall be distinguished from financial performance indicators.

Table 3. Dimensions of performance (summarized by the authors)

(Ahmad et.al., 2004)		(Zigan, Zeglat, 2010)	
Financial performance	Growth performance	Financial performance	Competitiveness
Operating profits	Sales growth rate	Profitability	Relative market share and position
Profits to sales ratio	Market share	Liquidity	Sales growth
Cash flow from operations		Capital structure	Measures of customer base
Return on investment			

Financial indicators are frequently expressed as financial ratios. Ratios are a strategic management tool that provides key stakeholders with a concise and systematic way to organize the voluminous data contained in financial statements (e.g. balance sheets, income statements, and statements of cash flows) into meaningful information. Financial ratios refer to the numerical or quantitative relationship between 2 items or variables. This relationship can be expressed in various terms such as percentages or fractions. (Suarez, et.al., 2011). Theoretically financial ratios are divided into 5 groups; however, in practice and especially as regards small companies there are used 4 groups of ratios.

- Activity ratios measure how efficiently a company performs day-to-day tasks such as the collection of receivables and management of inventory;
- Liquidity ratios measure the company’s ability to meet its short-term obligations;
- Solvency ratios measure a company’s ability to meet long-term obligations. Subsets of these ratios are also known as “leverage” and “long-term debt” ratios;
- Profitability ratios measure the company’s ability to generate profitable sales from its resources (assets);
- Valuation ratios measure the quantity of an asset or flow (e.g., earnings) associated with ownership of a specified claim (e.g., a share or ownership of the enterprise). (Thomas R. Robinson et.al, 2009)

Financial ratios differ by the purpose of their application (Table 4). For example, there are financial indicators as measurement criteria for elements of vision driven organizations (Michael H. McGivern, Steven J. Tvorik, 1998). The economic and financial indicators also include (Beuren, et.al., 2008) such specific indicators as the ratio of total liabilities to liquid assets (debt) and the ratio of immobilization of permanent capital; however, the authors analyse the stock exchange revenue by this indicator – basically large stock companies

Table 4. Application of financial ratios in the evaluation of company's performance
(summarized by the authors)

(Cohen, et.al.,2008)	(Michael H. McGivern, Steven J. Tvorik, 1998)	(Beuren, et.al., 2008)
Return on assets (ROA)	Return on assets (ROA)	<u>Indicators of indebtedness</u>
Return on equity (ROE)	Return on investment (ROI)	Debt
Inventory turnover (IT)	Return on sales (ROS)	Financial dependence
Debtors turnover (DT)	Return on invested capital (ROIC)	Immobilization of permanent capital
Sales margin (SM)	Altmans Z Score	<u>Indicators of liquidity</u>
Assets turnover (AT)		General liquidity
		Current liquidity
		<u>Evaluation of economic performance</u>
		Return on asset (ROA)
		Return on liquid asset (ROLA)

Summarizing this part of the research it can be concluded that financial indicators comprise one of the categories of BSC and are used in the evaluation of company's performance besides non-financial performance indicators.

Financial indicators and financial ratios applied in the analysis of financial performance on companies in Latvia and their analysis

LR information on companies can be found in the databases of two institutions: LR Central Statistical Bureau (CSB) and LTD "Lursoft". These databases have significant differences: LR CSB provides summarized information about companies in general or companies by branches, but LTD "Lursoft" gives an opportunity to evaluate the efficiency of potential cooperation partners, competitors and own company.

The database of LR CSB has summarized information about total financial indicators of companies and financial indicators of companies by types of activities according to NACE 2nd rev. The total financial indicators of companies include the positions of assets and liabilities as well as some indicators of the profit-loss account: net turnover, gross profit of loss and net profit or loss. The financial indicators of companies by types of activities include some positions of assets (total assets, long-term investments, fixed assets from long-term investments, current assets, stock from current assets) and liabilities (total

liabilities, equity, core capital in equity, savings and creditors) as well as some indicators of the profit and loss account: net turnover and net profit or loss. Financial ratios are not calculated and published for companies in general and also for companies by types of activities. By request (for a fee) CSB calculates financial ratios (Table 5) for companies in general and companies by the type of activities.

It shall be noted that using the database of LR CSB it is possible to calculate and make conclusions regarding total financial ratios of companies, but insufficient information limits the calculations of financial ratios regarding companies by types of activities.

In cooperation with LR Register of Companies the Lursoft Systems unite over 40 integrated databases; as regards financial indicators and financial ratios of companies LTD "Lursoft" offers the following analytical services for a fee: *comparison of companies* (it is possible to compare up to 4 companies and development trends of the chosen branch); *detailed company analysis* (rating, graphs, financial indicators); *branch financial ratios* and *financial analysis* (an opportunity to evaluate the indicators of company liquidity, activity, capital structure and return). Table 5 depicts the main financial ratios included in the financial analysis of companies done by LTD "Lursoft". The register of annual reports of LTD "Lursoft" provides the financial indicators of Latvian companies from balance sheets, cash flow statements and profit and loss accounts.

Table 5. The main financial ratios of performance evaluation used in the financial analysis of companies by LTD "Lursoft" and LR CSB
(summarized by the authors)

LTD "Lursoft"	LR CSB
Activity ratios	
Days of sales outstanding	Total assets turnover
Number of days of payables	
Days of inventory on hand	
Liquidity ratios	
Current ratio	
Quick ratio	Cash ratio
Solvency ratios	
Debt to equity ratio	
Equity ratio	Total debt ratio
	Short-term debt ratio)
Profitability ratios	
Gross margin ratio	
Return on assets (ROA)	
Return on equity (ROE)	
	Return on sales (ROS)
	Gross profit to Cost ratio

It can be seen in Table 5 that LTD "Lursoft" and CSB use a current ratio, a debt to equity ratio, gross margin ratio, return on assets (ROA) and return on equity (ROE) in the financial analysis of companies. The authors believe that the given databases to some extent have similar information. LTD "Lursoft" provides analysis of company performance; it can be compared to the performance of 4 similar companies and branch indicators. LR CSB offers the analysis of financial

indicators and financial ratios of companies by types of activities.

Basing on publicly available information of LR CSB and using the data of Table 5 about the calculated ratios of institutions the authors made calculations of total financial ratios of companies in 2006-2010. Financial ratios (Table 6) were chosen basing on the financial ratios offered by LTD “Lursoft” and LR CSB and taking into consideration the available information to calculate specific financial ratios.

Table 6. Financial ratios of companies in 2006–2010
(authors' calculations according to the information of the Central Statistical Bureau)

	2006	2007	2008	2009	2010
Activity ratios					
Total assets turnover	1,37	1,24	0,97	0,73	0,82
Days of sales outstanding	59,73	64,91	81,85	102,32	84,41
Days of inventory on hand	37,56	40,71	48,40	55,48	44,11
Liquidity ratios					
Current ratio	1,19	1,17	1,10	1,03	1,04
Quick ratio	0,81	0,79	0,77	0,75	0,77
Cash ratio	0,20	0,18	0,16	0,20	0,23
Solvency ratios					
Equity ratio	0,32	0,31	0,29	0,26	0,28
Total debt ratio	0,67	0,69	0,70	0,74	0,72
Debt to equity ratio	2,11	2,25	2,42	2,88	2,60
Short-term debt ratio	0,37	0,36	0,36	0,36	0,35
Profitability ratios					
Return on sales (ROS)	5,18	4,96	1,48	-2,96	-0,01
Return on asses (ROA)	7,07	6,14	1,43	-2,16	-0,01
Return on equity (ROE)	21,36	19,74	4,81	-7,89	-0,04

Analysing the performance indicators of companies it can be concluded that in the respective period the best indicators were observed in 2006 regarding total assets turnover (times), days of sales outstanding and days of inventory on hand. In further years the activity ratios deteriorated, reaching the highest negative indicators in 2009; however, in 2010 the efficiency of using total assets increased and the turnover of debtors and stock increased as well, e.g., the number of days decreased in comparison to 2009.

In the respective period there were not observed significant fluctuations of the company liquidity ratios. The works of foreign authors (Alexander et.al., 2009; Thomas R. Robinson et.al, 2009; Krishna G.Palepu et.al, 2010) do not indicate the norms of theoretical sufficiency for liquidity ratios, but according to norms of theoretical sufficiency for ratios accepted in Latvia (Rurāne, 2007) it can be concluded that the liquidity ratios of companies in general correspond to the norms of theoretical sufficiency.

The ratios of companies' financial independence (equity ratios) and financial dependence (total debt ratio) describe

their financial dependence on creditors or independence. The advisable limits of the financial independence coefficient are $0.5 < K < 0.5$, exceeding 0.5 indicates strengthening of financial independence from outsourcing. The normal value of the financial dependence coefficient is around 0.4 – 0.8 (Saksonova, 2009). Overall a greater number of creditors indicate higher financial risk and weak solvency (Thomas R. Robinson et.al, 2009).

The equity ratios in 2006-2010 were lower than 0.5, but the total debt ratios were above 0.5 in 2010. It can be concluded that in general in 2006-2010 companies were dependent on creditors; they had high financial risk and weak solvency.

The debt to equity ratio shows the degree the borrowed capital is involved in financing assets. A high level of this ratio indicates that companies borrow a lot. The critical limit of the ratio is equal to 1. The debt to equity ratios of companies in 2006-2010 (Table 6) prove that the total liabilities of companies more than twice exceeded the equity of companies and showed high financial risk.

The short-term debt ratio describes the part of liabilities in the total balance sum, which are needed to be paid off in the short-term. Comparing the total debt ratio with the short-term debt ratio it can be concluded that short-term liabilities comprise about 50% of the total liabilities, thus to some extent reducing financial risk and increasing solvency.

Overall the companies' solvency ratios in 2006-2010 demonstrate decreasing financial independence of companies, increasing financial dependence and increasing dependence on external creditors.

The profitability ratios of companies calculated as ratios to net turnover, average value of assets and equity in 2006-2008 decreased. In 2009-2010 mainly due to the world crisis companies suffered losses; however, in 2010 the amount of loss dropped and having the current tendency it can be forecasted that in 2011 the results should be positive.

The analysis of financial ratios of companies urges to have a detailed insight into the given financial ratios by the types of activities. The authors' interests are related to the evaluation of small companies performance, thus in the further research there will be analysed 3 branches of companies, where the number of operating small companies was the largest. In Latvia in the group of total economically active market sector statistical units – small enterprises, in the form of business – companies by types of activities in 2009-2010 the largest proportion was comprised by: wholesale and retail trade; car and bike repairs ($\approx 28\%$), manufacturing ($\approx 14\%$) and construction ($\approx 12\%$).

Analysing the companies' activity ratios by types of activities (Table 7) there is observed a similar tendency as in all companies – total assets turnover (times) in 2007-2009 in comparison to the previous year has reduced in all activities. In 2010 the – total assets turnover (times) in comparison to 2009 continued decreasing in construction; however, the total assets turnover (times) in wholesale and retail trade etc. and manufacturing increased in 2010 in comparison to 2009; it proves that the efficiency of all company's resources has increased regardless the sources of resources.

Table 7. Financial ratios of companies by types of activities in 2007–2010 (authors' calculations according to the information of the Central Statistical Bureau)

	2007	2008	2009	2010
Total assets turnover				
(C) Manufacturing	1,39	1,11	0,86	1,04
(F) Construction	1,34	0,88	0,56	0,52
(G) Wholesale and retail trade etc.	2,77	2,21	1,77	2,26
Days of inventory on hand				
(C) Manufacturing	48,65	57,88	66,68	52,12
(F) Construction	53,95	80,89	113,00	102,67
(G) Wholesale and retail trade etc.	42,68	51,30	58,75	43,73
Equity ratio				
(C) Manufacturing	0,35	0,31	0,28	0,30
(F) Construction	0,20	0,17	0,06	0,06
(G) Wholesale and retail trade etc.	0,21	0,20	0,15	0,17
Total debt ratio				
(C) Manufacturing	0,64	0,68	0,71	0,69
(F) Construction	0,79	0,82	0,93	0,94
(G) Wholesale and retail trade etc.	0,78	0,79	0,84	0,83
Debt to equity ratio				
(C) Manufacturing	1,81	2,19	2,49	2,31
(F) Construction	3,87	4,88	15,23	16,53
(G) Wholesale and retail trade etc.	3,70	3,98	5,48	5,01
Return on sales (ROS)				
(C) Manufacturing	3,59	0,07	-3,75	1,61
(F) Construction	5,52	0,27	-10,17	-7,00
(G) Wholesale and retail trade etc.	2,39	0,76	-2,36	0,21
Return on assets (ROA)				
(C) Manufacturing	4,99	0,08	-3,22	1,68
(F) Construction	7,41	0,24	-5,73	-3,65
(G) Wholesale and retail trade etc.	6,62	1,68	-4,18	0,47
Return on equity (ROE)				
(C) Manufacturing	13,80	0,23	-10,79	5,73
(F) Construction	36,45	1,29	-48,78	-61,92
(G) Wholesale and retail trade etc.	32,12	8,19	-23,42	2,97

The days of inventory on hand by types of activities indicate the trends in the days of inventory on hand in companies. In 2007-2009 in all researched branches (Table 7) the days of inventory on hand increased, but in 2010 there were observed positive changes - the days of inventory on hand reduced.

The equity ratios and the total debt ratios in companies by types of activities in 2007-2010 prove high financial risk due to the fact that total liabilities exceeded equity. The large proportion of borrowed capital was observed in construction having an increasing tendency in 2007-2009, which is intensified by the debt to equity ratios – in construction it was 16.53 in 2010. The equity ratio is lower in wholesale and

retail trade etc., but the total debt ratios is higher than in total in companies, which is intensified by the debt to equity ratio

5.01 in 2010 exceeding the total the debt to equity ratio of companies.

The profitability ratios of companies by types of activities show the tendencies in companies in general: in 2007-2008 all profitability ratios decreases in all researched companies by types of activities. In the respective period the fiscal year of 2009 brought losses in the researched types of activities, but 2010 in comparison to 2009 brought profit and wholesale and retail trade etc. and manufacturing were profitable except construction. 2010 brought loses in construction; despite the fact that in comparison to 2009 assets were used more efficiently in making profit and each unit of net turnover gave greater profit. In 2010 in comparison to 2009 in construction the return on equity (ROE) continued reducing.

Overall financial ratios of companies by types of activities in 2007-2010 correspond to the total development tendencies of financial ratios in companies: 2009 as a fiscal year had the worst financial ratios in the respective researched period, but in 2010 the situation improved, except construction.

Goodale's (Goodale, 2002) list of financial performance metrics causes interest as it indicates that every owner of a small business should understand and be able to apply (Table 8).

Table 8. Financial ratios used in small companies performance analysis (summarized by the authors)

	(Goodale, 2002)	Lursoft	CSB
Current ratio	+	+	+
Return on assets	+	+	+
Return on equity	+	+	+
Receivables turnover	+	+	
Debt ratio	+		+
Profit margin before income tax	+		+
Total liabilities to net worth (financial leverage)	+		
Chargeability	+		
Net multiplier	+		
Revenue factor	+		
Overhead rate	+		

Goodale's (Goodale, 2002) financial ratios for the evaluation of small companies' performance were compared by the authors to the financial ratios used in the analysis of companies' performance by LTD "Lursoft" and LR CSB. Table 8 lets conclude that 3 ratios: current ratio, return on assets and return on equity are common for all providers of analysis. The receivables turnover, debt ratio and profit margin before income tax is common in two cases out of three.

Last 4 Goodale's (Goodale, 2002) indicators refer to labour costs, which are not specified as regards small companies in Latvia.

Chargeability - expresses direct raw labour costs as a percentage of total raw labour costs, but net multiplier (net labour multiplier) – the ratio of net revenues to direct raw labour costs. Revenue factor can be calculated in two ways: by multiplying chargeability by the net multiplier or by dividing

net revenues by total raw labour. Overhead rate refers to general and administrative costs, indirect labour costs, payroll expenses, and bonuses – total direct labour costs (Goodale, 2002).

Evaluating the financial indicators and financial ratios used in the analysis of financial performance of companies in Latvia it shall be concluded that they provide a general insight into development opportunities and problems of a specific type of business activities. The authors believe that the financial indicators used in the analysis of financial performance of small companies in Latvia shall be supplemented by specific indicators of the respective branch.

Final Conclusions and Recommendations

The results of the research allowed the authors of the paper to formulate general conclusions and to make recommendations on the development of the effective system of financial indicators for evaluation of business performance and its application in the small companies. Moreover, the authors of the paper pay attention to the necessity of solving of the practical problems mentioned in the introduction part of the paper. The development and application in practice the system of evaluation of financial indicators – it is a two-way process, which always involves two parties: financial analyst and user. Therefore, the recommendations below are addressed to analysts and to the owners of the small enterprises.

1. It is necessary to remember that the objectivity of financial indicators is mainly dependent on the quality of prepared financial statements. During the calculation of financial indicators, first of all, the analyst should find out if the company has taken into consideration the international financial reporting standards (IFRS) in its preparation. If the company does not apply IFRS, it is suggested to prepare the list of additional questions in the form of tests, which should be addressed to the owner of small company in order to be sure that the financial information is objective.
2. The effectiveness of the system of financial indicators is determined by their content, which depends on the specifics of the industry and conditions of small companies' activities. The number of financial indicators should be optimal; all financial indicators should be correlated and correspond to each other. The financial indicators mentioned below could be taken as a basis for the given system:
 - Current ratio
 - Net working capital to Sales ratio
 - Debt to Equity
 - Financial cycle
 - Sales margin
 - Return to Equity
 - Maturing.

All offered indicators correspond to each other. The analysis of functional dependence and identification of the role of each indicator in the system of financial indicators could be the subject of further researches within the framework of developing the small companies' performance measuring and evaluation model in Latvia.

1. To ensure that small companies are able to evaluate their financial position in the Latvian market, the Central Statistical Bureau of Latvia should take care

about the creation of adequate database of average indicators for each industry and for small, medium and big companies separately.

2. The question whether the financial indicators will be useful for the user, of course, depends on the factors listed above, but not only. The significant meaning has an understanding of the role of financial analysis conducted by the owner of the small company as well as the fact determining how well the financial analyst knows the character and specifics of investigated company. Information will be useful for the user if it will be interpreted according to the strategy and aims of the investigated company. The given circumstance must be always taken into consideration of financial analyst while calculating financial indicators and preparing the analytical report.

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