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The analysis of the principal components of the financial reporting in the case of Romanian listed companies

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Abstract

Reported financial statements of listed companies aim to base decisions for all stakeholders. Most times, especially in emerging economies like that in Romania, the issue of harmonization of national reporting standards with international financial reporting to be ensured homogeneity and comparability of information reported is mandatory. When reporting in line with European Directives, the question of identifying the principal components of the financial statements reported by Romanian companies listed is a research problem. The purpose of this study is to identify the principal components of financial statements, in the case Romanian listed companies. Using a sample of Romanian listed companies, the study aims to identify the principal components of financial statements, for the period 2006-2011.

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1. Introduction

The dimensions of the Romanian financial market are reduced compared to other financial markets in the area – the share of the market capitalization in the GDP is amongst the lowest in the region: a World Bank Report (2013) offers the following data: 18.5% in 2009, 19.7% in 2010, 11.2% in 2011 and 8.3% in 2012 (after Poland, Hungary or the Czech Republic). Though, the functioning of the Romanian stock exchange and the financial regulation,

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reporting, auditing and analysis environments they develop are extremely important to the description of the Romanian business environment.

The information that stock exchange companies are obliged to allow the access to and the data regarding the share prices, the number of operations, the number and the evolution of the listed companies represent features that set Romania on the map of researches carried up upon the financial market, financial reporting, the impact of the accounting norms, the relevancy of the accounting information compared to the market data etc.

Within this context, our purpose is to identify principal financial reporting components of the Romanian listed firms on the Bucharest Stock Exchange (BSE), regarding the indicators that best feature their financial profile. In order to reach our purpose, we use a series of financial analysis specific techniques, as well as advanced statistical data processing methods. We will start from a series of indicators used in financial analysis, indicators that are to be grouped according to their importance for the identification of the principal components of financial reporting. In order to avoid the collinearity and the cyclicity, our analysis aims to eliminate the factors that have no significant impact, reaching several components that can be used in establishing some scores that describe the principal components of the financial reports.

In order to surpass the criticism of using just accounting information in company analysis, we have also withheld market capitalization at the closing time of the considered exercises. We will see that the indicators including market capitalization as well are significant and their usage contributes to the shaping of the company's financial profile. At the same time, we express our hope that, by developing a score that is to measure the financial components of the reports of the listed companies, some of the limits of the comparative analysis of various companies would be surpassed, with various activities, considering high global informative strength indicators.

The data we analyzed in this study for the BSE listed companies come from financial exercises prior to the mandatory implementation of the IFRS, including 2011. Starting from 2012, the data series has had a moment of interruption, considering the major estimated differences of the Romanian and international financial reporting standards.

The statistical analyses of the data that correspond to listed companies have generated numerous researches, many of which are situated in the positivist research trend, or in accounting/analysis/audit, or in enterprise financing, or in financial economy.

Hereinafter, our study will include: a literature review and the objectives of the research (section 2), the research methodology and the data analyzed (3), research results and discussions (4) and conclusions.

2. Literature review and hypothesis development

The analysis of the utility and quality of the financial informations by using economic and financial indicators represent the study subject of an extremely vast literature. It is shown that financial indicators are influenced by the rules applied in financial reporting. Garcia Jara et al. (2011) aim to identify this type of influence by grouping the influence factors such as to evaluate the quality of the accounting information and ease the financial analysis process carried out by various users. Lantto and Sahlström (2009) also limit themselves at a whole indicators series when analyzing the impact of the evolution of the Finnish norms to IFRS.

Triandafil et al. (2010) analyzes the macroeconomic impact on the Romanian listed companies' profitability, using data between 1997-2007; in order to evaluate the profitability, the indicators taken and used from the financial statements are the company liquidity, solvability and firm's dimension (together with macroeconomic variables). Triandafil et al. (2010) discover a significant influence of liquidity, solvability and dimension of the firm on profitability.

The principal component analysis is also used by Tudor (2009) that starts by using 16 variables which he groups in three new variables that explain 96,72% of the initial variability: analyzed data also comes from the Romanian listed companies, but the analysis is limited to a part of the financial exercise. The three new variables Tudor (2009) attains are a general efficiency indicator, an indicator correlated to companies' historical debts and a development indicator (given by the long term debts and the deferred incomes).

An analysis model proposal based on modern performance indicators is also given by Savin (2013), who limits himself to promoting the global result, also considering aspects regarding the social and environment performance.

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