Model of Enterprise Financial Performance Measurement in Uncertain Market Environment of Central Europe

Associate Professor, Eduard Hyránek[1]

Assistant Professor, Michal Grell[2]

Assistant Professor, Ladislav Nagy[3]

Doctoral Student, Ján Londák[4]

University of Economics in Bratislava, Faculty of Business Management, Department of Enterprise Finance
[1]eduard.hyranek@euba.sk/[2]grell@r15.roburnet.sk/[3]ladislav.nagy@euba.sk/[4]londak.jan@gmail.com

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Abstract

Currently, enterprises in continuing difficult conditions of the global economic and financial crisis, are trying to continually improve their competence on the market, maintain and achieve profits and maximize the enterprise market value. Therefore, they are looking for different ways to achieve these results by reduction, or elimination of business risk and then to measure its success. The world is at the time, when the information becomes an important tool in achieving these business objectives. In this paper, we present a newly-outlined model of measuring the financial performance of the enterprise. We construct complex synthetic indicator, which reflects the effect of comparative financial indicators of efficiency and difficulty. Calculated optimal intervals are verified on the financial results of selected enterprises and some are compared with the Altman Z-score. The paper aims to elucidate a creation and verification of the HGN model as model of enterprise financial performance measurement in uncertain market environment of Central Europe.

Keywords: *efficiency indicators, synthetic indicator, newly-outlined model, performance model, financial indicators*

1. Introduction

Recently, we encounter numerous methods and ways to measure enterprise performance. Connections and relationships between different methods are invisible on the first sight and are very complex. Methods focused on value creation are focused primarily on the financial performance and combine three main financial "characteristic features" of the company: produced operational cash flows, capital necessary for the generation of cash flows and cost on invested capital. Compared to the traditional indicators of profitability, as return on assets (ROA), return on equity (ROE), based on the core business, or economic activity, the return is valued in the context of capital costs and tries to avoid distortions in financial reporting. The main measure of success is the result of economization (profit/loss). It expresses the efficiency of the transformation of enterprise production factors (inputs) on company performance (outputs). Currently, there is a number of methods and approaches to the analysis of the financial performance of the company. Considering the main objective of business, they can be divided into two major groups - on approaches that would prefer to maximize profit (analysis of the financial performance using the classic indicators of profitability - ROE, ROA, ROI, etc.), and on (modern) approaches that favor increase of the market value of owners. Here we can include indicators, such as return on net assets (RONA) and gross assets (CROGA), cash flow return on investment (ROI CF), indicator EVA and its modifications and so on. These modern criteria for assessing of performance do not measure the successfulness of business by means of an accounting profit. Most of them have dynamic character (for example, CF ROI) and take into account the average cost of obtaining a binding external equity and interest-bearing loan capital of the company. In practice, often is used performance evaluation of enterprises using the scoring functions (Harumová, Janisová, 2014, 552).

2. Current Approaches of Measuring the Financial Performance of the Company

Specific methods for analysis of financial performance focus mainly on the identification and quantification of factors affecting the achieved level of profitability. We talk about the factor analysis of profitability. The aim of methods preferred