

INTERPRETATIONS RELATED TO THE DEVELOPMENT OF THE ECONOMIC AND FINANCIAL COMMUNICATION ON A GROUP LEVEL

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Abstract

The financial crisis that was triggered in July 2007 has had serious repercussions and negative consequences on the global economy, with severe effects that are still visible more than four years later and mainly consist in the inability of most countries to overcome this distressing situation.

Under such circumstances, financial markets worldwide have recorded high increases in the fluctuation of securities and stock indicators, an occurrence that has worsened lately due to the crisis that has wreaked havoc in the finances of European countries. Thus, economic systems have had to observe a series of criteria that represent both the lever and the fundamental rules of organisational behaviour. Only by meeting these criteria can a company establish potentially positive relationships with its partners.

The main objective of this paper is to emphasize and analyse the role and the importance of economic and financial communication in the new international framework, to create a common language between large, medium and small sized enterprises and thus ensure the free circulation of capital and workforce.

Another additional objective is to support the development and improvement of the economic and financial communication by designing a Balanced Scorecard model founded on five pillars and covering certain subject areas that are vital for the proper development of the main activities and for improving the company image, particularly when interacting with business partners.

Key word: *economic and financial communication; financial reporting; globalization; financial information; Balance Scorecard; indicators.*

Jel Classification: *M41, M19.*

I. INTRODUCTION

The subject of economic and financial communication has been highly debated in the international professional literature for quite a while and it has been approached from different perspectives, such as, for instance, from the standpoint of the line between the economic and financial information and communication on a company level, the information provided, the subject delivering this information, the direct and indirect users and the channels conveying this information.

The concept of communication has been linked to another traditional concept, i.e. that of the systemic unit of the entity, ever since the 1930's when Zappa (1929) suggested that basically "the company is a unitary system whose purpose is creating economic value".

Theoretically, communication is almost entirely related to the above mentioned definition of the company. Actually, it stands for the way in which the business entity manages to obtain and alleviate its own systemic unit and to create economic value through its endeavours in its relevant reference environment. The purpose of communication is, therefore, in complete agreement with the purpose of the company.

The multifunctional role of communication is established through observing the reality of the entity and noticing its very dynamic structure that all the while emphasizes the importance of communication.

Zappa (1956) writes about the concept of company and defines it between "systemic unit and dynamism", underlining the permanent need for companies to adjust to the economic reality they operate in. He further states that the company in its systemic unit aims at "meeting the human needs" and coordinates its activity by communicating with the external environment in order to identify and know those needs.

Penrose (1959) suggested that material or human resources are no longer the only decisive factors of production, but also the "services" these resources can provide, thus underlining the function and the fundamental role of intangible assets in organizing and managing companies.

If we abide by Penrose's theory that should no longer be questioned by anyone, all production factors should also be defined as intangible and some are highly visible (physical) while others are not characterized as such or, at least, are not inherently intangible.

The research conducted on the subject of “voluntary disclosure” and the studies related to the “positive accounting theory” have analysed the informational role of the economic and financial communication – with emphasis on financial – on the capital market, particularly focusing on the influence of capital market information on the *accounting and communication decisions*. The positive accounting theory has emerged from the empirical studies conducted at the end of the 1960’s. *Positive accounting* is an academic research branch in accounting that focuses on explaining and forecasting accounting practices. This stands in contrast with the accounting standards that particularly focus on obtaining and creating optimum accounting standards.

Gloser and Strauss (1967) have adopted the approach induced by the “grounded theory” and have created reference frameworks for interpreting the economic and financial communication phenomenon, particularly focusing on the various factors that interfere with this process.

This theory suggests a strategy for collecting, managing, organising and analysing qualitative data. Choi (1973) emphasises in one of his studies the importance of information when companies enter other capital markets, alongside the fact that companies need a specific quantity of information that will enable them to make a sensible decision related to accessing a new capital market. The author concludes that the access on a capital market definitely depends on the quantity of information available.

In this respect, Watts (1978) and Zimmerman (1986) have founded their thinking schools. Studies start from the assumption that managers possess more knowledge about external investors when estimating future output and suggest the fact that in the absence of perfect regulations and provisions, managers will try to find a balance in terms of accounting policies and disclosure, between the choices of disclosing the major information they possess to the market and managing communication from a contractual, political or corporate governance standpoint (Grosu, 2010).

Starting from the research conducted in the mid-80’s, when intangible assets are acknowledged as paramount for the success of a company, the entity will no longer be an organised system that acquires “inputs” but also processes and transfers them on the market with an certain level of inherent added value.

Intangible assets (or the soft factors) as defined by Grosu et al. (2011) and developed by Vicari (1990), Corvi (2000), Mates et al., (2008), are broadly defined as information based facilities of the company. Information or, more specifically, knowledge has always been the main resource for the production activity. The past few years have also brought about changes in the importance of intangible assets in the complex patrimony of the company (Grosu et al., 2011).

Under normal circumstances of market evolution (with increased selectivity and competition), the competitive advantage doesn’t rely much on the financial and organisational abilities or on commercial strategies: they should be replaced by the specific abilities and strategies that allow the company to develop distinct competencies. These specific competencies have undoubtedly been assigned the task of restoring that part of the organisational “tissue” that was considered irrational, intuitive and informal, all the while emphasizing the fact that the management ability becomes a distinctive ability of the company.

We have gradually become aware of the role played by communication and of the need to relate it to the company, all along acknowledging the fact that these two aspects must be analysed from an integrated approach. Therefore, the concept of communication is much broader than the economic and financial communication and due attention must be paid to institutional, commercial, managerial and environmental communication as well. The economic and financial information has long been the focal point of communication (we can mention here the role played by the annual financial statements), and still stands at the core of communication (Bostan and Grosu, 2010).

Several studies related to the disclosure theory have analysed the reasons and the consequences of the information revealed by a company on the market, by taking into account the communication provided through the annual financial statements or through other specific accounting instruments (such as the trial balances).

II. THE CHARACTERISTICS OF THE ECONOMIC AND FINANCIAL COMMUNICATION AS SET BY FINANCIAL MARKETS

The economic and financial information plays a fundamental role in the relationship created between the entity and its stakeholders who bring in loan capital and venture capital. The full disclosure towards investors allows them to measure the risk related to the invested funds and, consequently, favours the capital flow and reduces the risks. On the contrary, if the company withholds the information on the real economic and financial state of the entity, uncertainty arises in the financing operation (Stiglitz et al., 1981).

Ludholm and Van Winkle (2006) argue that the specific moment chosen for communication is the main decision made by the company as far as voluntary communication is concerned and, in other words, the company cannot choose whether it wants to communicate, as this is mandatory (obligatory disclosure), but when it wants to communicate, since the relevant accounting information is already available on the market.

According to one of the most common definitions quoted in professional literature, readability is the sum total of all the elements (and their interactions) of a printed text that determine the extent to which the readers of a text can understand it at an optimal reading speed and find it interesting.

From a theoretical standpoint, this concept has been widely debated, since the assessment of the message readability and ease of understanding is conducted based on textual difficulty (Jones et al., 1994) and by means of certain formulae (such as the Flesh reading ease formula) that process the language variables occurring in a written text with the aim of establishing an index that would calculate the readability score.

These findings suggest that the management should not be indifferent when presenting the data in the narrative sections of the annual financial statements (as confirmed by a study conducted on the accuracy of the balance sheet annexes (the footnotes of the annual financial statements) that have revealed the increased difficulty in understanding the footnotes that include unfavourable information related to a company (Marston, 1974). This leads to the conclusion that a more readable and understandable presentation of the positive information is part of the managements' increased readiness to conduct assessments of the information disclosed and to encode the data so as to present a favourable image of the company in agreement with the evidence found, along with the manipulation of the data included in the balance sheet (Jones, 1994).

This topic has been debated in studies related to impression management – understood as a process in which people attempt to influence the perceptions of other people about them (Syddserff et al., 2002).

As concerns the use of graphs in the annual financial statements, a comparative study (Beattie et al., 1997), conducted on a sample of large American and British companies, has noted a wide use of these visual communication means (used in a percentage on 92% and 80% respectively) and mainly depicting data (accounting figures) related to sales, output, shares available for sale and data related to share dividends respectively.

This relationship highly depends upon overcoming the information asymmetry issue that arises when the company departments help entities access the internal information system, and those who need adequate information in order to make investment decisions can only access the information conveyed by the outside administrators (Mateş et al., 2010).

Information asymmetry alters the conditions that define the relationship established between parties, due to the following (Mateş et al., 2010):

- the investors must assume decisions under major uncertainty since they do not possess all the information the other party possesses (the Anglo-Saxon literature calls this phenomenon the “adverse selection problem”);
- the management that holds major information may use it inadequately, in order to meet their own personal needs (the Anglo-Saxon literature calls this phenomenon the “moral hazard problem”).

Moreover, the efficiency of the accounting information enclosed in the message relies in the correct and coordinated use of various languages with the aim of fully disclosing the information to the beneficiary. The diversity of the latter entails the use of various codes in different situations, means to augment the impact of communication. Coherence must also be observed, so that these codes will not lead to *contrasting* or *interpretable* information (Binda, 2008).

The production of information cannot be nonexistent, since the company always needs adequate information flows in order to govern and develop its own decision-making process (the planning and control activity), and communication is actually “a management efficiency assumption that is conveniently associated with the corporate governance processes” (Salvioni, 1999).

III. ASPECTS OF THE COMMUNICATION PROCESS ON A CORPORATE LEVEL

The simplest classification of the communication process of all companies consists in two major areas: external communication and internal communication.

The distinction is made depending on the location and position of the company and on its publics: internal communication is mainly directed at the internal users (employees or all those who are hierarchically arranged in a company) and it influences – by directing and conditioning – their behaviour and decision making processes.

The main end of communication is to develop the coherence of the various elements of the company, alongside the behaviour and actions of the internal users who are, in turn, concerned with the common objectives of the company.

The second type of corporate communication, i.e. the external one, addresses the environment located outside the company but in which the company operates: the market of intermediary and final customers, suppliers, public institutions, the labour market, the financial market, investors and providers of capital in general. When dealing with the external environment, communication is very similar to the one deployed internally. It, too, is concerned with reinstating the good relationship of the company with the environment, as well as integrating the company on various reference environments, creating cohesion and making its activity visible and transparent on various markets. The difference between internal and external communication that must be theoretically clear and readily understood, should be regarded as a first attempt to identify the areas of communication. The moment it is applied to the present reality of the company it may impose certain limitations (since it does not allow for the analysis of all different elements of communication) and may be misleading, especially for the users who are located in the middle, between the inside and the outside of the company.

The links between the two types of communication (external and internal) derive from the direct and indirect relationships between various users and can be summarized as follows (Corvi, 2000):

a) *direct communications (internal and external)* that do not overlap, use different instruments and therefore do not raise the integration issue. These flows, as mentioned before, tend to be less present in the communication activity of the corporation.

b) *external communications with the explicit intermediation of internal individuals*: these are communications addressed to the personnel that is almost always in contact with clients and suppliers. These are internal communications due to the nature of the immediate receiver. The company actually intends to reach the external public in this case and the immediate receiver plays an instrumental role and certainly becomes a “channel” of the external corporate communication; this method is frequently used in continuative external relationships of high complexity.

c) *the behaviour and attitude of the internal staff in contact with external users*: while in the b) case above the type of communication performed by front-line personnel is of an explicit nature, the present situation is of an implicit nature, mainly based on the behaviour and attitude of the personnel in relation to the external environment; implicit intermediation is very difficult to control and direct by the company, as it is concerned with the area of unique personality types that manifest themselves outside the workplace and the only possible information can be obtained by reinforcing the individuals’ feeling of belonging and correlation with the activity of the company.

d) *transversal communications*: here one should take into account the effects (positive or negative) of external communication on internal users. In positive terms, one should think of such effects as press releases, advertising campaigns, sponsorships brought in by employees and consolidating the feeling of belonging. On the other hand, there are negative consequences on the motivations of the personnel and on the corporate environment in general, on the messages sent to the outside and not assessed by real employees or do not reveal the real state of the company.

The distinction between internal and external communication (also based on the communication process target) is not very coherent with the corporate operational logic. Therefore, it is necessary to identify new categories, not particularly focusing on the target but on the distinctive elements of each corporation: its objectives and its contents.

As far as objectives are concerned, mention must be made that the common objective of all corporate communication activities, leaving aside the reference target and the contents, is the development of optimal relationships with the stakeholders. The special objectives can be met, but each case underlines secondary objectives, subordinated to the ones mentioned above (Mateş et al., 2008).

The specific character of the objectives must actually focus on reaching a general output that has previously been described and defined in terms of restoring order (internally and/or externally) as well as on improving the relationship of the company with its stakeholders. The company actually focuses on the specific objectives (notoriety, product reliability, solvency, strategic credibility, feeling of belonging, etc) in its relationships with each group of stakeholders, specific targets that can be included in a general objective such as improving relationships which is also an instrument used in the process of creating value.

The limited effectiveness of the criteria that separates the types of communication based on the reference target and specific objectives will also lead to the reinforcement of the contents as differentiating elements that can also help identify various types (areas) of communication. If communication is generally accepted as the main vector of the relationships that “bind” the company to its environment in a systematic and unitary way, each area of communication conveys and creates business value as it improves the relationships of the company. Each type of communication conveys an objective *intrinsic value* and creates the perceived value (reliability, image) that in turn favours the creation of objective business value.

The correct employment of the communication processes allows for a complete visibility, value and subsequent creation of business value. If communication is mismanaged, the corporation may damage its own intrinsic value, as the market will perceive it as having a level value of lower intensity than the objective business value.

As far as communication is concerned, our objective is to further analyse economic and financial communication and, therefore, the following pages will focus on the aspects that define economic and financial communication. *The economic and financial communication not only conveys the intrinsic value, but also creates business value.* In this case, value creation is closely related to the communication ability and to the enhanced relationships with the internal and external corporate environment. Economic and financial communication has long been considered as a *fiscal and legislative obligation* that must be fulfilled based on the confidentiality principle or by adopting a minimum transparency policy.

Nevertheless, the importance of economic and financial communication has increased in recent years and has become a fundamental prerequisite for the survival and sustainability of the corporation itself. The correct information on the contents and outcomes of the economic activity is nowadays of paramount importance in order to gain the trust of financial backers either from the inside (shareholders, employees, management) or from the outside of the company (investors, financial institutions, suppliers). In this case, the value created by the

economic and financial communication can be summarized in one phrase: *credibility of the patrimonial and financial performance* (Corvi, 2000; Grosu and Socoliuc, 2008).

The trust – image – knowledge relationships are concepts observed by all companies and all types of communication as common and with the power to influence the contents of the short term objectives of each branch of communication. The reference target may differ, but each branch of communication is directed at improving the relationships the company establishes with the environment (or with parts of it) in order to survive and grow by enhancing the value of its own business capital.

In terms of contents diversity, all four types of communication must be managed by emphasizing and focusing on the coherence of each activity performed by the corporation, the highest objective consisting in the desire to improve relationships with the stakeholders and subsequently create value (Bostan, Burciu and Grosu, 2010).

The coherence concept immediately makes one think of the need for the communication activities developed within a decision making system to guarantee adequate levels of integration.

In today’s modern companies, one can speak of *integrated communication*, a company must reach through the optimal functioning of all four levels of communication that derive from the adequate development of activities and lead to optimal coordination and high integration of the various communication initiatives.

On the other hand, we must emphasize the fact that there is no unique reference model that can identify the best bi-univocal correspondences (types of communication – management positions) and one cannot generally define the aspects that must be developed by a management, coordination and integration position, how strong and focused should coordination be or how much freedom should each position be granted in the decision making process.

In brief, one cannot provide an a priori and general definition of the intensity and integration degree of corporate communication. Communication and the subsequent integration needs are highly dependent on the characteristics of each company, either in terms of structure or of the most relevant aspects of the reference environment and especially of the sector the company operates in.

This means that each generalisation is not necessarily determined by an ambiguous definition, but can also lead to decisions that may prove to be inadequate.

IV. IMPROVING THE ECONOMIC AND FINANCIAL COMMUNICATION BY DESIGNING A BSC MODEL AT THE ROYDIS S.A. GROUP.

The second part of the paper will focus on the design of a BSC model based on the data provided by the Roydis Group and provided by the strategic plan established by the company every three years. The very brief presentation of the group and of the upper structure of the financial statement will be followed by an analysis of the main areas of interest the BSC model can be built on.

In this respect we will illustrate the upper part of the financial statement (the group of 1st and 2nd level indicators). This group of indicators relies on the BSC practices that are divided into 4 plus 1 areas:

- A. financial perspective
- B. customer perspective
- C. internal perspective
- D. social responsibility
- E. risk perspective

A more detailed explanation of these indicators can be viewed in table 1.

Table no. 1 - The main BSC areas at Roydis

Financial perspective	Turnover; EBIT; retained earnings before taxation; net assets
Customer perspective	Customer satisfaction (depending on the value of goodwill and of the trademarks with indefinite life cycle: consumers and business units)
Internal perspective	Total number of employees
Risk perspective	Financial and operational risks
Social responsibility	Corporation tax and social security contributions

A) The economic and financial perspective

The economic objective of these indicators consists in increasing the basic economic activities of the Roydis Group.

This perspective lists the indicators that mirror the economic and financial output that is also available from the quarterly or annual financial statements of the Roydis group. The most relevant of these indicators are: the turnover; the earnings before interest and taxes; the retained earnings before taxation; the net assets.

1. Turnover

The turnover summarizes all the earnings from transactions: sale of goods, provision of services, deposits at banks and financial institutions, provision of loans, Stock Exchange operations.

In the financial and accounting language, the turnover is also known as “sales” or “gross revenue”. This indicator measures the economic performance of companies and is used as a criterion in classifying companies according to their economic performance.

Since the net turnover doesn't take into account the foreign exchange rate under a consistent consolidated perimeter and without the Venezuelan inflation accounting effects, it amounts to € 3 878,1 million, increasing by € 22,6 million (+ 0,6%) as opposed to € 3 855,5 million in N+2 financial year. The ascending trend of the turnover is mainly due to the prices operated in a few countries in compliance with an economic policy that had been established in the previous year and is mainly loss recovery oriented.

2) *The Earnings Before Interests and Taxes (or EBIT)*

Several alternative performance indicators that should not substitute the conventional IAS/IFRS standards have been introduced in the management report alongside the traditional indicators in order to enable a better assessment of the economic and financial management of the group and of the parent company for the financial statements issued during N-2 financial year and N+4 financial year. The alternative performance indicators are organised as follows:

EBITDA: this “financial target” indicator used in the internal reports (business plans) and in the external ones (analysts and investors) is a useful margin unit for the assessment of the economic performance of the group (in its complexity but also on a business unit and parent company level, alongside EBIT). These indicators are established as follows:

<p>method*</p>	<ul style="list-style-type: none"> - retained earnings before taxation derived from circulating assets + financial expenses - financial revenue +/- earnings retained after participating in associated enterprises and common control, assessed according to the net share capital
	<ul style="list-style-type: none"> - <i>EBIT – Earnings</i> +/- Depreciation of fixed assets +/- increase/decrease in value from the concession of fixed assets + Amortization - <i>EBITDA – earnings before amortization</i>, increase/decrease in value and depreciation of fixed assets
	<p>* available on a group level only</p>

The organic variation of the total retained earnings, of EBITDA and EBIT, fluctuates in absolute size and/or (relative) percentage and excluding, if case may be, the effects of the variation of the consolidated perimeter, the differences in the exchange rate and the non-organic components consisting in unsolicited elements and in other non-organic revenues/expenses.

The Roydis group believes that the presentation of this additional information enables the more efficient interpretation of the economic performance of the company (both in its complexity and in reference to the Business Unit and to the parent company).

Gross Earnings

Apart from the exchange rate differences and under the circumstances of a consistent consolidated perimeter and without the national inflation accounting effects, they amount to € 374,3 million, increasing by € 61,9 million (+19,8%) as opposed to € 312,4 million in N+2 financial year.

The group is still facing strong competitive pressure from private companies, but there is a notable increase in productivity due to the increased prices and the value of the granted discounts as established in the previous year and still in force in N+3 financial year, well above the ones accrued during the current year, probably as a result of the savings made in the purchase of raw material (i.e. milk) in almost all the countries Roydis operates in.

These benefits have been partly absorbed in the increased operating costs and their structure and amounting to approximately €43 million, of which €20 million for Venezuelan subsidiary as a result of inflation and about €20 million for the increased marketing costs.

Net operating profit

The net operating profit amounts to € 666,8 million, down by € 738, 8 million in N+2 financial year. The operating profit is significantly influenced both by the gross operating margin (€ 367,8 million), provisions for litigation of € 441,8 million (€ 668,4 million in N+2 financial year). The amortization and depreciation of fixed assets increase to € 117,3 million (€ 231,1 million in N+2 financial year, of which € 111 million for impairment test).

The profit of the company amounts to € 519 million, diminished as compared to €673,1 million. This decrease also requires some minor transition expenses incurred during the accounting period and to higher taxes calculated for the share capital. The value for these indicators can be seen in Table 2.

Table no.2 The main economic and financial data - million € -

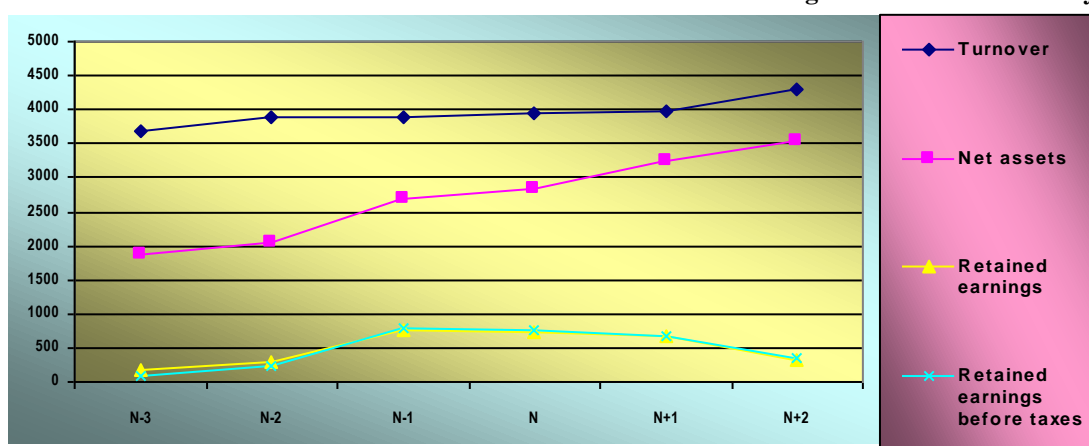
	The main economic and financial data	N-3	N-2	N-1	N	N+1	N+2
1	Turnover	3.680,98	3.881,4	3.894,8	3.940,0	3.964,8	4.301,0
2	Net assets	1.877,7	2.051,7	2.685,3	2.842,1	3.256,8	3.531,8
3	Retained earnings	174,1	299,5	767,9	738,8	666,8	334,2
4	Retained earnings before taxes	102,3	229,7	779,9	757,7	666,4	341,2

3) *Retained earnings before taxes*

The profit before tax is calculated as the difference between the revenue earned from any source and the expenses incurred during the activities, throughout a fiscal year, followed by the deduction of the non-operating income plus net interest expenses. When calculating the earnings after taxes, other elements similar to revenues and expenses are also taken into account, according to the accounting standards.

4) *The net assets* are defined as the value of the assets of the firm after subtracting all liabilities. An evolution of these indicators in the reference period can be seen in Chart 1.

Figure no. 1 - The fluctuation of the main economic and financial data during N-3 and N+2 financial year



Source: The figure developed by the authors on the information concerning the company tax at the Roydis Group.

B) Customer perspective

The economic objective of this indicator is increasing the satisfaction of the two types of customers of the Roydis Group

The Roydis Group favour the idea of several stakeholders and defines sustainability as “the path towards the highest possible balance among stakeholder interests”.

The part of the financial statement that is dedicated to sustainability, as well as the sustainability plan, focuses on the stakeholders. The principles of “stakeholder engagement” differ depending on the stakeholders under consideration.

The role played by the stakeholders in the decision making process of the group is probably one of the defining characteristics of an accountable company and is part of the sustainability strategy drafted by the group.

As far as customers are concerned, one of the most important category of stakeholders, mention must be made of the collaboration with the Consumer Association that sometimes requires the direct involvement of the management and organizes meetings whose main purpose is to guarantee the protection of the customers’ rights in relation to the goods and services supplied by the Roydis Group. Moreover, the management also discloses information on the changes in the organisation that may have an impact on its customers. The position of the indicator can be seen in Table 3.

Table no. 3 - Customer satisfaction at the Roydis Group during N-3 and N+2 financial year- million € -

NR. CRT.	Intangible assets	N-3	N-2	N-1	N	N+1	N+2
1	Goodwill	562,6	543,8	539,9	425,1	1900,1	2073,6
2	Trademarks with indefinite useful life	787,1	642,1	612,1	518,2	561,3	613,0

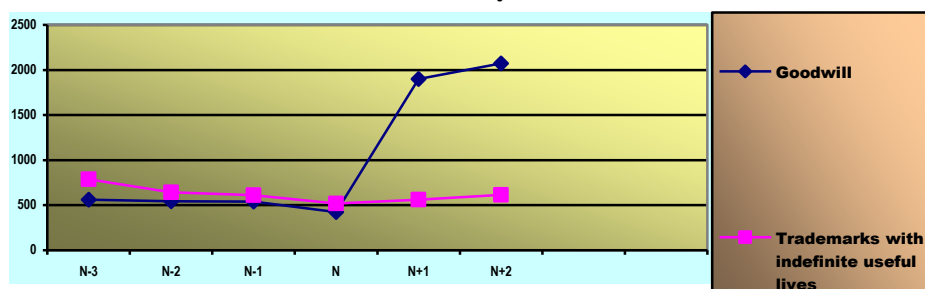
1) Goodwill

The recovery of the so-called intangible assets has been inspected on December 31st N-2, with specific focus on the value of the purchased business entities (cash generating units per geographical area). The inspection was conducted by an expert advisor.

The market value has been calculated by means of the product method (multiplying) for similar or available transactions, depending on the result of the examination.

In contrast, the value in use has been calculated by updating the future cash flows that have been recorded in the tri-annual strategic plans drafted by the group manager. An evolution of this indicator can be seen in Chart 2.

Figure no. 2 - Fluctuation of goodwill and trademarks with indefinite useful lives during N-3 and N+2 financial year



Source: The figure developed by the authors on the information concerning the company tax at the Roydis Group.

Goodwill amounted to € 539,9 million in N-1 financial year. The value was supported by the inclusion in the consolidated statement and makes reference to the purchase of the entire equity capital of Quantum Distribution Services Ltd, for a total price of \$ 8,7 million Australian dollars.

In order to assess the fair value of the acquired assets and liabilities for the 12 months following the purchase, the business combination was accounted by using provisional values, according to IFRS 3. The value of €1,7 million is the difference between the price paid and the value of the purchased assets, initially assigned to goodwill. The exit from the consolidated area of €1,7 million refers to the exit of the Spanish company during the accounting period.

The Roydis group inspects the recovery of goodwill at least once a year or even more often if any losses in value may occur (depreciation of goodwill).

In order to assess the impairment test, goodwill has been allocated to the original cash generating units which have been identified for each geographical area based on the group strategies and decisions, in compliance with the consolidation provisions that cannot exceed the economic area defined by standards IAS 14. The period that had not been included in the group’s Strategic business plan, the assessment has been conducted by Fermin and the amounts identified as operating cash flow have been adjusted in order to maintain the normal economic performance, by taking into account a growth ratio ranging between 0,5% and 1%.

Trademarks with indefinite useful lives

The balance sheet notion defined as “trademarks with indefinite useful lives” has undergone various changes throughout the period taken into consideration.

The group measures the recovery rate of the trademarks with indefinite useful lives at least once a year or even more often if any losses in value have been identified. The recovery value of trademarks with indefinite useful lives is measured in relation to the value in use through the relief from royalties method.

The selection of the *relief from royalties* method of valuation is in agreement with the increasingly widespread tendency to calculate the value of trademarks in close relation to their contribution to the economic output of the group. The most recent market research studies have revealed that the trademark is included among the most significant elements in the purchase of foodstuff. This method consists in updating the royalty markets that have been avoided by the brand owner, as he/she had the right to use it. *The royalty is defined as a percentage from the turnover before taxation.*

The forecasts related to the turnover from the three-year Strategic Plan of the group have been calculated for each brand in order to determine the royalty flows. The time interval that hadn’t been included in the Strategic Plan was assigned a *terminal value* that was calculated as a royalty flow and was rectified in order to maintain normal operating conditions for the economic activities, with an estimated growth rate ranging between 1% and 2%.

In order to determine the royalty rate that would apply to the turnover, reference was made to the research studies conducted in research institutes by professionals as well as to the analyses made as part of the license contracts in the food industry. Since individual brands have distinct characteristics in relation to the

product/market relationship, qualitative characteristics were also taken into account (i.e. geographical location, competitiveness, notoriety, loyalty and quality), as well as quantitative features (relative profitability). Based on these elements, each brand was assigned a variable royalty rate ranging between 2,5% and 3%. The update rate mirrors the current valuations on the market, particularly those related to the currency cost in relation to the risks faced by each cash generating unit. Depending on the amount of taxation, these rates vary between 7% and 8%.

Based on these examinations, the recovered value of trademarks with indefinite useful lives is below the book value of the trademark Portugal that has had a depreciation rate of € 3,9 million. This depreciation is mainly caused by the fact that the main competitor’s benefit has lost its market share and its private label.

C. Internal perspective

The economic objective of this indicator is to increase the turnover and the added value of the Roydis group as a safety margin for internal stakeholders

The human resource

The activities developed in the “no core” countries of the Economic Plan have undergone a process of cessation in N-2 financial year, whereas the structural reorganisation and consolidation activities included in the Restructuring Plan of the group have been emphasized.

The cessation in N-2 year of the activities defined as “no core” in the group’s business plan mainly involved the Spanish subsidiaries. Two units were shut down in Spain in September N-2 year thus diminishing the personnel by 200 individuals, while a similar thing happened in an Italian subsidiary exited the group during the second half of August.

The value of these indicators can be seen in Table 4.

Table no.4 - Human resources - total number of employees

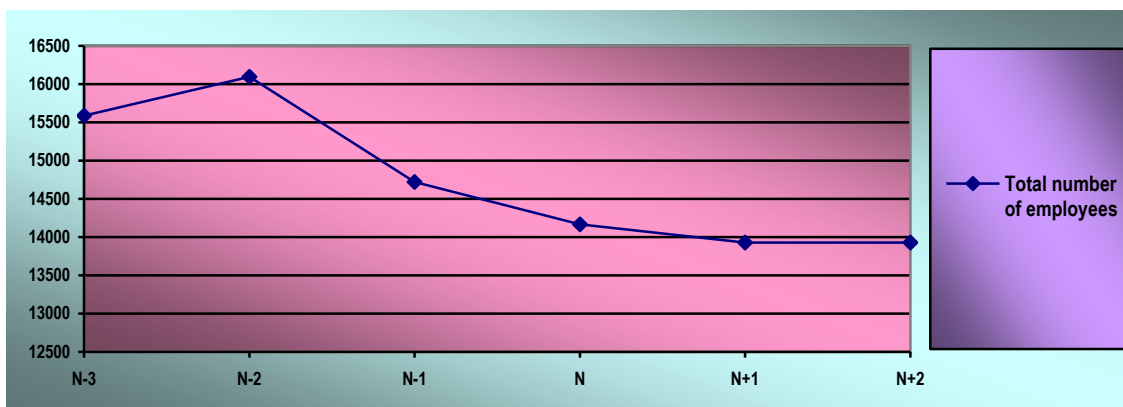
Human resources	N-3	N-2	N-1	N	N+1	N+2
Human resources – total number of employees *	15.587	16.095	14.721	14.168	13.788	13.930

* the total also includes temporary employees: 1638 on 31.12.N-2 year; 1406 on 31.12.N-3 financial year

This personnel cutback was compensated throughout N-2 year in the changes occurring in the consolidated perimeter that allowed 620 personnel units – that did not exist on December 31st N-3 financial year – to be transferred to the group.

The personnel increase in North America (Roydis Doiny and Roydis Inc.) as compared to December 31stN-3 financial year was mainly due to seasonal and part-time contracts. An evolution of this indicator can be seen in Chart 3.

Figure no. 3 -The fluctuation of the personnel employed during N-3 and N+2 financial year



Source: The figure developed by the authors on the information concerning the company tax at the Roydis Group

According to IAS 14, sector related information is provided at the end of the accounting period, in opposition with the previous accounting period. The geographical distribution matches the management structure of the group and influences both the economic and the patrimonial data (patrimonial expenses coincide with the ones recorded at the end of the accounting period).

D. Social responsibility

The objective of this indicator is to contribute to the development of the local community and to the development of the state budget.

Social contribution

The increased overheads (with personnel, etc) are mainly due to the depreciation of the Euro to the national currencies of the most important reference states and is also caused by the consolidation for a 12 month period of the Australian assets purchased in N+1 financial year and the indexing of the salaries paid in these countries.

The value for these indicators can be seen in Table 5.

Table no. 5 - Corporation tax and social contributions- million € -

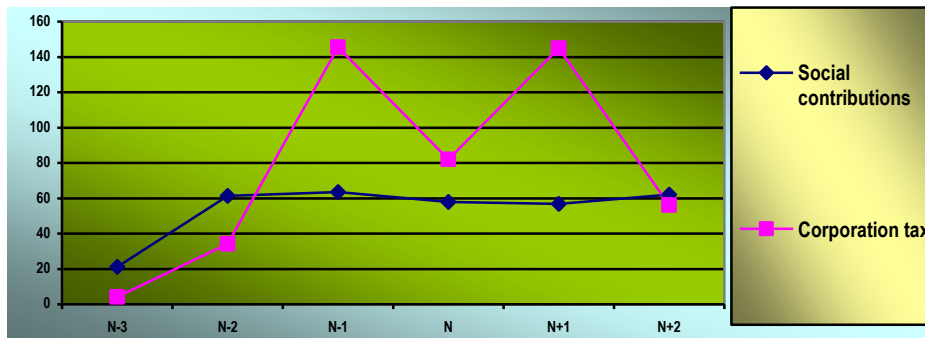
NR CRT	The economic main and financial data	N-3	N-2	N-1	N	N+1	N+2
1	Corporation tax	4,2	34,2	145,6	82,0	144,9	56,1
2	Social contributions	71,2	61,3	63,6	57,9	56,9	62,0

Taxes

Before interpreting and analysing the fiscal aspects, we must mention that the fiscal department has paid special attention to the qualitative level of communication with the purpose of improving the collaborations and the information exchanges between the parent company and the fiscal representatives of the subsidiaries located in the consolidated perimeter of the *Roydis group*.

An evolution of this indicator can be seen in Chart 4.

Figure no. 4 - The fluctuation of the group's contribution to the development of the budget during N-3 and N+2 financial year



Source: The figure developed by the authors on the information concerning the company tax at the Roydis Group

E. Risk perspective

The objective of this indicator is to allow a better identification, monitoring, calculation and prevention of risk (especially the financial and operational risks) the Roydis group is exposed to.

Financial liabilities

The financial liabilities of the group have been significantly reduced in N-2 financial year, as opposed to N-3 year (€ 199,3 million in foreign currency, the equivalent of 53,9% of the value recorded at the end of N-3 year).

Some of the factors that have had a positive impact on the decrease of financial liabilities are the operational cash-flow of € 183,4 million, receipts from leasing and other entries amounting to € 185,3 million after the transactions recorded at the Bank and amounting to € 44,5 million, as well as certain positive exchange rate values of € 57,3 million.

The average cost of financial liabilities recorded in the N+2 accounting period was of about 6,0%, significantly lower than the previous year (6,7%) due to the positive effect of the transactions concluded in the second part of the N+1 accounting period, such as the traded of credit agreements of the Venezuelan subsidiaries and the early repayments from the Canadian subsidiary. The subsequent early repayment operations of the loans taken by the Canadian and Australian subsidiaries in the last quarter of the accounting period guaranteed the significant decrease of the expenses of the group for the following N+3 accounting period.

The value of these indicators can be seen in Table 6.

Table no. 6 - Most frequent risks faced by the Roydis group - million € -

NR CRT	Accounting information in risk assessment	N-3	N-2	N-1	N	N+1	N+2
1	Gearing	369,3	170,07	588,8	498,8	260,4	38,1
2	Provisions for risks and expenses	71,3	61,4	149,2	106,1	61,4	79,7

The activities developed by the Roydis group are exposed to operating risks derived from any kind of incident that may occur, from the inadequate functioning of certain sectors that may endanger all the categories of stakeholders; these risks may also be generated by the quality of the products or of the environment (since this specific sector deals with foodstuff, one must also consider the pollution or hazardousness degree of the environment or the soil, etc. – i.e. any activity that may endanger the biological assets) – with repercussions on the economic and financial assets.

The most frequent risks faced by the Roydis group can be summarised as follows:

Risks derived from the fluctuations of the interest rate, of the exchange rates, under the economic, social and political circumstances of that particular country where one or more subsidiaries of the group are currently developing their activities, as well as by the price of commodities;

Credit risks, such as insolvency of a debtor;

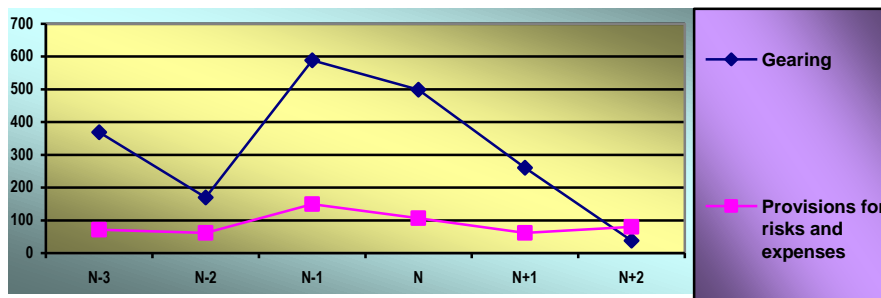
Liquidity risks, such as the risk of not being able to meet financial obligations;

General risks.

The Roydis group and its subsidiaries are involved in a series of administrative contentious litigations for which certain compensations have been required (both of a civil and of a criminal nature). The interrogative notes of the group may be consulted, particularly the chapter “Contentious and potential liabilities”, for a further analysis of the litigations in which the group is involved and the liabilities generated by such legal actions, since the present paper has not monitored the provisions for litigation or the expenses for fines penalties or damages.

An evolution of this indicator can be seen in Chart 5.

Graph no. 5 - The fluctuation of the gearing and of the provisions for risks and expenses during N-3 and N+2 financial year



Source: The figure developed by the authors on the information concerning the company tax at the Roydis Group.

In order to make a better assessment of the risks (especially of operating risks), the Roydis group has implemented a project meant to monitor these risks in each of the subsidiaries of its consolidated perimeter. The measures include certain specific instruments that allow for a hierarchical classification of the risks depending on their likelihood and on the possible economic impact they may have. The risks have also been divided depending on the following categories of stakeholders: competitors, external environment, legal framework, hygiene and safety, trademarks; product category, systems and technologies, human resources.

a) Interest rate risk

The repayment of the loans of the Canadian and Australian subsidiaries has significantly decreased the exposure of the group to the interest rate risk. The repayment of the bank loans has enabled subsidiaries to expand their Interest Rate Swaps.

b) Price risk

The Roydis group is not exposed to any risk derived from the fluctuation of the share price, since the liquidity investment policy does not allow such an instrument.

V. CONCLUSIONS

The economic and financial communication has developed in order to meet the information needs of a very wide range of shareholders whose information requirements are continuously expanding and has also encouraged companies to resort to voluntary disclosure for at least two reasons: meeting additional information needs of the stakeholders, as a result of the feedback they have provided and justifying their information needs

by publishing the financial statements in compliance with the legal provisions and the IAS/IFRS standards (obligatory disclosure). Voluntary disclosure allows the company to achieve its own objectives as set in its own strategic plans, by publishing additional information that may attract new investors or may strengthen the loyalty of the existing ones by earning their trust.

The development of a BSC model for Roydis group is meant to emphasize the applicative importance of this instrument used to measure the economic and financial performance, as well as its purpose as means of communication with all categories of stakeholders.

The studies that have been conducted so far have shown that no indicator enables a company to have a clear picture of its own performance and to identify and manage the most sensitive areas that have a considerable impact on the economic activity. These have been the premises on which this case study is based and which suggests a study of the Balance Scorecard and of the key performance indicators (KIPs) as non-financial instruments for measuring performance.

We can also underline the fact that the BSC is still used as an instrument to measure the economic and financial performance, but it may also function as an important means of communication with the internal stakeholders and provide vital information of a non-financial nature that is not included in the economic and financial statements prepared for internal stakeholders (Bostan and Grosu, 2011)

The close connection between the performance indicators and the most important economic indicators in the BSC model enables the various economic fields to identify and measure the contribution of their own activities to the enhancement of the results of other areas, with the purpose of measuring the economic output. In this respect, in comparison with other instruments, the BSC model creates understanding, integration and alignment within the entity, among the economic strategies, the interests of the company and the responsibilities assigned to each department, regardless of the area they operate in.

We should also emphasize the fact that the BSC model employed in one company does not necessarily trigger major investments *in technology and resources*. The development of the communication range of the traditional Balance Scorecard model has been done by creating a model for the improvement of the economic and financial communication at the Roydis group that uses the main economic and financial data that was included in the financial statements during 2005-2010 and by using the Balance Scorecard model of Norton and Kaplan (1996a,1996b, 2001). The model has been expanded for five area of interest and not just four (as in the traditional model) and also two of the four pillars on which BSC is based are different from the ones used by Norton and Kaplan. Thus, it was possible to provide additional and extremely valuable information for decision makers, since these areas of interest can have a decisive influence on the future policies of the group.

We also believed it was necessary to make reference to social responsibility and to the risk exposure of the company since these two areas are also essential for external stakeholders as well. The notion of social responsibility must be particularly taken into account when we're dealing with a large group such as Roydis, that has subsidiaries in 63 countries and 5 continents, and this information is valuable for the government, for the communities the group is active in and, last but not least, for the employees.

We assume that this information is mainly available for internal decision makers and to be also accessed by external stakeholders. Therefore, we must underline the fact that financial statements do not meet the information needs of the stakeholders and thus it would be necessary to improve the range of information provided by means of alternative reporting instruments, such as social reporting, environmental reports and sustainability reports. The Balance Scorecard model is a very relevant management instrument for decision makers, as it identifies the critical success factors and the key performance indicators based on which sensible decisions can be made.

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