Studies regarding the importance of management decisions in ensuring authentic financial sustainability

Gabriela Ignat^{1,*}, Lilia Șargu², Haralambie Athes³, Teodor Bivol⁴, and Anelisse Bivol Nigel⁵

¹Ion Ionescu de la Brad University of Agricultural Sciences and Veterinary Medicine Iași, Mihail Sadoveanu Alley, 3, 700490 Iași, Romania

²University of European Studies of Moldova, Iablocișkin str. Chisinau, 2/1, 2069, Moldova

³Alexandru Ioan Cuza University of Iasi, Bd Carol I, 11, Iași, Romania

⁴«Ion Creangă» Chișinău State Pedagogical University, MD-2069, Chisinau, str. I. Creangă, no.1, Moldova

⁵University of Bradford, UK, Richmond Rd, Bradford BD7 1DP, United Kingdom

Abstract. In an economic environment with a perpetually increasing number and complexity of challenges, financial sustainability must be part of the development strategy of any company, emphasizing the good management of the patrimonial resources on the long term. The financial sustainability of a company is actually the ability to generate value with the help of a correct balance between investments and sources of financing. Simultaneously, within a company, the emphasis will be on the vigor of the accounting principle of continuity in long-term operations. Therefore, at the level of each company, managers are faced with challenges related to managerial decisions that would ensure financial sustainability. In Romania most of these companies are financed by bank loans, which leads to a lack of liquidity, which in turn triggers an increased risk of inability to make payments. In a company, financing sources have a strong impact on the liquidity risk, and, therefore, the higher the share of the equity in the company's total financing sources, the lower the financial risk. The results of our research are relevant for providing useful information in managing the activities of companies. wineries and more. Correct and timely information can help a company to optimize its resources and, in addition, to perform a correct analysis. The aim of our research was to make a diagnosis based on documentation of financial sustainability and the factors that influence it. The case study was conducted at a wine company in Tulcea County, Romania, namely SC Alcovin SRL Măcin.

1 Introduction

In the current economic context, many authors have been concerned with a new economic component, placing a strong emphasis on financial sustainability and ways to benefit from

* Corresponding author: gabriela@uaiasi.ro

economic systems. The concept of sustainability appeared about 30 years ago in the economic thinking of specialists in Western Europe. The British economist John Elkington tried to find a way for businesses to grow according to the principles of sustainability. He proposed a concept which he called the "triple bottom line", through which business people had to approach their activity from a triple perspective, namely, that of risks to profit, social risks to people and environmental risks - the impact on the planet. Due to the great financial problems that appeared in the first decade of the 21st century, the principles of financial management were reconsidered [4,5,6].

The policies regarding the risk management practiced did not give the expected results. but the new concept of financial sustainability tried to put an equality sign between benefits and risks in making financial decisions [7].

The financial sustainability of a company is usually defined as its ability to generate value and provide continuity to all long-term transactions, using the optimal balance between sources of financing and investments. Therefore, within a company, a manager should decide whether to maximize return on investment or avoid risk and maintain solvency and liquidity. Therefore, a manager should establish an appropriate financial strategy to provide an adequate level of financial sustainability, given the current business environment. At the company level, financial sustainability can refer to the viability, stability or security of a company. Some authors define financial stability as the ability of an enterprise to generate profit, increase the value of invested capital, and repay its short-term and long-term liabilities at the same time [8]. Financial security is associated with a state of a company's long-term financial balance that reflects its resilience to the negative impact of internal and external threats [9]. Most authors consider the concept of financial sustainability as particularly complex, being based on three different economic pillars - profitability, solvency and efficiency of a company. The aim of the research was to verify the relevance and degree of use of key performance indicators in the wine company in the context of a sustainable business, taking into account the current state of the economy in general, and the wine industry in particular.

2 Material and method

This paper combines theoretical research with empirical research, as the theoretical aspect defines the conceptual features, and the empirical aspect aims at analyzing the financial elements presented by the wine company under study. Starting from the problems highlighted in specialty literature on the analysis of financial sustainability, the authors made a coherent diagnosis of financial sustainability (based on financial indicators, calculated starting from annual financial statements) as a starting point in making future management decisions by accountability factors in within SC Alcovin SRL Macin, Tulcea.

3 Results and Discussion

Based on the financial statements provided by the company under study, the authors analyzed the main indicators needed to highlight financial sustainability.

Within the analysis of the main indicators regarding the financial sustainability, reference is made to the liquidity indices of the company; as a result of the the calculations performed, the following observations can be made.

Table 1. Highlighting the indicators for financial sustainability

Nr. crt.	Name of the indicator	Period of analysis		Evolution rate (%)
		2018	2019	
1	Current liquidity	1,69	1,56	92,30
2	Liquidity of funds	0,018	0,014	77,77
3	Return on assets	4,43	-3,31	-74,71
5	Return on capital	-46,52	26,94	-57,91
6	Return on sales	-66,83	-48,08	-71,94

At the level of the current liquidity indicator, the company registers a value of 1.69 in 2018 and 1.56 in 2019, thus in the 2 years of analysis the company registers supra-unit values, which means solid financial stability and security, cash liquidity reflects a good ability to pay short-term debt;

The same aspect is found in the figures

Fig. 1. Current liquidity

Fig. 2. Liquidity of funds

At the level of the 3 rates of return, on the 3 levels of the company, namely: the level of assets, the level of capitals and the level of sales, the company is presented as follows:

- the profitability of the company's assets reveals an unfavorable situation in 2019 compared to 2018, if in 2018 the company obtains 4.43 lei per 1 lei of invested assets, the same does not happen in 2019 when the company loses 3.31 lei to 1 lei invested assets; in this respect, if we were to make a recommendation for maintaining financial sustainability, we would advise the company to improve the way it sells its products, to properly manage its resources for a high long-term financial sustainability,
- the return on equity is negative at the level of 2018, with a significant increase in 2019 of 42.09%, from the negative value of -46.52%, to the value of 26.94%; this anomaly of the return on capital is caused by the fact that the company has a negative equity and that in 2019 the company suffers a considerable loss of 782,659 lei,

- In terms of profitability of sales, the company registers a slight increase in 2019 compared to 2018, but due to the fact that the company's profit and sales are minus, we can only say that the company goes through significant financial difficulty, a gridlock in properly managing product sales, sales expenses and interest payments, all of which indicates that financial sustainability in this respect cannot be achieved.

Financial viability is an important issue, because without financing, the company will not be able to produce the desired result. In other words, profitability is not the goal of the company, but is a necessary condition for its sustainability on the market, so the company should aim for both: a better financial result and a greater social impact. The success of the company depends to a large extent the inventiveness of management to find financing and to ensure that the company will be able to continue its activity and create the impact for which it is intended.

Regarding the complex analysis of the company's performance viewed through the 3 levels, namely: operating level, financial level and global level from this perspective, we define financial sustainability as the ability to start, grow and maintain business with both short-term and long-term financial stability. In view of reaching its objectives, an enterprise should take the following into account:

- access to capital - it takes money to make money, so the company will need an initial start-up capital, a working capital to maintain day-to-day operations and investment capital to grow business and activities.
- profitability - at the enterprise level, when it comes to profitability, balance matters.
- If profitability is too low, it can have a negative impact on cash flow and increase the stress level throughout the organization. Low profits leave no room for fluctuations in income or expenditure and limit the ability to reinvest, which can ultimately compromise financial sustainability. On the other hand, if profitability is too high, it can lead to destructive price wars on the market and could contribute to general financial instability.
- financial reporting - creating a regular financial review plan allows for adjustment over time to reverse a negative trend or to capture a unique positive opportunity. Whatever the guaranteed capital method, sound financial reporting will be required to ensure increased levels of capital support.
- planning - "If you don't know where you're going, you'll get somewhere else." - Yogi Berra, in other words, it can be surprisingly easy for the company to deviate from the established path to sustainable growth if it does not have its own business plan to maintain the course. Financial planning should be flexible enough to allow for market changes and unexpected opportunities, but strong enough to prevent the company from moving into dangerous and unsustainable territory.

Next, the authors performed a complex analysis of the company's performance (tab, 2)

Table 2. Complex performance analysis for the enterprise S.C. ALCOVIN S.R.L.

Indicator		2018	2019	Evolution rate 2019/ 2018
OPERATING LEVEL				
1	Gross operating income	218.135	- 216.943	-1.032,24
2	Profit before interest, taxes, depreciation, amortization	-10.998.169	-9.306.818	100,84
3	Earnings before income tax and interest payments	-11.893.739	-10.235.940	100,85
4	Earnings before income tax	-11.943.380	-10.368.585	100,86

Table 2. Continued

Indicator		2018	2019	Evolution rate 2019/ 2018
OPERATING LEVEL				
5	The cost of goods sold and services rendered (Cbs)	10.157.267	11.136.152	109,63
6	Gross net income	-4.069.170	-3.616.090	88,86
7	Operating result	218.135	- 216.943	-99,45
FINANCIAL LEVEL				
8	Gross financial result	769.215	- 565.716	-73,54
9	Financial result	769.215	- 565.716	-73,54
GLOBAL LEVEL				
10	Gross result for the year	987.350	-782.659	-79,26
11	Gross result before interest deduction and profit tax	987.350	-782.659	-79,26
12	Net result for the year	987.350	-782.659	-79,26
13	Self-financing capacity	1.882.920	146.463	7,77
14	Self-financing	1.882.920	146.463	7,77

The analysis of the company's performance indicators to determine the financial sustainability on the 3 levels of the company are presented in the table above, so according to the calculations we can state the following facts:

- at the operating level the most important indicators are: gross operating income, earnings before interest, taxes, depreciation, amortization, earnings before income tax and interest payments, earnings before income tax, cost of goods sold and services rendered (Cbs), the gross result related to the net turnover and the operating result, thus most of these indicators have negative values during the 2 years analyzed. We can say that the company has losses caused by the poor management of resources, poor coordination between production and the cost of obtaining it. At the operating level, the company is not sustainable and does not have the capacity to be financially sustainable in the long run. (fig. 3)

Fig. 3. The main indicators of the operating level

As far as the financial level is concerned, the company achieves a positive result in 2018 due to the collection of subsidies and the low level of interest expenses;

- at the global level, the dynamic analysis of the indicators reveals a financial imbalance in 2019, a weak self-financing capacity due to the fact that the company registers a loss of 79.26% in 2019 compared to the income obtained in 2018.

In order to be sustainable, the company should have managed its profit in 2018 and in 2019, but due to the fact that it had a loss and poor management of resources we can only indicate that the company will have great financial difficulties in the long run long in the absence of efficient management and coordination of its resources, with productivity being undermined. (fig. 4)

Fig. 4. The main indicators of the operating level

Other indicators analyzed targeted performance rates.

Table 3. Performance rates analysis for the enterprise S.C. ALCOVIN S.R.L.

Nr. Crt.	Indicators	Year 2018	Year 2019	RE 2019/ 2018
PROFITABILITY RATES				
1	Gross turnover result	-4.069.170	-3.616.090	-88,86
2	Gross profit rate	16,21	-10,40	-64,15
3	Gross sales profit	-66,83	-48,08	-71,94
FINANCIAL PROFITABILITY RATES				
4	Rate of return on equity	-46,52	26,94	-57,91
5	Earning before interest and taxes	-11.893.739	-10.235.940	100,85
6	Rate of return on permanent capital	-108,29	-93,83	86,64
ECONOMIC PROFITABILITY RATES				
7	Economic rate of return	4,43	-3,31	-74,71
8	Asset rate of return	4,43	-3,31	-74,71
9	Expenditure rate	6,04	-4,75	-78,64
10	Asset turnover rate	0,68	0,75	110,29
11	Duration of current assets	531,11	482,52	90,85
12	The effect of the degree of indebtedness	-50,95	30,25	-59,37

Regarding the analysis at company level of performance rates to determine its financial sustainability, as in the case of the analysis of other indicators, we can say that:

- at the level of 2018 the company obtains remarkable results due to the good management of production, of the profit and of the financial results, which is reflected in the performance rates obtained as follows: the gross profit rate is 16.21%, the economic profitability rate is 4 , 43%, expenditure rate of 6.04%, but due to negative equity, very high expenditures for obtaining and selling products, equity and permanent capital rates are negative (fig 5)

Fig. 5. Gross profit rate

Fig. 6. Gross sales profit

The dynamic analysis reveals an unfavorable situation for the company, from the standpoint of profitability, as it cannot properly manage the results achieved in 2018 and, consequently, collapses financially in 2019.

Fig. 7. The Rate of return on capital

Fig. 8. The rate of economic profitability and expenditure

The financial sustainability of the company cannot be achieved neither in 2018, nor in 2019 because of the following causes: the equity is negative, operating expenses are very high compared to the turnover obtained, although the company registers profit in 2018, it is not able to maintain it in 2019 where it records a loss, profitability on the 3 levels (exploitation, financial and global) cannot be achieved, we cannot talk about a profitable activity if the company has negative equity and loss, business performance is absent because the turnover is reduced and the operating expenses are very high.

4 Conclusions

A company is financially sustainable if its core business does not collapse, even if its owned or borrowed financial funds are insufficient.

Learning from companies that have managed to achieve financial sustainability to some extent, the pathways to success include: developing and maintaining strong relationships with stakeholders, including beneficiaries, staff and creditors, obtaining a range of types of financing, including grants, building financial reserves, risk assessment and management, strategic management and financing of overhead costs.

From the analysis performed on the company S.C. ALCOVIN S.R.L., we can say that it is not financially sustainable, it faces important difficulties regarding the good management of the activity carried out as well as the market of products. There are complex factors involved in the current situation of the company: the wine market which is loaded and there are many investors who have started various wine businesses; financing these activities is done in various forms to support the product in the market; the economic and financial legislation is not favorable, there is a permanent increase of the minimum wage, the CAS for daily workers also becomes a financial burden, the legislation on employing people with disabilities in the context of including all transfers in the basic salary, the uncontrolled increase of pensions and public salaries; all of the above lead to an unbalance in the level of wages in the private sector private and fuel employee migration.

A strategic management plan that could be applied within the company S.C. ALCOVIN S.R.L. In order for it to become financially sustainable, it should answer the following questions: Where are we now ?, Where are we going ?, How will we get there ?, Key policies (eg ethics policy and cost recovery policy)?

Management decisions that could be made within the company S.C. ALCOVIN S.R.L. in order for it to be sustainable are: the realization of a strategic financial plan for the next three to five years, with an accompanying budget for how much it is likely to cost and how the company intends to bring funds to cover these costs.

References

1. S. Zabolotnyy, M. Wasilewski, Sustainability, **11** (2019)
2. S. Zabolotnyy, M. Wasilewski, N. Wasilewska, Financial Sustainability and Value of Joint Stock Companies from Food Industry in Central and Eastern Europe Problems of World Agriculture **19**, (2019)
3. L.S. Thomas, B. Paraque, International Review of Financial Analysis, **55** (2018)
4. J. Morelli, Journal of Environmental Sustainability, **1** (2013)
5. I. Svetlana, Ashmarina, S. Anna Zotova, S. Ekaterina, Smolina, International Journal of environmental & science education, **10** (2016)
6. S.J. Goerner, B. Lietaer, R.E. Ulanowicz, Ecological Economics, **69** (2009)
7. T. Lagoarde-Segot, International Review of Financial Analysis, **39** (2015)
8. E. Nier, J. Yang, T. Yorulmazer, Alentorn, A. Journal of Economic Dynamics and Control, **31** (2007)
9. R. Myšková, P. Hájek, Journal of International Studies, **10** (2017)
10. V. Delas, E. Nosova, O. Yafinovich, Procedia Economics and Finance, **27** (2015)
11. C.D. Avram, A. Avram, V. Avram, M. Avram, Conference Proceedings, Albena, SGEM Social Sciences Conference (2016)
12. P. Chapuy, "Le sens du developpement durable pour l'entreprise. L'apport de la perspective strategique", Cahier du LIPSOR, Serie Recherche, **9** (2009)
13. Colasse B., *Comptabilite generale*, ediția a 9-a, Editions Economique, Paris (2005)
14. I.C. Chersan, G. Ignat, - reprint author, G. Ungureanu, C.L. Costuleanu, C. Simeanu, C.R. Vintu, Revista de chimie, **3** (2018)
15. G. Ungureanu, G. Ignat reprint author, E. Boghita, C.L. Costuleanu, C.R. Vintu, D. Bodescu, C. Bejinariu, Revista de chimie, **10** (2017)
16. G. Ignat, L. Sargu, T. Bivol, *Performanță prin management și comunicare financiară*, Ed Lira, Chisinau, (2020)
17. G. Ignat, T. Bivol, G. Ungureanu, C.L. Costuleanu, International scientific congress USAMV Iasi, Life sciences, a challenge for the future (2019)
18. G. Ignat, Identity and dialogue in the era of globalization, Arhipelag **21** press (2019)
19. G. Ignat, A.A. Timofte, Conference: International Conference on Globalization, Intercultural Dialogue and National Identity, Debating globalization. Identity, nation and dialogue: social sciences (2017)
20. G. Ignat, T. Bicol, C. L. Costuleanu, *Sustainability vs. Oenology tourism*, Simpozion Științific Internațional „Modern Horticulture - Achievements and Perspectives”, Universitatea Agrară de Stat din Moldova, Facultatea de Horticultură, octombrie (2018)
21. G. Ignat, T. Bivol, Conferința Internațională *Noi tendințe în predarea limbajelor de specialitate în contextul racordării învățământului la cerințele pieței muncii*, 26-27 octombrie, USM, Chișinău, Ed Print Caro (2018)
22. G. Ignat, C. Iatco, Conference: 2nd International Conference on Globalization, Intercultural Dialogue and National Identity, Globalization and intercultural dialogue: multidisciplinary perspectives - economy and management (2014)
23. C. L. Costuleanu, D. Dumitrescu, G. Ignat, Ș. Brezuleanu, Health Satellite Accounts - Compilation Proposals for Romania, Creating global competitive economies: 2020 vision planning & implementation, Conference: 22nd International-Business-

- Information-Management-Association Conference on Creating Global Competitive Economies: 2020 Vision Planning and Implementation (2013)
24. L. Şargu , C. Coman, Saudi Journal of Business and Management Studies, Dubai, United Arab Emirates (2019)
 25. L. Şargu, C. Lupu, Vector european, **1** (2019)
 26. L. Şargu, *Management Functions In Atypical Situations*, in: Knowledge Horizons - Economics, Bucuresti, Romania (2019)
 27. L. Şargu, *Management of atypical situations through the quality management system* in: the collective monograph Management of innovative development the economic entities, Poland (2018)