THE USERS OF INFORMATION PROVIDED BY THE FINANCIAL DIAGNOSIS

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Abstract

The company financial diagnosis appeared from the different users' objective needs for its results to make a decision concerning: the company's patrimonial-financial management, the purchase or sale of securities, the grant or the refusal of a credit, the company's total or partial purchase or sale, the engagement in some investment projects, liquidation or recovery decisions.

Therefore, the financial diagnosis becomes an indispensable instrument able to find development opportunities, different types of risk and the most opportune strategic choice.

In fact, the financial diagnosis purpose consists in offering financial information serving to a great number of users for making decisions, users coming from both internal or external company environment.

Keywords*: diagnosis analysis, global diagnosis, financial diagnosis, financial performance, positive financial statement, economic development*

When troubles occur inside a company, some actions will be taken, such as adopting correction decisions starting from the causes. Therefore the diagnosis analysis finds the causes that deranged the company's good running. Even if the company runs normally, the diagnosis analysis may be used to evaluate the company's performances.

The analysis results materialize as the financial diagnosis.

Etymologically, the word „***diagnosis***" comes from Greek, from the word „diagnostikos" that means „able to know". The term „diagnosis" is borrowed from medicine practice, a step that identifies certain diseases depending on their symptoms, in order to find the causes and settle the necessary cure therapy.

The financial diagnosis is defined by Larousse dictionary as a group of measures and controls made to determine or verify the technical and functional characteristics of a system, in order to maintain or improve, as well as to identify a certain situation or difficulty that occur in that system running. This represents a part of the company's global diagnosis, of the exhaustive evaluation of the company's situation and performances. Therefore, the financial diagnosis may offer only a partial and specialized view of the company's financial situation and performances. Its goal is to study the company's ability to assure the immediate solvency and in due time, more precisely to avoid the bankruptcy risk; the company's ability to be effective enough, considering the resources involved in the activity; the company's ability to refinance the activity, to have enough resources to face the financial risk.

Using the information provided by accounting on terms of quality exigency assigned by the international standards, the financial analysis contributes to a better operation of the company's resources, to the strategic choice that optimizes the report profitability-risk, or to efficiency increase within a certain competition environment.

Many users from inside or outside the company use the information provided by the financial diagnosis to make decisions. According to their interests regarding the provided information, the users may be classified into users with a direct or indirect financial interest, as in diagram below:

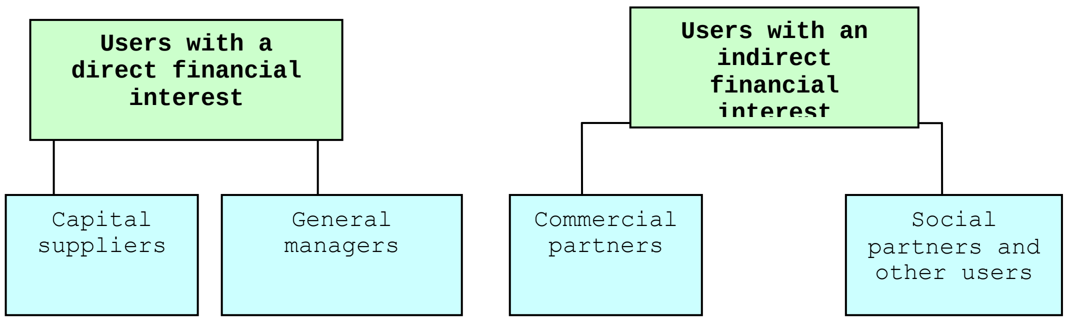

Figure no.1. The users of the financial diagnosis

The company financial diagnosis appeared from the different users' objective needs for its results to make a decision concerning: the company's patrimonial-financial management, the purchase or sale of securities, the grant or the refusal of a credit, the company's total or partial purchase or sale, the engagement in some investment projects, liquidation or recovery decisions.

In a competition economy, companies are interested in finding their competitors' solidity, the structure of product portfolio, the strengths and weaknesses in order to identify the sources of competition advantage and to direct better their own development strategy.

The financial diagnosis has different destinations according to the users. As the users of financial statements have different objectives, the financial analysis will be performed differently.

„Banks and credit establishments are at the basis of the diagnosis. The risk they undertook determined them to create instruments that might help them in decision making of credit granting"(Brezeanu 2002).

Creditors are bank or company representatives that agree to offer loans or advances to other companies or to sell on credit.

On short time, the creditors are interested in the liquidity and treasury of the company in order to recover the offered loans in due time.

On long term, the solvency and profitability concern the creditors, as the interest payment and debt payback depend on them. The creditors are particularly interested in the financial structure of the company.

No matter the term, the creditors are interested in the financial structure of the company as this will influence the risk degree.

In order to grant credits on both short and long term, the banks make a study of the financial situation of the company that solicits the credit and classify it in one of the following situations:

- companies with a solid financial situation that are able to payback both their debt and interest
- companies with certain financial problems, but with a good financial situation on long term
- companies with financial problems that may have difficulties in covering the contractual duties

- companies with financial problems that will affect the payment capacity
- companies with such a low financial performance that cannot payback the credit and the due interest.

„The creditors' financial diagnosis is based on the indicators that allow the evaluation of the debtors' payment capacity and their capacity to payback the debts and to pay the interests"(Dragotă 2004).
They are mainly concerned with settling the financial diagnosis on the basis of some indicators that show the bankruptcy, liquidity and insolvency risk, as well as the payback ability and the balance between the needs and resources on debtors' level.
The symptoms of the bankruptcy risk start with the inability of temporary or prolonged payment and payment cease.
When the creditors consider that the risk is high, the debtor companies face financing difficulties, because the creditors assign credit restrictions, solicit higher interests and guarantees - as a protection measure.
In their co-owner quality, the shareholders intend to evaluate the diagnosis in order to make pertinent decision regarding the sale or keeping the shares they possess. A shareholder will consider the financial balance respected if the remuneration of his capital (the dividend) compensates the undertaken risk: the economic risk determined by the use of company assets and the financial risk determined by its indebtedness policy.
The small shareholders have little information on company's activity. Their diagnosis will be brief, based mainly on the profitability it has and the financial risk they undertake.
The big shareholders have greater possibilities to inform, evaluate and decide, as they actually participate in the Shareholders' General Meetings. In their case, the financial diagnosis is based first of all on the indicators that show the company's economic development, autonomy and flexibility, and secondly on the profitability indicators. They are in the position of choosing between their interests on long or short term, and they choose the first variant, the only one able to maximize the company's value and to ensure its survival in the competition struggle.
Apart the shareholders, the investors in bonds participate only in ensuring the resources on long term, having no property right. The most important information for this category of users refers to the company's payment capacity that has to cover the payback rate and the interest. An important evidence is the financial profile of the activity branch in order to estimate the investment risk in issued bonds.
Another important category of users is the general managers. The general managers are interested in those aspects able to improve the company management and results by means of financial balances, profitability and financial risk. This is the starting point for investment, finance and dividend sharing decisions and financial forecasting will be made regarding the company economic and financial policy for potential partners or competitors.
Apart the shareholders, the general managers have multiple economic and financial information, in order to find the causes and adopt the necessary measures. The answer to the general manager's four questions regarding the solvency, performance, activity improvement and risks is given by the financial analysis.
In order to draw it up correctly, one should use a system of data and information that must show accurately the situation of the diagnosed company.

A financial diagnosis that allows decision making and financial forecasting is based mainly on the company's financial data and information, but it should not limit to these.
It should start by gathering more information:

1 general economic, fiscal and monetary information regarding the economic condition, the general situation of the economy in a certain time, as the company's result are influenced by the favorable or unfavorable condition: the general economic growth (recession) may determine the growth (decrease) of activity, benefit and stock exchange shares
2 sector information characteristic to the company's activity that refer to product type, used technological procedures, production structure
3 law and economic information regarding the company; some of them are mandatory and public, other are presented only with the occasion of internal or external analyses, made periodically or upon request

The lack of balance manifests differently for the companies quoted or not quoted on stock exchange. In case of quoted companies, if the shareholders do not receive remuneration at the level of undertaken risk, they will tend to sell the shares, a fact that leads to quotation decrease down to the level where the own capital profitability satisfies the shareholders' expectations. Quotation decrease is an indisputable degradation signal of the company's economic and financial situation, a manifestation of financial lack of balance. The stock exchange quotation is only a synthesis indicator that does not give information regarding the lack of balance causes. It can be negatively influenced by outside factors and therefore the diagnosis analysis in such situation should be extended through more elaborated methods.
In case of not quoted companies, there is no quotation indicator.
„The symptoms of financial lack of balance are difficult to perceive on short term, therefore other analysis indicators are necessary to make real conclusions regarding the company's financial situation"(Niculescu 2004).
The category of ***commercial partners*** includes the suppliers and the customers. They are interested in keeping or initiating commercial relationships.
The suppliers are interested in the company's liquidity and its position on the market. In case the company is an important customer, the development potential, the company's ability to continue its activity and even the bankruptcy risk will be taken into consideration.
The customers are interested in the company's viability, reflected by its capacity to respect its contractual duties and to maintain is running activity.
The social partners of the company are employees and union organizations that are interested in the company's stability and profitability, as factors of job and salary negation security. The information provided by the financial analysis is the base of negotiations regarding the salary range and pension advantages. The employees are interested in keeping their jobs, because a bankruptcy means loosing them.
The "other users" category includes: financial analysts, experts and auditors, competitors and public.
The economic and financial analysts are interested in the company's economic and financial information in view of evaluating the shares on the financial market.

According to the analysts' appreciation, the third parties will or will not be attracted in commercial relations or investments by the studied companies. „The financial analysts process the financial information in order to issue estimations regarding: the position on the market and the factors that may change this position, the company's development perspectives from the point of view of the estimated profit, distributed shares and share price, purchase or sale recommendations for the titles issued by the company"(Petrescu 2006).
The experts and auditors are directly concerned with the legal aspects of the activity and accounting records and interested in the company's good running and performance level.
Beside the interest in the company's commercial aspects, the competitors are concerned with the performance level and the activity trend.
The public, though having a small interest in the financial information, is interested in the company's field of activity as well as in the activity evolution and trend.
The table below shows information regarding the financial diagnosis field that interests each user:

Table 1: The users' objectives

Users	**Creditors**	**Managers**	**Social partners**	**Commercial partners**	**Other users**
Analysis field	Profitability analysis	Performance analysis	Remuneration rates analysis	Liquidity analysis	Global performances analysis
	Risk analysis	Financial situation and position analysis	Stability and perenniality analysis	Risk analysis	Risk analysis
	Treasury analysis	Strategic analysis	Value-added analysis	Solvency analysis	

The objective of the financial diagnosis is to evaluate the company's financial performance state at the end of the budgetary year. The main purposes are: financial results evaluation, invested capital profitability examination, risk evaluation.
The analysis results may be used in drawing up management decisions, global strategic diagnosis, development policies.
In conclusion, the financial diagnosis provides information regarding the achieved performances and their perspectives, the financial position and its change, the resource management means and management results on the leader team level, the company's ability to generate cash or cash equivalents.
Therefore, the financial diagnosis becomes an indispensable instrument able to find development opportunities, different types of risk and the most opportune strategic choice.

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