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Financial Analysis Tools, from Traditional Indicators through Contemporary Instruments to Complex Performance Measurement and Management Systems in the Czech Business Practice

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Abstract

The aim of this article is to identify the current situation in the Czech business environment regarding the application of financial analysis indicators used to measure not only the financial position, but also business performance in general. It includes the interpretation of conclusions and the explanation of the possible causes of the current state through categorizing the financial analysis instruments from all possible points of view, using the identification of weaknesses and specific shortcomings of traditional and contemporary financial indicators, but also their strengths. Furthermore, it compares selected research studies conducted in this area in the Czech Republic.

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1. Introduction

The concept of financial analysis and particularly its essence and thus the meaning and the scope of activity of the person performing it is defined in a number of different ways by the authors of numerous Czech publications. While Grünwald and Holečková (2007) view financial analysis as the analysis of corporate finance defined by cash flows and characterize it as a set of tools used for interpreting the financial statements in terms of the financial

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situation, Marek (2009) defines financial analysis as the process of investigating and drawing conclusions from the company's financial results not only of the past but also of the future periods. Marinič (2008) puts emphasis on the interconnection between financial analysis and corporate management and the fact that the application of financial analysis tools in a company contributes to the achievement of its strategic goals, whereas Pavelková and Knápková, (2012) stress the importance of financial analysis when identifying the key factors influencing business performance.

Opinions on the definition of business performance and views on how it should best be identified, with which objectives it should be measured and how to implement tools for its effective measurement differ in similar ways. Bititci et al. (1997) believe that performance is the quality resulting from activities carried out by the employees of a company, about which they are informed through the reporting process. Kaplan and Norton (2000) view performance from four different perspectives: financial, customer, internal processes optimization, and learning and growth. Otley (1999) believes that the main function of performance measurement lies in providing information useful for managers and the concept of performance is thus important primarily for them. From Wagner's (2009) perspective, business performance is perceived as the degree of goals finalization, or a set of targets measured by specific parameters, or as a way to achieving objectives and thus a corresponding benefit for relevant stakeholders. Pavelková and Knápková (2012) see performance measurement as the process of monitoring the growth of company value, respectively the effort to maximize it.

With regard to the issue of what tools, indicators or methodological procedures can be seen as tools of financial analysis, where their boundaries lie, and which of them must already be excluded from the set of financial analysis tools, theoretical and practical opinions and views may differ significantly. Border points defining the set of financial analysis tools and distinguishing financial analysis and its indicators from other scientific disciplines, set margins, which may not even be decisive and binding for the practical use of financial analysis instruments, may be vague and blurred or even incompatible in the same way as the definition of financial analysis tools from the point of view of various authors of dedicated publications.

Moreover, the views of companies, managers, employees and other users of information obtained through financial analysis in practice can differ significantly from theoretically formulated concepts and ideas about which instruments can still be considered as tools of financial analysis, and which of them should under no circumstances be considered a part of this group. The question is whether all financial indicators and models which measure business performance should be regarded as financial analysis tools, even those that are related to the functions of financial analysis at least indirectly or those that can provide partial information which would help to refine the results of the financial analysis application process for a specific company. Or else, whether all instruments measuring the diverse characteristics in financial units as well as instruments measuring financial characteristics in non-financial units can be considered financial analysis tools. Or rather, whether these tools can also include non-financial instruments which in turn contribute greatly to achieving the objectives of financial analysis, represent a considerable information support and are easily transformable into financial indicators. It is also necessary to take into account the existence of complex mathematical and statistical methods, such as financial distress prediction models or non-statistical methods based on uncertainty, which are commonly included among the financial analysis tools, especially given that authors such as Kovanicová and Kovanic (1999) prefer these more complex models to more common, simpler tools of financial analysis. It is obvious that the concept of financial analysis instruments is very broad, pervades a larger number of scientific disciplines and it probably only depends on the users responsible for measuring the financial performance of the company which indicators or methods they will include in the set of financial analysis tools in order to efficiently and effectively achieve the realization of their intention to assess the financial position and performance of the business.

Since financial analysis tools, including not only simple indicators, but also complex aggregate models and even specific and complex statistical methods, play an important role when measuring corporate performance and financial management of the company, financial analysis as such is also a subject to relevant transformation processes and changes depending on the endeavor to develop, innovate and implement new and improved tools which will better meet the needs of modern companies and their stakeholders and reflect current developments in the external and internal environment of the company, it can be expected that this assumption is also valid for companies located in the Czech Republic.