

Use of Financial Analysis in Operational and Strategic Management in Practice of Polish Business



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Abstract An important element of business management is systematically conducted financial analysis based both on financial statements and accounting data. The aim of the article is to present the approach of Polish enterprises toward the use of financial analysis in operational and strategic management. The article presents the results of a survey carried out on a group of 248 enterprises. The research carried out concerned the financial statement analysis and the accounting data financial analysis. The originality of the research was influenced by the fact that apart from examining the use of particular analytical areas, their usefulness for managers was additionally checked. The data were analyzed within the following categories: the type of business activity conducted, company size, and range of business operations. The results of this research have shown that the decision-making process in operational and strategic management, based on financial analysis, is more of an art than science.

Keywords Financial analysis · Operational management · Strategic management · Financial statement analysis · Accounting data financial analysis

1 Introduction

In a contemporary enterprise, among various information that is used in making operational and strategic decisions, analytical information is of particular importance. The financial analysis, which serves as a basis of economic analysis, focuses on the analysis of company's financial situation. Despite the fact that financial statements are the main source of financial analysis, managers often use accounting data financial analysis. The purpose of evaluating a company's performance is to assess the company's actual condition, which is essential for its managers to be able

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to make decisions which are a vital prerequisite for successful management of a company (Pur et al. 2015).

Analytical information in an enterprise can effectively identify a variety of risks connected with conducting current operations and its continuation in the future, which is a condition for rapid response (Ciechan-Kujawa 2017). Financial analysis is divided into analytical areas. Analytical information from the analysis of financial liquidity, analysis of the ability to generate revenues, cost level analysis, profitability analysis, and debt analysis can be used to varying degrees in both operational management and strategic management. It depends on the needs of the company. Financial analysis is a process, the purpose of which is to assess the current one and the past financial situation of the company. An important element is to estimate and predict the conditions in future and the subsequent operations of a company. This view has been supported by Bernstein (2002). However, Helfert (2003) believes that financial analysis is a process that assists in answering questions that arise in the course of company management. The prospective nature of financial analysis, which uses analytical information in forecasting different scenarios of unit's financial development in short and long term (taking into account external and internal operating conditions), supports business management at the operational level as well as strategic planning and long-term decision-making (Ciechan-Kujawa and Goldmann 2016, pp. 133–134). Therefore, an important element of managing an enterprise is conducting systematic financial analysis, based both on financial statements and data from account books. The objective of the chapter is to present Polish companies' approach toward the use of financial analysis in operational and strategic management. The research carried out concerned the financial statement analysis and the accounting data financial analysis. The originality of the research was influenced by the fact that apart from examining the use of particular analytical areas, their usefulness for managers was additionally checked, and the results, for a better inference, were also analyzed in the following categories: the type of business activity conducted, company size, and range of business operations.

2 Research Methodology and Characteristics of Companies

The research was conducted in the third quarter of 2017. The questionnaire was sent by mail to approximately 2000 companies, operating throughout Poland, selected in a purposeful manner. The criterion for selection was preparation of financial statements. Responses were obtained from 304 companies, 248 of them were correctly completed and classified to the research sample, which was compiled and served as the basis for the statistical part.

Among the companies surveyed, the dominating group were the enterprises providing services (48%), followed by manufacturing companies (33%) and trading companies (19%), presented in Table 1. The vast majority of respondents (75%) are companies that have been present on the national market for more than 10 years

Table 1 Characteristics of companies

Specification	Total	
	Number	%
Overall	228	100
Type of business activity conducted ^a		
Manufacturing company	133	58.33
Trading company	40	17.54
Services providing company	55	24.12
Time of operating on the market		
From 1 up to 5 years	10	4.39
From 6 up to 10 years	19	8.33
More than 10 years	199	87.28
Range of operations		
Local	26	11.40
National	92	40.35
International	110	48.25
Company size		
Small	42	18.42
Medium	90	39.47
Large	96	42.11

Source: Own study based on the questionnaire survey

^aDominating type of activity

(38%), then those operating on local markets (33%) and international markets (29%). Nearly half of them are small (45%) and medium-sized (34%) enterprises.

3 Financial Statement Analysis and Accounting Data Financial Analysis

About three-quarters of the examined companies use financial analysis in operational and strategic management. The results show (Table 2) that the use of financial analysis is slightly higher in operational management when compared with strategic management, the Likert scale prevails. This shows that fewer enterprises use financial analysis in strategic management. However, if they do, its usefulness is higher in strategic, than in operational management.

Comparing the use of financial analysis in operational and strategic management, conducted on accounting data and financial statements, the use of the latter is slightly higher, particularly in operational management. When comparing the same issue in terms of levels of usefulness, the results show that the abovementioned levels are higher for accounting data financial analysis, particularly in strategic management.

The obtained results were then analyzed according to the following categories:

- The type of business activity (Table 3).
- The size of enterprise (Table 4).

Table 2 General results: financial statement analysis and accounting data financial analysis in operational and strategic management

Specification	Total		
	Number	% (Yes)	Likert degree
Overall	248	100	1-5
Use in operational management			
Financial statement analysis	197	79%	4.36
Accounting data financial analysis	189	76%	4.48
Use in strategic management			
Financial statement analysis	191	77%	4.39
Accounting data financial analysis	181	73%	4.72

The gray boxes in the table show the highest results
 Source: Own study based on the questionnaire survey

Table 3 The results of the type of business activity: financial statement analysis and accounting data financial analysis in operational and strategic management



Specification	Manufacturing company		Trading company		Services providing company	
	% (YES)	Likert degree	% (YES)	Likert degree	% (YES)	Likert degree
Use in operational management						
Financial statement analysis	78%	4.34	70%	4.27	84%	4.40
Accounting data financial analysis	77%	4.52	68%	4.44	79%	4.46
Use in strategic management						
Financial statement analysis	75%	4.33	77%	4.19	78%	4.50
Accounting data financial analysis	75%	4.41	72%	4.29	72%	4.57

The gray boxes in the table show the highest results in each type
 Source: Own study based on the questionnaire survey

– The range of business activity (Table 5).

Taking into consideration the type of business activity, manufacturing companies use financial analysis more extensively in operational than strategic management. The level of usefulness is subsequently higher in operational management. On the contrary, trading companies use financial analysis more extensively in strategic than operational management. However, the level of usefulness is higher in operational

Table 4 The results of the company size: financial statement analysis and accounting data financial analysis in operational and strategic management

Specification	Small		Medium		Large	
	% (YES)	Likert degree	% (YES)	Likert degree	% (YES)	Likert degree
Use in operational management						
Financial statement analysis	78%	4.14	80%	4.40	83%	4.56
Accounting data financial analysis	70%	4.27	79%	4.52	87%	4.69
						
Use in strategic management						
Financial statement analysis	74%	4.25	77%	4.45	83%	4.56
Accounting data financial analysis	67%	4.69	73%	4.62	87%	4.69
						

The gray boxes in the table show the highest results in each type

The arrows in the table show the direction of the increase in results

Source: Own study based on the questionnaire survey

Table 5 The results of the range of operations: financial statement analysis and accounting data financial analysis in operational and strategic management

Specification	Local		National		Internacional	
	% (YES)	Likert degree	% (YES)	Likert degree	% (YES)	Likert degree
Use in operational management						
Financial statement analysis	84%	4.40	77%	4.31	76%	4.38
Accounting data financial analysis	78%	4.42	73%	4.43	78%	4.61
Use in strategic management						
Financial statement analysis	75%	4.44	81%	4.32	75%	4.43
Accounting data financial analysis	71%	4.80	70%	4.65	79%	4.74

The gray boxes in the table show the highest results in each type

Source: Own study based on the questionnaire survey

management. With regard to service enterprises, financial analysis is more frequently used in operational than strategic management. Nonetheless, the level of usefulness is higher in strategic management.

While comparing the size of enterprise, the use of financial analysis conducted on accounting data and financial statements in operational and strategic management increases along with the size of an enterprise. This is not surprising since the size of the company is considered to be an important issue in determining the nature of the relationship for the enterprise in its operational environment and beyond (Abiodun 2013).

The level of usefulness of financial analysis in operational and strategic management increases along with the size of enterprise as well, excepting the situation when the level of usefulness of accounting data financial analysis in strategic management conducted by small enterprises, is on the same scale as in the large ones. This proves that small enterprises want to optimize their long-term activities based on account books data more frequently than the medium-sized ones.

Analyzing the type of range of operations, the results are diversified. One can conclude that the level of usefulness of financial analysis in operational and strategic management conducted in local and national enterprises is at a similar level and is higher than in national enterprises.

4 The Role of Analytical Areas in Operational and Strategic Management

The study of the use and usefulness of individual analytical areas in operational and strategic management has shown that (Table 6).

Table 6 General results of the use of analytical areas in operational and strategic management

Specification	Total		
	Number	% (Yes)	Likert degree
Overall	248	100	1–5
Use in operational management			
Analysis of financial liquidity	209	84	4.34
Analysis of the ability to generate revenues	163	66	4.33
Cost level analysis	215	87	4.41
Profitability analysis	189	76	4.33
Debt analysis	190	77	4.21
Use in strategic management			
Analysis of financial liquidity	205	83	4.38
Analysis of the ability to generate revenues	173	70	4.42
Cost level analysis	207	83	4.51
Profitability analysis	184	74	4.41
Debt analysis	186	75	4.25

Bold values in the table show the highest results

Source: Own study based on the questionnaire survey

The highest use and level of usefulness in operational management occurs in the cost level analysis, following the analysis of financial liquidity. Cash and cash equivalents constitute a very important element for entities, since in the short term it is not profits gained, but own financial means that are most important. The liquidity requirement of a company depends on the peculiar nature of the company (Owolabi and Obida 2012). In strategic management, only the use of analysis of the ability to generate revenues is increasing. The use of other analytical areas decreases.

In strategic management, the highest level of usefulness is observed in the analysis of the cost level. The liquidity and profitability goals are contradictory to each other in most management decisions (Niresh 2012). The challenge is to achieve the desired compromise between liquidity and profitability (Raheman and Nasr 2007). In operational management, financial liquidity should be more important than profitability. In the case when the company is not profitable in the short term but is characterized by good financial liquidity, it has the potential to further development and for improving its performance. However, in strategic management, profitability should be more important because of its lack in the long term will result in lacking financial liquidity (Goldmann 2017, p.104).



Considering the type of business activity, presented in Table 7, manufacturing enterprises are marked as the ones with the highest average use of particular analytical areas in operational and strategic management. Cost level analysis in operational management is vital for manufacturing enterprises. Service companies are characterized by the highest level of usefulness of adopting particular analytical

Table 7 The results of the type of business activity conducted with regard to the use of analytical areas in operational and strategic management

Specification	Manufacturing company		Trading company		Services providing company	
	% (Yes)	Likert degree	% (Yes)	Likert degree	% (Yes)	Likert degree
Use in operational management						
Analysis of financial liquidity	86	4.27	87	4.17	82	4.46
Analysis of the ability to generate revenues	72	4.38	55	4.08	66	4.38
Cost level analysis	89	4.46	81	4.29	87	4.42
Profitability analysis	80	4.34	83	4.13	71	4.41
Debt analysis	81	4.23	70	3.85	76	4.32
Use in strategic management						
Analysis of financial liquidity	86	4.27	87	4.20	78	4.53
Analysis of the ability to generate revenues	72	4.40	72	4.24	68	4.52
Cost level analysis	88	4.46	79	4.30	83	4.62
Profitability analysis	79	4.16	83	4.28	68	4.46
Debt analysis	79	4.20	72	4.13	79	4.42

Source: Own study based on the questionnaire survey

Table 8 The results of the company size conducted with regard to the use of analytical areas in operational and strategic management

Specification	Small		Medium		Large	
	% (Yes)	Likert degree	% (Yes)	Likert degree	% (Yes)	Likert degree
Use in operational management						
Analysis of financial liquidity	79	4.20	83	4.46	96	4.53
Analysis of the ability to generate revenues	61	4.12	64	4.41	79	4.58
Cost level analysis	82	4.26	86	4.35	98	4.76
Profitability analysis	71	4.20	79	4.48	85	4.32
Debt analysis	70	4.03	80	4.28	87	4.40
						
Use in strategic management						
Analysis of financial liquidity	79	4.30	80	4.40	96	4.48
Analysis of the ability to generate revenues	65	4.23	71	4.55	77	4.58
Cost level analysis	80	4.38	80	4.51	96	4.74
Profitability analysis	68	4.26	75	4.52	87	4.49
Debt analysis	68	4.12	76	4.30	88	4.41
						

The arrows in the table show the direction of the increase in results
 Source: Own study based on the questionnaire survey



areas in operational and strategic management. However, trading enterprises use the analysis of financial liquidity in operational and strategic management most.

Examining the type of company size (Table 8), the use and level of usefulness in individual analytical areas in operational and strategic management increases along with the size of the enterprise.

While acknowledging the range of business activity, it is similar, as presented in Table 9. The use and level of usefulness in individual analytical areas in operational and strategic management increases along with the range of business activity.

Trading enterprises use the analysis of financial liquidity in operational and strategic management most often. Examining the type of company size, use, and level of usefulness in individual analytical areas in operational and strategic management increases along with the size of the enterprise. While acknowledging the range of business activity, it remains the same. The use and level of usefulness in individual analytical areas in operational and strategic management increases along with the range of business activity.

Table 9 The results of the range of operations conducted with regard to the use of analytical areas in operational and strategic management

Specification	Local		National		International	
	% (Yes)	Likert degree	% (Yes)	Likert degree	% (Yes)	Likert degree
Use in operational management						
Analysis of financial liquidity	76	4.24	88%	4.43	89%	4.34
Analysis of the ability to generate revenues	55	4.30	71%	4.23	71%	4.49
Cost level analysis	80	4.27	87%	4.41	94%	4.54
Profitability analysis	59	4.29	84%	4.24	86%	4.47
Debt analysis	63	4.27	81%	4.19	88%	4.17
						
Use in strategic management						
Analysis of financial liquidity	72	4.36	85%	4.38	92%	4.48
Analysis of the ability to generate revenues	64	4.40	74%	4.32	71%	4.59
Cost level analysis	75	4.53	87%	4.47	89%	4.53
Profitability analysis	58	4.44	81%	4.28	85%	4.54
Debt analysis	61	4.41	80%	4.23	85%	4.15
						

The arrows in the table show the direction of the increase in results

Source: Own study based on the questionnaire survey

5 Conclusion

The survey shows that about three-quarters of the surveyed enterprises use financial analysis in operational and strategic management. This confirms that financial analysis is the basic decision-making tool in the company. The financial statement analysis is used somewhat more, while the accounting data financial analysis has a higher degree of usefulness. This is probably related to available ready tools for financial analysis. There are more tools for the financial statement analysis than accounting data financial analysis.

The highest use and level of usefulness in operational management occurs in the cost level analysis. In strategic management, also the highest level of usefulness is observed in the analysis of the cost level.

In the category type of business activity: The highest level of usefulness in operational management is the use of the accounting data financial analysis in manufacturing enterprises, whereas the highest level of usefulness in strategic management is the use of the accounting data financial analysis, conducted by service enterprises. The cost level analysis has the highest level of usefulness for them.

The size of the enterprise is the most differentiating category in the use of financial analysis in operational and strategic management. The use and usefulness of financial statement analysis and accounting data financial analysis in operational and strategic management and use and the level of usefulness in individual analytical areas in operational and strategic management increase along with the size of the enterprise.

The process of operational and strategic management decision-making, which is based on financial analysis, is more of an art than science. Zelgalve and Zaharcenko (2012) also took this position. According to them “the results of financial analysis is only the material base for decision-making but much depends on the manager himself or herself—his or her experience, intuition, intellect, logic, the ability to take risks, character, the management talent etc.” But the fundamental thing is, that managers in companies must have knowledge about the use of financial analysis in making operational and strategic decisions, using financial statements and account books data. And how they use it and to what extent it determines the individual characteristics of managers.

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