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*„What we call results
are beginnings.”*

Ralph Waldo Emerson

**THE FINANCIAL POSITION AND
PERFORMANCE OF MULTINATIONALS GROUPS
OF COMPANIES**

- Summary of doctoral thesis -

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Introduction

Multinational groups are the most important economic actors worldwide. They dominate the whole economy, creating consistent turnovers, higher than the budgets of some countries (Dunning, 2008). Their development on several continents, in very different countries in terms of accounting regulations, tax etc., required the drafting and implementation of a set of uniform norms, respected regardless of where this type of companies are operating. From the perspective of financial accounting, both the IASB and as well as researchers and practitioners in the field have recognized the need to clarify the conceptual, methodological and practical issues relating to the occurrence and development of groups of companies, drafting of consolidated accounts, the peculiarities of analysis and audit of consolidated financial statements etc. ..

In this context, timeliness and intense manifestation of concerns from researchers in the field to consolidated financial statements has been a first reason for the debate of this issue in the thesis. The second reason is represented by the fact that we noticed an insufficient approach of the analysis of consolidated financial statements in the national literature, the few papers dealing with these issues (Tiron-Tudor, 2000; Müller, 2011; Bogdan et al., 2011) focusing on other areas of related interest. Considering these aspects, we appreciate that the topic addressed in the Ph.D. thesis “*The financial position and performance of multinationals groups of companies*”, can have a real interest for those specialists concerned with the analysis of consolidated financial statements published by groups of companies, whether multinational or national.

Through the scientific approach realized we sought to illustrate, as faithfully, the analysis specificities of financial position and performance of groups of companies, taking into account three multinational groups in air transport originating from Europe, which follow the same legal regulations - IAS / IFRS and draft their consolidated financial statements in the same currency (euro), respectively, Lufthansa Group, Air France-KLM and IAG.

The purpose and objectives of the thesis

The main goal of the doctoral thesis is to reflect *the financial position and performance analysis features within groups of companies*. To achieve this fundamental objective, we decomposed it into a series of *specific objectives* as follows:

- Identifying the most relevant concepts developed over time by experts in the field on the emergence, evolution and characteristics of groups of companies;
- Theories analysis outlined in relation to the consolidated financial statements;
- The analysis of standards and international, European and national rules relating to consolidated accounts;

- Presenting the role and content of the main components of the consolidated financial statements;
- Identifying the users of consolidated financial statements;
- Illustrate some features that appear when drafting the consolidated financial statements;
- The analysis of main economic and financial ratio, representative for the financial position and performance of groups of companies;
- Determining the existence and intensity of the relationship between financial position and performance of groups of companies based on indicators of the consolidated balance sheet and the consolidated profit and loss account.

Some of these specific objectives were resolved on sub domains of interest, resulting secondary objectives according to the characteristics identified. The research conducted is mainly applied, most of the concepts identified in literature and relevant regulations being illustrated with practical examples. In this regard we draw schematic figures to show the main links between the components of financial statements.

Literature review

The complexity of the subject requires a review of the most representative studies in the field. The high number of publications on globalization, multinational groups of companies and consolidated accounts, consolidated financial reporting according to IAS / IFRS etc., has obliged us to a selection of the most relevant studies, articles and publications of interest to the topic addressed in the thesis. In this context, we conducted a literature segmentation based on the sections of the paper, as follows:

- *The conceptual approach of notions like group / multinational company* was based on ideas formulated by authors like: Hymer (1960, 1968) the originator of the theory of indirect transfers of capital; Vernon (1966), which explained the foreign activity of groups of companies by studying the American multinationals in relation to the product cycle; Magee (1977), Teleno (1970), Kuickerbocker (1973), Contractor (1980), economists which redefined and tested their predecessors theories, but also Dunning (1973, 1979), Ragazzi (1973), Calvet (1981), Caves (1981);

- *The different perspectives from which the group of companies were studied (accounting, economic, legal and tax)* were presented from a French point of view (Bezard et al., 1975; Garnier, 1986; Richard et al., 1987; Guiramaud, 1994; Barthelemy et al., 1991; Montier, 1995), respectively of Romanian academics (Munteanu, 1997; Săcărin, 2001; Mătiș, 2003; Tiron-Tudor, 2005);

– *The synthesis of standards and regulations on the consolidated financial statements* was based on the review of IAS / IFRS, Directive 34, Directive 95, respectively of OMFP 1802 / 2014, and also on the opinions identified in the local literature (Tabără et al., 2009; Bizon, 2013);

– *In the analysis of theories developed over time in relation to the consolidated financial statements* we have considered the works of some authors like: Paton & Littleton (1940), Soujanen (1954, 1958), Hendriksen (1965), Koehler (1969), Walker (1976, 1978), Baxter & Spinney (1975), but also Dumper (1991), Abad et al. (2000), Numberg (2001), Pellens et al. (2004), Kutting & Weber (2006), Newby (2006), Shortridge & Smith (2007). In this context, we also pointed out Romanian concerns on theories of consolidation through papers published by Săcărin (2008), Müller (2011) and Bogdan et al. (2011);

– *The review of the concept and usefulness of the consolidated financial statements components* implied the study of the specific regulations from the field, national and international, but also reflections on the opinions formulated by Alexander et al. (2009), Alexander & Nobes (2010), Choi & Meek (2010), Elliot & Elliot (2011), Kothari & Barone (2006), Nobes & Parker (2008), Shapiro (2014), Walton & Aerts (2013);

– *The proper analysis of the elements included in the consolidated financial statements of the studied groups of companies* was performed by considering the conceptual issues identified in the works of authors such as: Tabără et al. (2009, 2015), Săcărin (2002), Niculescu (2003), Cernușca (2004), Jianu (2007), Mironiuc (2009), Müller (2010), Petrescu (2010, 2012) Walton & Aerts (2013);

– In the *empirical study* from the fifth chapter we considered the statistical modeling suggested by authors like: Jaba (2002), respectively Jaba & Grama (2004).

After summarizing the most representative works review within each chapter of the thesis, we can notice that they are not published only by specialists in accounting, but also by economists, financiers, international relations specialists, statisticians, and, last but not least, by financial analysts. In this regard, we appreciate that the theme approached has a strong interdisciplinary character, being of interest for economic theorist, practitioners and more.

The research undertaken when writing the doctoral thesis was based on qualitative and quantitative approaches specific for economic disciplines. These were applied in correspondence with the objectives pursued in the thesis as follows:

Research methodology

Framing our approach in the current research, we believe that it is part of positivism as it aims to illustrate, in a detailed and profound manner, the theoretical and practical aspects of the analysis of consolidated financial statements. Overall, the research conducted combined

qualitative and quantitative techniques, the first being predominantly used in the conceptual approach through content analysis performed when studying the doctrine and the regulations in this area, while those in the second category were used to analyze and formulate opinions on indicators relevant to corporate groups studied.

Throughout the thesis we used a number of specific methods, among which:

– *Non-participating observation* – in the study of international, European and national regulations on consolidated financial statements;

– *Documentary analysis* – when analyzing the author’s papers, the recommendations issued by IASB, the annual reports and the consolidated financial statements published by the groups of companies studied over the last two chapters of the thesis;

– *Comparative analysis* – when reflecting the different opinions identified in the literature regarding the consolidation theories, the appearance and evolution of the expression group of companies and when conducting pertinent comparisons on the financial position and the performance of the three groups studied in the fourth chapter, and, last but not least,

– *Correlation analysis and simple regression*– for determining the existence and the intensity of linkages between the indicators of the financial position and those of performance in the fifth chapter.

Summary of chapters

The Ph.D. thesis “*The financial position and performance of multinationals groups of companies*” comprises a number of five chapters in which are presented a series of conceptual and methodological regarding the analysis of the consolidated financial statements of multinationals groups of companies, taking as example three big groups (Lufthansa, Air France-KLM and IAG), from Western Europe, which are operating in the air transport sector.

Chapter 1. Conceptual delimitations regarding the multinationals groups of companies starts with the grounds that have determined the emergence of groups of companies, namely macro and microeconomic theories developed by experts in various fields over time. In its content we presented a series of conceptual dimensions on groups of companies, namely: defining moments that have marked the development of these entities, factors that have favored their expansion, classification criteria for groups of companies in order to assign them in a certain typology (size, legal structure, the nature of performed activities, geographical localization, the existing links between companies within the group etc.).

Chapter 2. International, European and national regulations regarding the consolidated financial statements contains a summary analysis of the main standards and regulations content, based on theories developed by researchers over time regarding the need for consolidation. For

this purpose we proceeded to analyze chronological international standards issued in relation to the consolidated accounts and groups of companies, to review of the European Directives and the specific national rules.

Chapter 3. The consolidated financial statements - source of information for economic and financial analysis is dedicated to presenting the role, the importance and the necessity of drafting the consolidated financial statements and the component content. Based on the literature and the regulations in the field, we conducted a series of assessments regarding the composition of the consolidated financial statements, namely: the consolidated balance sheet, profit and loss statement, consolidated statement of cash flows, consolidated statement of changes in equity, including explanatory notes.

Chapter 4. The analysis of financial position and performance of multinationals groups from the air transport sector is methodological approaching the features of financial analysis for groups of companies. Regarding the analysis of financial position, the key indicators were calculated based on data taken from the consolidated balance sheets of three groups of companies (Lufthansa, Air France-KLM and IAG), while the performance was determined by indicators calculated based on data taken from the consolidated profit and loss account and consolidated cash flows. In addition, we have examined the main stock indices and specific indicators for air transport sector published by the three groups for the period 2007-2014.

Chapter 5. An empirical study regarding the link between the financial position and the performance of multinational groups from the air transport sector presents the analysis of the links between performance and financial position indicators of multinational groups of companies operating in the air transport sector. The indicators included in the statistical models were calculated in the Annexes of the work and their evolution has been previously appreciated during the fourth chapter. The general hypothesis is represented by the fact that among the indicators of performance and those of financial position and there is a direct, bidirectional link, meaning that the financial structure influences the results and vice versa. In general, according to the opinions of the literature, the balance sheet ratios have a significant influence on the economic entities performance. In fact, the situation can be reversed, as demonstrated by the results in the regression models designed. Thus, according to the links established between the two classes of indicators, the position is more influenced by the performance. In addition, from all indicators tested for correlations (the models originally included a total of 17 variables); we found that several indicators of financial position vary according to those of performance. Of course, the results cannot be generalized given the small sample size, but they are a starting point for future research.

Conclusions

By approaching the theme „*The financial position and performance of multinational groups of companies*” we intended to bring our personal contribution to an issue of interest to the economic and academic field, namely, if we can equate how we analyze the consolidated financial statements published by the groups of companies in comparison with those published by classical economic entities or if we use similar indicators to analyze them in terms of calculation methods and interpretation. After the analysis of the most significant theories developed over time on the concept of groups, we believe that the most plausible is that of Dunning who, reiterating paradigm eclectic OLI (1979, 1980, 1988), identified the most plausible benefits which led to the formation of this type of entity, namely: ownership, location and internalization.

Comparing the evolution of the groups studied at the economic context in which they worked during 2007-2014, it can be noted that Lufthansa and Air France-KLM have been affected by the economic crisis in 2009. Analyzing the three groups, it appears that Lufthansa is both the most performing and most stable group from the financial perspective; the indicators calculated based on the balance sheet being over the level of those of Air France-KLM and IAG.

The test of the connection and the intensity between the indicators of financial position and those of performance reflect a bidirectional relationship, marked by a significant influence of the performance on the position. In order to reflect the correlations between the variables considered we have opted for processing the indicators calculated in the fourth chapter as the testing of indicators of databases available online has not revealed strong links. Assuming the risk of a small sample, but with a more accurate data, we built several models of multiple linear regression for variables among which we identified links. Of the eight models considered, two have as an independent variable the performance indicators, while six have as an independent variable the indicators of financial position. The results reflect a higher level of performance influence on the position and not vice versa, as most research and of course the results of other similar studies carried out in the literature consider.

Personal contributions

Regarding the *theoretical research* carried out, we consider that our scientific contributions are the following:

– On the current state of knowledge in the field we made a synthesis of existing research on the whole issue of clusters, namely: an analysis of the evolution of the concept of group in the literature compared with its expansion in the real plane; a presentation of theories of groups with

the most significant explanatory factors for their emergence and development; the achievement of a classification typology of groups according to specific criteria.

– At the level of theoretical research, our personal contribution consisted of: reviewing the literature on theoretical foundations and general concepts concerning financial analysis of groups of companies, identifying the manner in which the accounting information provided by the consolidated financial statements creates added value in the process of group management, respectively how the consolidated financial statements are valued in analysis and decisions.

At the level of *applied research*, our personal contribution consists of:

– Identifying the specific financial position and performance indicators of groups in the literature and in the consolidated reports of the groups studied;

– Comparative analysis of groups based on financial position and performance indicators;

– Determining the existence of a link between the indicators of the financial position and those of performance of the groups analyzed;

– Testing the intensity of the correlation between the indicators for which were identified the most significant connections in order to achieve relevant forecasts.

Finally, through the practical research performed, we aimed to illustrate the relevance of the information provided by the consolidated balance sheet and the consolidated profit and loss account in assessing the effects of major strategic decisions on the investment and the financing of the groups of companies.

Research limits

In addition to the contributions made in the field of research, our approach presents some limitations highlighted in the next paragraph as follows:

– In the synthesis of the theories regarding the groups emergence, and the consolidated financial statements, we took into account the studies developed by the researchers internationally recognized. In order to not insist on insubstantial issues that do not bring new taught to the subject, we preferred to approach only those works which had a significant impact on the research;

– The analysis of the regulations on the matter of consolidated reporting is brief, the details found in the international, European and national law not been taken into consideration. We preferred a synthesis of the most significant aspects at the expense of a detailed analysis because we appreciated that, legislative concerns, although they have a real interest in consolidation, are an adjacent subject for the thesis;

– The considered timeframe (2007-2014) is quite low, with no possibility of relevant predictions on the evolution of the financial position and performance within the selected groups.

In addition, the uneven variation of the indicators made it impossible to build a predictive model using statistical methods for the considered time period.

In this regard, we consider that all limits identified during the previous paragraph can be converted into future research, aspects considered below.

Prospects for further research

Based on the idea that "what we call results are actually just the beginning", we consider that the research perspectives could address the issues studied insufficiently in the thesis. Therefore, new research directions may be based on previous results and may concern:

- The extension of the analysis of financial position and performance indicators across several groups of companies and for a longer period of time, which would give more relevance and objectivity to the study;
- The introduction in the analysis of more specific issues reported by a group, such as operating segments;
- Another possible line of research may consider determining the financial position and performance of the parent company in the group, by performing statistical models illustrating the correlation and regression of the indicators of the parent company with those of the group;
- In addition, there also be deepened the links established only between indicators from the consolidated balance sheet or those of the consolidated profit and loss account;
- Finally, the operationalization of the proposed research directions could be a starting point for other concerns in the field.

References

The bibliography used includes 147 books, 124 articles, 10 reports, releases and other specialty publications, 10 doctoral theses, 33 legislative acts and 35 Internet sources.