Using Financial Balance Indicators to Evaluate the Financial Performance of Economic Institutions. -Case study of the Electricity and Gas Distribution Company for the State of Mostaganem-

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Abstract :

The aim of the study is to clarify the importance of using financial balance indicators in evaluating the financial performance of economic institutions and knowing whether their performance is good or not. We tried to present the theoretical study that was concerned with defining the financial performance of economic institutions, as well as highlighting the importance of evaluating the financial performance of the electricity and gas distribution company for the state of Mostaganem.Through this study, it was concluded that the institution was able to achieve financial balance during the period studied, especially in the year 2022, and this confirms that it is able to finance all of its investments through its fixed resources.

Mots clés:

Mot clé.1: Performance financière.

Mot clé.2: Évaluation de la performance financière

Mot clé.3: Fonds de roulement.

Mot clé.4: Besoin en fonds de roulement.

Mot clé.5: Trésorerie nette.

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Résumé : Le but de l’étude est de clarifier l’importance d’utiliser des indicateurs d’équilibre financier pour évaluer la performance financière des institutions économiques et savoir si leur performance est bonne ou non.nous avons tenté de présenter l’étude théorique qui visait à définir la performance financière des institutions économiques,ainsi que de souligner l’importance de l’évaluation de la performance financière de l’entreprise de distribution l’électricité et de gaz pour l’état de Mostaganem. A travers cette étude, il a été conclu que l’institution a pu atteindre l’équilibre financier au cours de la période étudiée, notamment en 2022, ce qui confirme qu'elle est en mesure de financer l’ensemble de ses investissements à travers ses resources fixes.

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1.Introduction:

Financial analysis using financial balance indicators is considered one of the most reliable methods in providing financial indicators that can be used to evaluate the financial performance of economic institutions, considering financial performance is one of the basic types of performance in an economic institution, which is of great importance in diagnosing the financial position of the institution in order to know the extent of its ability, to achieve its goals with available means, it needs to evaluate its financial performance by measuring the achieved or expected results in light of pre-defined criteria and providing a judgment on the management of its available resources and the extent to which it achieves its planned goals, as we applied our study at the level of the Electricity and Gas Distribution Company for the state of Mostaganem.

1.1 Study Problem:

Based on what was mentioned above, we decided to raise the following problem:

To what extent do financial balance indicators contribute to evaluating the financial performance of economic institutions?

In order to understand the aspects of the problem, we asked the following sub-questions:

✓ What do we mean by the financial performance of economic institutions?

✓ What is the importance of evaluating the financial performance of economic institutions?

✓ What are the most important financial balance indicators adopted by the Mostaganem State Electricity and Gas Distribution Company for the purpose of evaluating its financial performance?

1.2 Study hypotheses:

The first hypothesis: The Mostaganem State Electricity and Gas Distribution Company relies on financial balance indicators to evaluate its financial performance.

The second hypothesis: Financial balance indicators help improve the financial position of economic institutions.

1.3 Objectives of the study:

✓Recognizing the importance of evaluating financial performance within economic institutions.

✓Focus on presenting some financial balance indicators for the purpose of evaluating the financial performance of the State Electricity and Gas Distribution Company in Mostaganem as an economic institution.

1.4 Study Methodology: To achieve the previously mentioned objectives, we followed the following scientific methods:

✓ Descriptive method: The descriptive method was used for the purpose of studying various theoretical concepts related to the research.

✓ Analytical approach: We used this approach for the purpose of presenting and analyzing the financial budgets of the research topic.

1.5 Previous studies:

1.5.1. Achi Adel study: The financial performance of the economic institution. Measurement and evaluation of a case study of the Biskra Cable Industry Corporation (2000-2002). Master's degree in management sciences, specialization in management of industrial enterprises, University of Biskra, 2002. The study aims to identify the performance of the economic institution and the factors controlling it, while trying to determine the criteria for evaluating financial performance and the indicators used in that. Among the results reached is that the institution finances a portion of its current assets with permanent funds, and thus it was able to achieve a margin of safety.

1.5.2.El-Yamen Saada Study: Using financial analysis to evaluate the performance of economic institutions and rationalize their decisions, a case study of the National Institution for the Manufacture of Instrumentation and Monitoring Instruments in Setif, Master's thesis in Commercial Sciences, University of Batna, 2009. The researcher reached the following results: The institution was able to achieve financial balance during the study period, which indicates that the institution is able to finance its investments through its fixed resources. By calculating financing ratios, it turns out that the institution is not burdened with debt, which indicates that it is able to finance its investments through the money it owns.

2.Theoretical concepts about financial performance:

Performance is considered a comprehensive and important concept for all business organizations in general and is almost a comprehensive phenomenon for all branches and fields of management knowledge. Despite the abundance of research and studies that address performance and its evaluation. However, no consensus has been reached on a specific concept of performance. Researchers still discuss performance as a technical term by discussing the levels at which it is analyzed and the basic rules for measuring it. They also believe that the disagreement over the concept of performance stems from the difference in standards and standards used in studying and measuring performance. Which researchers use, although this difference is due to the diversity of the researchers' goals and directions in their studies. (Al-ZUBAIDI, 2000, p. 81)

It is also known as: "Diagnosing the financial situation of the institution to determine the extent of its ability to create value and face the future by relying on the financial statements, taking into account the economic situation and the industrial sector to which the institution belongs." (MAATOUK, BARKAN, and KAMOUSH, 2022, p. 164)

Economic institutions are facing many challenges, most not ably the intensity of competition .To confront these challenges, we find that most economic institutions have tended to direct and improve their performance. (BOUDJENAN, 2018, p. 203)

Performance, according to Paul Pinto, means the best system for using and allocating resources among customers, workers and shareholders, and its purpose is to enhance and support the capitalist ecosystem. According to the latter, lasting and distinguished performance is based on four basic pillars:

-Values for survivals.

-Market competitiveness.

-individuals to achieve productivity.

-Specialization in professions in order to achieve profitability. (PINTO, 2003, p. 11)

Financial performance is defined as the extent to which an economic enterprise is able to optimally exploit its financial resources for both long- and short-term use in order to create wealth. (ASHI, 2002, p. 45)

According to Marcel Laflamme, financial performance is embodied in the institution's ability to achieve financial balance, provide the necessary liquidity to pay what it owes, and achieve good returns at low costs. (BOUMESBAH, 2021, p. 221)

The deterioration of the financial situation is not a sudden situation, but rather reflects a deteriorating structure , organization, and performance. (BOUDIAF, 2018, p. 296)

3. Financial performance goals:

Financial performance can achieve investors the following objectives:

✓ It enables the investor to follow and know the institution’s activity and its nature. It also helps to monitor the surrounding economic and financial conditions and estimate the impact of financial performance tools such as profitability, liquidity, activity and debt on the share price.

✓ It helps the investor in analyzing, comparing and interpreting financial data and understanding the interaction between the data to make the appropriate decision for the organization's circumstances. (SHAMLAL and BENNADIR, 2017)

4.Financial performance characteristics:

Financial performance is characterized by a set of characteristics, the most important of which are:

✓ Financial performance is a tool that gives a clear picture of the current financial situation in an economic enterprise.

✓ Financial performance motivates management to exert more effort to achieve better future performance than its predecessor.

✓ Financial performance is a tool for correcting deviations and problems that the institutions may face and identifying strengths and weaknesses. (PINTO, 2003, p. 13)

✓ Financial performance is an essential and effective mechanism for achieving the institutions' goals.

✓ Financial performance is a way to attract investors to invest in the organization. (BOUMESBAH, 2021, p. 221)

5. Stages of evaluating the financial performance of economic institutions:

Financial performance evaluation is defined as “measurement to ensure that the actual performance of work conforms to established performance standards. Evaluation is a necessary requirement for the institution to achieve its objectives based on established standards. It is a periodic process aimed at measuring strengths and weaknesses in order to achieve a specific goal planned by the institutions. In advance (SHUKRI, 2013, p. 31)

Financial performance also means that it is one of the basic elements of the administrative process, as it provides management with information and data that is used to achieve the institution's goals and determine performance trends in it, and thus provides a basis for determining the institution's path, success, and future. (DADEN, 2007, p. 34)

We find that there are many methods used to measure and evaluate performance that rely on quantitative variables and neglect qualitative variables, and even relying on quantitative and qualitative variables does not give a comprehensive picture of performance evaluation, which is often expressed in a linguistic term. (Verbal) A variable, such as saying a good performance or a poor performance. (BOUDJENANE, 2021, p. 02)

Proper application of the performance evaluation process helps achieve the goals that the institution seeks to
reach. This process goes through several stages:

✓ **Planning stage:** In this stage, budgets and estimated lists are prepared, the evaluation tools that will be used are determined, and the centers responsible for the evaluation process and the expected future goals are determined.

✓ **Results comparison stage:** In this stage, actual performance is compared with planned performance, and the goal is to know the extent of achieving the goals that were previously set.

✓ **Post comparison of results:** In this stage, it is determined whether there are deviations for the purpose of analyzing them, finding out their causes, and treating them. (Al-MUTAIRI, 2011, p. 19)

6. Financial balance indicators:

The general accounting principle achieved in the budget is (assets are equal to liabilities), and from a financial standpoint, it is assumed that uses are from specific sources of liabilities. Because we find at the top of the financial budget fixed assets that cannot be converted into liquidity except after a long period, and therefore must be financed from permanent funds, while at the bottom of the budget are debts that are paid in a short period of time that must be matched in assets by elements that can be converted into liquidity in time period. A short period of time, and this is what we mean by financial balance. (Al-Yemen, 2009, p. 58)

The financial balance in an economic institution can be considered an important criterion for evaluating financial performance, as it is a financial goal that the financial function seeks to achieve continuously in order to achieve security for the institution. Among the most important indicators of financial balance are:

6.1. Working capital (WC):

It represents the total amounts invested by the institution in short-term assets. Working capital is defined as the margin that the institution maintains in the form of liquidity, and it can be used to cover emergency needs that may occur in conditions of uncertainty, that is, in the future, allowing it to continue its activity normally without financial difficulties or pressures at the treasury level and ensuring the continued balance of its financial structure. (SAMROUD and SAHNOUN, 2020, p. 350)

Working capital is the portion of capital appropriate to financing needs, minus the asset components resulting from the operation cycle. In order to achieve the normal functioning of the enterprise's activity, capital must finance fixed assets and current assets. (PITVERDIER, 1993, p. 77)

Working capital is calculated in two ways: (Al- Yamen, 2009, p. 59)

It can be defined from the top of the balance sheet as the excess of permanent funds in relation to fixed assets.

It is calculated as follows:

Working capital (WC) = permanent resources – fixed uses.

Working capital (WC= (own funds + long-term debt) – fixed assets.

It is defined from the bottom of the balance sheet as the surplus of current assets compared to debt.

It is calculated as follows:

Working capital (WC) = Current assets – Short-term debts.

Working capital (WC) = (ready values + realized values + inventories) - short-term debts.

6.2. Working capital need WCN:

It can be defined as part of the necessary needs directly related to the exploitation cycle and which are not covered by periodic resources. It can also be said that the working capital needed by an institution on a particular date is the working capital that an organization needs to meet its outstanding debts on that date. The cycle of exploitation produces financing needs that are linked to the speed of turnover of elements of current assets (exploitation values + non-ready values), while financing resources are linked to the speed of turnover of short-term debts, with the exception of advances, which are all short-term debts at the time of their maturity, except for advances. WCN is calculated as follows:

Working Capital Need WCN = (Current assets for exploitation -Current liabilities for exploitation) +(Current assets out of exploitation - current liabilities out of exploitation)

Working capital need (WCN) = cycle needs - cycle resources. (Shanouf, 2009, p. 55)

When the need for capital is positive , it means that the institution needs capital, so it must find a resource outside the cycle of exploitation . (SEBTI, 2016, p. 423)

6.3. Net Treasury: It is the total cash available excluding bank advances. It is also known as the difference between working capital and its needs. It has great importance in the organization because it reflects an imbalance in the financial balance. (DABASH and KADDOURI, 2013, p. 8)

It is not possible to monitor the treasury and its levels except by separating the nature of the treasury flows, which originate from exploitation, which is important from the rest of the other flows. (SLAMA, 2022, p. 63)

The treasury is calculated as follows:

Net treasury = working capital - working capital need.

Net treasury = treasury assets (ready cash) – treasury liabilities (bank advances). (BOUKHALOUA, 2013, p. 37)

7. Evaluating the financial performance of the State Electricity and Gas Distribution Company in Mostaganem using financial balance indicators:

7.1. Presentation of the Algerian Electricity and Gas Company:

The Algerian National Company Sonelgaz was established by Order No. 6959 published in the Official Gazette of August 1, 1969, and replaced Electricity and Gas of Algeria, which was replaced by the same decree. It was established in accordance with Algerian insurance laws in 1947. Since its establishment, the company has increased the sale of energy by equipping and maintaining household electrical and gas machines. It has also been keen to exploit gas and electricity in the industrial and other fields. It was entrusted with the task of producing, transmitting and distributing electricity and natural gas, and based on the increasing demand for the corporation's services, in 1973 it reshaped its bases and facilities, moving the corporation's production capacity from 624 megawatts in 1969 to 1,200 megawatts in 1974 thanks to the thermal centers located in Annaba and Oran. In addition to gas generators located in Algeria, Touggourt, Ghardaia, Hassi Messaoud and Arzew.

There are 20 regional directorates for
the Electricity and Gas Directorate: Oran, Mostaganem, Sania, Tlemcen, the countryside of Beshar, Urban of Beshar, Tindouf, North Chlef, Sidi Bel Abbes, El Bayadh, Ain Temouchent, Mascara, Central Chlef, Tiaret, Relizane , Ain Defla, Tissemsilt. Saida, Adrar and Al Naama.

7.2. Analysis of the institution's financial budget:

The accounting budget of the institution shows its condition, which is the difference between its assets and its accrued liabilities, in addition of being useful in determining the outcome of the cycle. The budget in its accounting form does not respond to financial objectives, and in order for the financial analyst to be able to use it with full benefit, it must be transformed into a form that meets the financial conditions by introducing a number of amendments to its elements. (Al-Yaman, 2009, p. 104)

7.3.Analysis of the Institution's financial budget using balance indicators:

The development of the Electricity and Gas Distribution Company's activity can be tracked based on a set of financial balance indicators, which are calculated through accounting documents obtained for the years 2020, 2021 and 2022.

Table No. (01): Financial budget for the year 2020, unit 1000 DZD.

Fixed uses: non-significant Installation Significant Installation Lands Land arrangement and preparation operations Constructions Technical facilities, equipment and industrial tools Other Significant Installation Installations being completed	8451.6670 1280 12801473.99 67785589.65 62090368447.57 4317812752.19 7236722455.52	**Permanent resources:** Own funds Issued capital Revaluation difference Non-current liabilities Loans and financial debts Previously registered supplies and products	70043046927.85 6955830185.70 487216742.15 3092767870.64 195707618.50 2897060252.14
Total fixed uses	73727199170.58	Total permanent resources	73135814798.49
Current assets for exploitation: Ongoing stock customers Taxes	1532402287,31 31062336,92	**Current liabilities for exploitation:** Suppliers and accounts creditors Taxes	1576456560.09 65595951,90
Total current assets for exploitation	7619161446.49	Total current liabilities for exploitation	19171488849.94
Assets traded outside of exploitation Other debtors	50220658.37	Current liabilities outside exploitation Other debts	779149818,85
Total assets traded outside of exploitation	50220658.37	Total current liabilities outside of exploitation	779149818,85
Total treasury assets	332451054,45	Total treasury liabilities	0,00
Total treasury assets	91006832920.98	The general total of liabilities	91006832920.98

Source: The financial budget was prepared based on the accounting documents obtained from the institution.

Table No. (02): Financial budget for the year 2021, unit 1000 DZD.

Fixed uses: Non-significant installations Significant fixations Lands Land arrangement and preparation operations Constructions Technical facilities, industrial equipment and tools Other Significant Installation Installations being completed	8451.6670 12801473.99 67785589.65 62090368447.57 4317812752.19 7236722455.52	**Permanent resources:** Own funds Issued capital Revaluation difference Non-current liabilities Loans and financial debts Previously registered supplies and products	70043046927.85 6955830185.70 487216742.15 3092767870.64 195707618.50 2897060252.14

Total fixed uses	73727199170.58	**Total permanent resources**	73135814798.49
Current assets for exploitation customers Taxes	1532402287,31 31062336,92	**Current liabilities for exploitation** Suppliers and accounts creditors Taxes	1576456560,09 65595951,90
Total current assets for exploitation	1563464624.23	**Total current liabilities for exploitation**	1642052511.99
Assets traded outside of exploitation Other debtors	50220658.37	**Current liabilities outside exploitation** Other debts	779149818,85
Total assets traded outside of exploitation	50220658.37	**Total current liabilities outside the exploitation**	**779149818,85**
Total treasury assets	216132676,15	**Total treasury liabilities**	**0,00**
General total assets	75557017129.33	**The general total of liabilities**	**75557017129.33**

Source: The financial budget was prepared based on the accounting documents obtained from the institution.

Table No. (03): Financial budget for the year 2022, unit 1000 DZD.

Fixed uses: Non-significant installations Significant fixations Lands Land arrangement and preparation operations Constructions Technical facilities, industrial equipment and tools Other Significant Installation Installations being completed	**2882000,00** **3364227.742** **1800785665,041** **55997406662.25** **8778151761.87** **6431774676.73**	**Permanent resources:** Own funds Issued capital Revaluation difference Non-current liabilities Loans and financial debts Previously registered supplies and products	**61274626225.06** **60441070572.36** **867216742.15** **33661089.45-** **9900931479.43** **168873210.46** **9732058268.97**
Total fixed uses	**83034364993.73**	**Total permanent resources**	**71175557704.49**

Current assets for exploitation Ongoing stock customers Taxes	 **422456.50** **7563335653.54** **55403336.45**	**Current liabilities for exploitation** **Suppliers and accounts creditors** **Taxes**	 **19109521187.09** **61967662.85**
Total current assets for exploitation	**7619161446.49**	**Total current liabilities for exploitation**	**19171488849.94**
Assets traded outside of exploitation **Other debtors**	 **20855426.31**	**Current liabilities outside exploitation** **Other debts**	**659786366,55**
Total assets traded outside of exploitation	**20855426.31**	**Total current liabilities outside the exploitation**	**659786366,55**
Total treasury assets	**332451054,45**	**Total treasury liabilities**	**0,00**
General total assets	**91006832920.98**	**The general total of liabilities**	**91006832920.98**

Source: The financial budget was prepared based on the accounting documents obtained from the institution.

Table No. (04): Working Capital Calculation .

Years Statement	2020	2021	2022
Permanent resources	**10763699825.25**	**73135814798.49**	**71175557704.49**
Fixed uses	**10000038837.47**	**73727199170.58**	**83034364993.73**
Working capital	**763660987.78**	**591384372.09**	**11858807289.24**

Source: The table was prepared based on the institution's financial budgets.

Analysis of the results:

We note that the working capital in 2020 was positive and estimated at 763660987.78. This means that the institution was financially balanced, and according to this indicator, the institution was able to finance its long-term needs using its fixed resources and achieved a financial surplus that can be used to finance the remaining financial needs. This confirms that the institution has margin safety. The value of working capital is negative for the years 2021 and 2022. This means that the institution is not financially balanced during the period 2021-2022, and therefore the institution cannot finance long-term needs through its fixed uses.

Table No. (05): Calculating the working capital need.

Years Statement	2020	2021	2022
Current assets of exploitation - current liabilities of exploitation	**2378677230.44 -1027010557.07 =1351666673.37**	**1563464624.23- 1642052511.99 =-78587887.76**	**7619161446.49- 19171488849.94 -11552327403.45**
Assets traded outside of exploitation-Current liabilities outside exploitation	**18864826.31- 834821597.42 =815956771.11-**	**50220658.37- 779149818,85 =-72 8929160.48**	**20855426.31- 659786366,55= -638930940.24**
Working capital need	**+535709902.26**	**-807517048.24**	**12191258343.69-**

Source: The table was prepared based on the institution's financial budgets.

Analysis of the results:

We note from the table above that the working capital need for the year 2020 is positive, as this need is estimated at (535,709,902.26+), and this is due to the decrease in both financing needs and financing resources. In the years 2021 and 2022, the working capital need was estimated at (-807517048.24) and (-12191258343.69), respectively, which are two negative values that explain that the institution does not need financing resources during this period and can cover its needs for its exploitation cycle, and does not need other resources. Its duration exceeds one cycle.

Table No. (06): Calculating the treasury

Years Statement	2020	2021	2022
Working capital	**763660987.78**	**-591384372.09**	**11858807289.24-**
Working capital need	**535709902.26**	**-807517048.24**	**12191258343.69-**

Treasury	**227951085.52**	**216132676,15**	**332451054,45**

Source: The table was prepared based on the institution's financial budgets.

Analysis of the results:

From the table above, we notice a noticeable increase in the value of the treasury for the year 2022 compared to the years 2020 and 2021, as there was a decrease in the value of ready values. This is due to the increase in the value of ready-made values during the last year, and through the results obtained, it can be said that the institution can finance its exploitation cycle in addition to confronting the risks that it may encounter in the future. In addition, the institution has surplus liquidity that enables it to finance current assets.

8.Conclusion:

Through our study of the topic of using financial balance indicators to evaluate the financial performance of economic institutions.

The following results were reached:

✓ Financial performance is considered a tool for judging the efficiency of companies and judging the level of their activity and the extent to which they achieve their goals effectively, and thus judging imbalances that could affect the stability of companies.

✓ Financial balance indicators are among the most important financial tools that economic institutions rely on to evaluate financial performance.

✓ Financial balance indicators provide a picture of the financial position of economic institutions.

By conducting a theoretical study on the Mostaganem State Electricity and Gas Distribution Company during the three-year period 2020, 2021 and 2022, the following results were reached:

✓ The Foundation was able to achieve financial balance during the period studied, especially in the year 2020, and this confirms that it is able to finance all its investments through its fixed resources.

✓ The institution does not need financing resources during the years 2021 and 2022, as it can cover its needs for its operating cycle, and does not need other resources whose duration exceeds one cycle.

✓ The institution can finance its exploitation cycle during the three years 2021, 2020, and 2022, in addition to facing the risks that it may encounter in the future.

✓ The institution can evaluate its financial performance by relying on financial analysis tools, which are characterized by effective and distinguished performance. Thus, the institution can survive and continue its activity while searching for weak points to maintain its position, and this is what proves the validity of the first hypothesis.

✓ The institution can evaluate its financial position by adopting financial balance indicators, which are working capital, working capital need, and financial treasury, and this proves the validity of the second hypothesis.

Study suggestions:

✓ Paying attention to analyzing financial balance indicators when evaluating the financial performance of economic institutions because of its importance in revealing the financial position of the institution.

✓ Giving great importance to all financial analysis tools, as it is considered one of the most important tools used in proper planning for any institution that wants to survive and continue its activity.

✓ Care must be taken to achieve good financial results because this directly affects profitability.

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