

## **PERFORMANCE STUDY ON NATIONAL FOREST ADMINISTRATION ROMSILVA BASED ON TRADITIONAL INDICATORS**

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**Abstract:** The performance analysis of economic entities involves detecting failure symptoms, establishing the facts and therapy in order to recover the carried out activity. But the diagnosis of performance is achieved not only if the entity is found in difficulty but also when one wishes to improve it. Economic analysis plays a fundamental role in evaluating, adjusting, and improving the economic and financial performances of entities. The choice of performance indicators and calculation methods, as well as their significance is a major problem for the economic entity and its partners.

**JEL classification:** M41, M42

**Keywords:** financial and economic performance, performance measurement, profit and loss account, traditional indicators, rates of return.

### **1. INTRODUCTION**

The performance of an entity is defined by comparing the results obtained with the consumption of production factors which have contributed to obtaining them, or by comparing the outputs expected.

Performance is the best result of work over the existing sector-specific, summarizes the appreciation of others recorded outstanding results that exceed current levels. Etymologically the term comes from the French word performance.

One of the requirements of the concept of performance is the comparison of the present achievements with others obtained in the past. To be efficient means to achieve or exceed goals. The chosen referential may be not only the particular objective to be achieved, but also the results of the economic competing agents, working in the same sector. This appreciation has, however, a relative character, since it is possible that none of the players in the market may be capable of performing at a given time.

### **2. OBJECTIVES**

We shall present, on the base of data in the profit and loss account of the National Forest Administration Romsilva, the evolution of the main traditional indicators that emphasize its performance and we shall diagnose the health of the utility.

### **3. METHODOLOGY**

To mark the financial and economic performance in the National Forest Administration Romsilva a system of traditional indicators has been used, indicators calculated on the basis of the profit and loss account of the National Forest Administration

Romsilva, for the years 2009 and 2010 and its subunit, the Forestry Department of Dolj County.

#### 4. ANALYSES

In the first stage of the analysis it is calculated the gross operating result, based on the income and expenses for the two years 2009 and 2010, by also taking into consideration the structural analysis of the gross operating result.

A particular aspect of this analysis is the fact that the National Forest Administration Romsilva carries out 11 types of activities, with different performance levels.

Activities can be grouped into four main groups as follows: security and protection of forests (of which yields some 70% of products), activities directly related to logging (seeds, nurseries), export-related activities (hunting, beekeeping, fish farming, pheasant preserve, wicker manufacture) logging related activities (picking berries, mushrooms and other products: medicinal herbs, timber). These activities are carried out at different National Forest Administration subunits, depending on the area, be it mountain, plain, or both.

So, a structural analysis of the gross operating result for the process can be done. Given the fact that these activities differ from one subunit of the National Forest Administration to another, we will do a financial analysis based on the data of the subunit of the Forestry Department of Dolj County.

**Table no.1**

No	Activity	Operating Income 31.12.2010	Operating expenses 31.12.2010	Gross operating result 31.12.2010
1.	Care and protection of forests	27.470.884	27.227.601	243.283
2.	Nurseries	961.197	919.388	41.809
3.	Hunting	131113	128.628	2.485
4.	Related activities (picking berries, timber)	380.660	334.440	46.220
5.	<i>Total operating</i>	<i>28.943.854</i>	<i>28.610.057</i>	<i>333.797</i>

Based on data from the table no. 4, we estimate that the largest share in the total gross operating income is a result of the work of care and protection of forests (72.88%).

Note that hunting has an insignificant contribution on obtaining an accounting profit, representing a current problem of the Forestry Department Dolj, for its fauna has an important ecological, economic and social role of contemporary society, among the main causes being:

- reducing the herd of game year to year, causing the decrease in income
- a significant increase in staff costs for hunting fund management

In table no. 2 are presented calculations of performance indicators based on data from the Profit and Loss Account of the National Forest Administration.

Table no.2

No.	INDICATORS	Analysis period		Modificatio ns	Rate (%)	
		2009	2010		2010/2009	2009
		Thousand lei	Thousand lei	Thousand lei	%	%
1.	Operating income	1364031	1255898	-108.133	100	92,07
2.	Operating expenses	1332956	1225167	-107.789	100	91,91
3.	<i>Operating result</i>	<i>31.075</i>	<i>30.731</i>	<i>-344</i>	<i>100</i>	<i>98,89</i>
4.	Financial income	2959	1714	-1245	100	57,92
5.	Financial expenses	3519	7187	-3668	100	204,23
6.	<i>Financial result</i>	<i>-560</i>	<i>-5473</i>	<i>-4913</i>	<i>100</i>	<i>977,32</i>
7.	Extraordinary income	0	0	0	100	0
8.	Extraordinary expenses	3412	900	-2512	100	26,37
9.	Extraordinary result	-3412	-900	2512	100	26,37
10.	Current result	30515	25258	-5257	100	82,77
11.	<i>Gross total result</i>	<i>27.103</i>	<i>24.358</i>	<i>-2745</i>	<i>100</i>	<i>89,87</i>
12.	Net result	21.242	17.256	-3986	100	81,23
13.	Share of operating result	114,65%	126,16%	*	*	*
14.	Share of financial result	-	-	*	*	*
15.	Share of extraordinary result	-	-	*	*	*

From the evolution of indicators in the two financial years 2009 and 2010 and on the basis of absolute and percentage changes can be drawn the following conclusions:

- while operating costs have decreased, the operating result has suffered a decrease of about 1% of the value recorded on 31.12.2009;
- lower operating result was influenced by lower operating income compared to 2009;

- financial result is negative and recorded a significant increase of loss as a result of the use of credit lines in forest departments and also due to financial leasing contracts concluded in previous years;

- note that in achieving gross total income operating income has full contribution, the other results related to financial and extraordinary activities being negative.

- due to significant loss recorded in the financial and extraordinary activity, the gross result declined in 2010 compared to 2009 with 10.13%.

- the net result recorded a loss higher than the gross result which is explained by increasing income tax expenses compared to 2009;

Using data presented in table no. 5 and the matrix of the current outcome analysis presented above we may consider that the National Forest Administration Romsilva corresponds to an ideal situation where the current outcome is positive because the operating outcome is large enough to cover the financial costs. So we believe that the National Forest Administration Romsilva promoted a policy of financial independence - "**good enterprise manager**"; the leverage effect will allow it to improve financial profitability, without being affected by financial risk.

*Structural analysis of the turnover in the National Forest Administration Romsilva can be given considering the main components that help achieve it, according to its object of activity, based on data in table no. 3.*

**Table no. 3**

No.	Specifications	Turnover 31.12.2009 (thousand lei)	Turnover 31.12.201 0 (thousan d lei)	Modifications	
				absolute	percenta ge
1.	Wood	921.914	812.407,7	-109.506,3	88,12%
2.	Wicker products, ornamental trees and shrubs, Christmas trees	2.274	1552,9	-721,10	68,28%
3.	Seeds and forestry and ornamental seedlings	14.071	16.018,80	1947,80	113,84%
4.	Forest related products (berries, mushrooms)	18.154	18.126,7	-27,30	99,84%
5.	Hunting products (hunting live game, meat)	17.396	16.127,40	-1.268,60	92,70%
6.	Fish products (trout for consumption)	9.181	9.598,90	-417,90	104,55%
7.	Other recoveries (provision of forestry services and forest guard, management contracts)	166.320	202.273,5	-35.953,50	121,61%
8	Total turnover	1.149.310	1.076.106	-73.204	93,64

Because turnover is expressed in current prices, strong growth in prices has to be corrected with the inflation index, otherwise much information loses reliability, and thus

the conclusions of the analysis may be distorted. To illustrate this phenomenon at the National Forest Administration Romsilva, data in table no. 4 is used.

**Table no. 4**

No.	INDICATORS	Analysis period		Modificatio ns	Rate (%)
		2009	2010	2010/2009	2010/2009
		Thousand lei	Thousand lei	Thousad lei	%
1.	Net turnover	1149310	1076106	-73204	93,63%
2.	Price increase index	1,00	1,05	-	-
3.	Net turnover in comparable prices	1149310	1024863	-124447	89,17%

In 2010, net turnover decreased by 73,204 thousand lei, that is 93,63%.. Correcting these data by comparing the inflation with price index, the decrease of the turnover is more significant, that is 89.17%.

Decreased turnover in 2010 compared to 2009 was due to the following causes:

- non-inclusion in the turnover of the National Forest Administration Romsilva, in 2010 compared to 2009, of the turnover amount of 5.636 thousand lei related to the parks, as a result of legislative changes concerning the reorganization of these institutions to ones with legal personality;

- difficulties encountered by forest departments in wood turning (commercial terminations by utility partners in the current economic situation);

- non-inclusion, as a result of specifications of P.F.M. control agents, in the category of the operating income of the value of timber exploited form the private property forests;

- reduced demand for wood;

- non-payment by the Ministry of Agriculture and Rural Development of the amounts requested by the Administration, that is: 1,34 million lei for expenses incurred in guarding the forests according to the order of MAFRD no .454/2006 and those of maintenance expenditure on the national genetic heritage of horses of 1,132 million lei;

- in 2010, invoices issued at the end of 2009 were reversed, worth 764,654 lei

- payment by the Ministry of Agriculture, Forests and Rural Development of an amount of 8,537 million lei from the total of 10,3 million approved by the income and expenses budget.

Analysis of the other traditional indicators involves using Situation of Intermediate Management Balances, which is presented in table no. 5.

Table no. 5

No	INDICATORS	Analysis period		Modifications	Rate (%)
		2009	2010	2010/2009	2010/2009
		Thousand lei	Thousand lei	Thousand lei	%
1.	<b>Income from selling goods</b>	7785	8080	295	103,78
	<b>Cost of goods</b>	2587	2603	16	100,61
1.	Trading margin	5198	5477	279	105,36
2.	Production of the year	1209561	1112283	-97278	91,95
	<b>Sold production</b>	1140738	1067734	-73004	93,60
	<b>Stored production</b>	64851	42908	-21943	66,16
	<b>Assets production</b>	3972	1641	-2331	41,31
	<b>Material expenses</b>	174299	141801	-32498	81,35
	<b>Expenses made by third parties</b>	389195	320300	-68895	82,29
	Added value	651265	655659	4394	100,67
	<b>Operating subsidies</b>	19036	17686	-1350	91,90
	<b>Other taxes</b>	13044	13131	87	100,66
3.	<b>Staff costs</b>	534499	560068	25569	104,78
	Gross operating excess	122758	100146	-22612	81,58
	<b>Other operating income</b>	145897	135243	-10654	92
	<b>Amortization expenses and operating reserves</b>	51282	51782	500	100,97
	<b>Other operating expenses</b>	186297	152876	-33421	81,06
	Operating result	31076	30731	-345	98,88
	<b>Financial income</b>	2959	1714	-1245	57,92
	<b>Financial expenses</b>	3519	7187	3668	204,23
	Financial result (Fr)	-560	-5473	-4913	977,32
	Current result (Cr)	30514	25258	-5256	82,77
	<b>Extraordinary income</b>				
	<b>Extraordinary expenses</b>	3413	900	-2513	26,36
	Extraordinary result	-3413	-900	-2513	26,36
	Total result	27102	24359	-2743	89,87
	<b>Income Taxes</b>	5860	7102	1242	121,19
	Net result for the year	21242	17257	-3985	81,24

### **Interpretation of the situation of Intermediate Management Balances at the National Forest Administration Romsilva:**

**The trading margin** shows an insignificant increase in both absolute and percentage values, recording a faster increase than the increase of selling goods.

**Production for the year** declined by 73,004 thousand lei, that is 6.4% compared to 2009. It shows a significant increase in the production of assets by 58.69% and in the stored production by 66.16%.

The decline of the stored production in 2010 compared to 2009 is due to the policy practiced by the National Forest Administration regarding the sale of timber, namely creating stocks of wood and exploiting according to demand.

In 2009 tenders were organized for service provision and for the collection of wood, even if there is no outlet for the created stocks.

We believe this trend of diminishing stocks of mass production is favorable, considering that a large amount of exploited timber is not stored in commercial areas, staying on the field, which can cause deterioration of its quality.

As production for the year has a high share in the turnover, 99.22%, causes which helped to its decline are the same that we mentioned before, when explaining the turnover.

The added value increased compared to production of the current year 2010.

This indicator has an almost similar evolution compared to 2009, registering an increase of 0.67%, explained by the increase generated by the growth of the workload and the production in a superior rate compared to the growth of expenses with the third parties.

**Operating excess** declined compared to 2009, situation which can be explained by the decrease of operating subsidies and the increase of staff costs.

Information provided by the situation of Intermediate Management Balances allows an analysis of the general situation of business performance. For this purpose, we follow a series of correlations between indicators presented in the National Forest Administration:

- the added value index is ahead of the production index for the year, reflecting the reduction of material consumption in the production
- the gross operating excess index is lower than the added value index, which reflects the increase of taxes and personnel costs in the added value;
- the operating income index is greater than the gross operating excess index, which reflects the reduction in amortization expenses in the gross operating excess.

Although the index of gross operating excess is higher than the added value index, we believe that the National Forest Administration has developed an efficient activity.

### **5. CONCLUSIONS**

For determining the health of the National Forest Administration-Romsilva we shall present the strengths, the weaknesses, the opportunities and the threats, based on the SWOT analysis.

<b>Strengths</b>	<b>Weaknesses</b>
Increased revenue from the sale of goods (pheasant, trout, juices, etc.).	Decrease in the production and in the turnover compared to 2008
Reduction of timber stocks by eliminating the mandatory wood turning through auctions of services;	The volume of timber harvested in 2009 is 338 000 square meters lower than in 2008
Reduction of the costs of goods	The decrease of forest area with 120,224 ha than in 2008
Insignificant decrease in the operating result	Average price decrease in the total timber recovery

<p>considering the objective causes that lead to the decrease in the turnover rate  A total asset growth  Increased equity  Making gross profit through a major internal effort  Growth of the trading margin  Growth of the added value</p>	<p>by 5% due to market crisis that has affected wood market, like every other sector  The negative result for the financial activity due to the use of credit lines and leasing operations in progress  The negative result of extraordinary activity caused by natural disaster (floods) in forest area  Increasing income tax expenses due to legislative changes in tax policy compared to 2008  A decrease in the total result  Loss in the financial and operating activities  Decrease in the production  Decrease in the gross operating excess decrease in the result indicators</p>
<b>Opportunities</b>	<b>Threats</b>
<p>High demand for wood product that could exceed available supply in the medium / long  A large number of customers who use wood as raw material  The significant increase of economic agents in the processing sector, due to progress in the productivity  The existence of skilled labor involved in forestry  Opening of foreign markets for the valuable wood assortments  The development of national forest road network  Harvesting costs can be reduced by making investments in network expansion and rehabilitation of forest roads</p>	<p>Reduction of the national forest area  Forest productivity decline due to climate changes  Illegal deforestation contributing to the occurrence of problems of soil erosion and flood  The pressure of population in areas adjacent to forest, wood being the only means of existence  The increasing number of owners and therefore, the increasing amount of timber in the market  The current economic crisis</p>

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