

ROLE OF FINANCIAL INFORMATION IN DEVELOPMENT OF EXPANSION AND REFURBISHMENT PROJECTS. A STAKEHOLDERS ANALYSIS CASE

Adriana Florina POPA¹
Mihaela Diana OANCEA- NEGESCU²
Maria Loredana POPESCU³

ABSTRACT

The XXIst century is intended to be the century of information obtained in due time for the adoption of most suitable economic decisions. Nowadays, strategic and operational strategies impose a continuous dialogue with interested parties, also called stakeholders, as users of financial information. Reporting achieved results is a key ingredient in continuously building, sustaining and improving the interested partners' participation. The option for such a research paper came from the desire to help the users of financial accounting information. In order to achieve this objective, we applied the analysis of stakeholders in terms of an investment project that will have a strong impact on the corporate development and on its relations with stakeholders in the same time. The purpose of this paper is to prove that the Stakeholder Management Model could be successfully adapted to a public held company. Therefore, our study starts by defining the concept of stakeholders and continues with an application of the concept in case of a public held Romanian company, while underpinning their contribution to the business's development projects. Not at least, the role of financial communication is underpinned based on the belief that an efficient communication is essential inside the company – stakeholders relationship.

KEYWORDS: *financial information, Stakeholder Management Model, expansion projects, refurbishment projects, forecasted investment plan*

JEL CLASSIFICATION: *M10*

1. INTRODUCTION

Our study bring into attention the case of Oltchim SA, a company which is among the top players in the chemical and petrochemical industry in Romania and in the Eastern Europe, despite the fact that its current financial situation is not a favorable one. There have been efforts to acquire a large production capacity for nearly four years. In the last twenty years, the chemical industry has become increasingly concentrated.

In addition to upgrading existing facilities, using a vertical integration strategy, the company plans to acquire a company which is its main supplier of raw materials. The company to be acquired holds the monopoly of supply of raw materials mainly due to the special freight conditions. In terms of technology, the company can not operate at full capacity without consuming this raw material, which is crucial in producing its main product. Moreover, the operating facilities in this company are made in an integrated system, designed to provide an advanced processing of the basic raw

¹ The Bucharest University of Economic Studies, Romania, adriana.fp@gmail.com

² The Bucharest University of Economic Studies, Romania, mnegescu@yahoo.com

³ Spiru Haret University, Romania, popesculrldn@yahoo.com

material from the acquired company. Ceasing supply of basic raw materials in earlier periods resulted in stopped production activities.

We presented this information in order to have an insight into the causes which led to the existing financial situation with a negative impact on different categories of stakeholders. After the acquisition of its main raw material supplier, the analyzed company intends to carry out the revision of equipments, being able to function with this integrated activity in the shortest time possible. The acquisition and the restart of the activity are budgeted to lead to fully operating equipments, as shown in the forecasted investments plan later presented.

On the long term, Oltchim's activities are planned to be integrated with those of the taken over company, fact which is expected to lead to an operational profit and a positive cash-flow, as shown in the business plan.

In addition to the goal of vertical integration with the main supplier, the company has provided a series of investments that are expected to ensure, among others:

- running at current capacity up to a medium-term horizon through:
 - works to increase the operational safety of equipment;
 - fulfillment of environmental protection tasks imposed by European legislation;
 - higher recovery of waste and by-products;
 - increasing the quality of products delivered in the market by continuous final control.
- increasing production capacities and upgrading existing ones in a medium-term horizon:
 - increasing production capacities for the basic products;
 - upgrading the production facilities with impact on products costs and quality;
 - monitoring the polluting activities;
 - increasing production facilities for the intermediate products;
 - replacing some equipments physically depreciated or morally impaired.

In order to compete in terms of costs, the company must adopt strategies to reduce them. Nevertheless, costs are a significant part in economical appraisal, but they have limited value in determination of optimum level of quality within a company. This occurs since the business main scope is to maximize the profit and not minimize the cost (Sgârdea et al., 2009).

Investments are necessary and they are a condition for achieving the overall policy, related to obtaining a long term profit and long term fostering of all types of interests. These are mostly related to finding funding sources for budgeted objectives, leading to a financial effort that the company can not afford.

The marketing objectives of the company derive from the overall policy objectives, such as:

- turnover increase;
- market share increase;
- new customers for additional production;
- new investors for investment projects.

Financial forecasts presented in our research were achieved for a proper fulfillment of these objectives.

2. THEORETICAL FOUNDATIONS

For many companies the concept of *stakeholders* represents the key to success in terms of current economic environment, when a new approach of the management of the company is needed, as seen through the relations with those who have interests in the company, both an economic direct interest and an interest generally related to the corporate social responsibility. Therefore, modern management should be concerned about creating value and maintaining key stakeholders (Freeman et al., 2007, p.4).

Stakeholders are those entities that represent a part of the microenvironment of the company that could manifest certain interests in direct relations with a public held company. It is of interest in our study the way these interested parties or *external users*, as defined in the IFRS (International

Financial Reporting Standards) Framework, can influence company's activities and how they can be successfully exploited inside the company.

According to the IFRS Framework, as issued by IASB (International Accounting Standards Board), the primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit. They are interested in information about the resources of the entity not only to assess an entity's prospects for future net cash inflows, but also how management has effectively and efficiently discharged their responsibilities to use the entity's existing resources. Lapteş & Popa (2011) point out that national standard setters should insure that IFRS meet the needs of the stakeholders in their countries.

This concept and its evolution are closely related with Freeman (1984), who defined a *stakeholder* as a party which could affect the company's actions or could be affected by them. Since then, the concept was accepted in the business practice and in theories on strategic management, corporate governance and corporate social responsibility (CSR) Freeman & Reed (1983), but it is difficult to include them in a certain economy domain.

Freeman based his theories on what really happens inside the company, emphasizing the importance of financial information in communication with stakeholders, as well as the way they can influence the image of the company and its financial results. Even if this concept is attributed to Freeman, the results of its research were not accidental, being based on previous researches. Those researches represent in fact the beginning of *stakeholders' management*, being related to the researchers of Stanford Research Institute (SRI) in the 60's (Carroll & Nasi, 1997).

A decade later, from the first definition presented by Freeman, Hill and Jones (1992) consider that the term of *stakeholder* refers to a group of persons having a legitimate interest in the company. Maloney (2006) argues that the stakeholders are individuals or groups that benefit from the organization. His theory is nevertheless contradicted by practice, because of numerous situations in which the stakeholders' rights are affected by the company.

Stakeholder could often affect purposes, objectives and development of the company, in some cases even jeopardizing the existence of the company.

According to another definition, given by Weiss (2006), the stakeholder is a person with a certain purpose in the company. The stakeholders' interest represents the basis of its long term development strategy for the company. This interest is not always an economic one though, in some cases related with the companies' life also being a social and a political one.

The term was extended nowadays, being difficult to identify it inside an area of a certain discipline, because many academic branches produced theoretical models about stakeholders (Roberts & Mahoney, 2004). The essence of the previously presented definitions is that the stakeholders' theory reveals the importance of relations between internal or external stakeholders, which have a legitimate interest in the company. Thus, the company builds its own strategy starting from those relations whom it develops and manages related to its own objectives.

We must not neglect the role of the financial accounting information, with its obligation to express truth, fairness, clarity and precision. Information about the nature and amounts of a reporting entity's economic resources and claims assists users to assess that entity's financial strengths and weaknesses; to assess liquidity and solvency, and its need and ability to obtain financing. For example, information about the claims and payment requirements assists users to predict how future cash flows will be distributed among those with a claim on the reporting entity (<http://www.iasplus.com/en/standards/standard4>).

3. RESEARCH METHODOLOGY

This research aims to develop an analysis of the main categories of interests, given their position towards the above mentioned objectives, in the context of an existing intention of expanding the company, both nationally and internationally, by developing new production capacity. In this attempt, we applied the stakeholders' analysis in an investment project, which is expected to lead to a strong impact on the company's development, as well as on its interested parties (Mintzberg et al., 1995).

The selection of *stakeholders* was made considering the impact they have on the development projects, because the company's activity in Romania involves several factors. We also took into consideration the European Union influence since the special policies in the chemistry, as well as the appropriate legislation, affect the company's activity. The European Commission Decisions on the company's financing had a negative impact over time, because they were considered state aid. They were also challenged by the minority shareholders.

Activities taking place within the company are based on procedures derived from policies defined by ISO. An important condition for the company's development is to obtain ISO accreditation necessary for selling its products on the market, given that the first condition to be met for entering on a given market with specific products company is to fulfill the quality standards. In this respect, over time, the company has sought to obtain all the necessary national and international accreditations for quality.

The process used in the analysis is the calculation of a scoring, taking into account many factors involved and the degree to which they can influence certain decisions. Thus the following typology of stakeholders was obtained:

- S - sustains development;
- SM – sustains development without an active involvement;
- N – neutral position towards certain elements;
- OM – doesn't fully sustain, moderate opposition;
- O - total opposition to development.

Based on the scoring result, it is clear that the shareholder has the greatest influence, because it is the main funder of the projects that are to be applied to the company.

Inside the management model developed by the company, the union support is a very important factor, considering that some of the company's employees were temporarily laid off for a long time and possible strikes and protests have direct impact on production volume and product unit costs.

The company aims to increase the demand for its products and the market share, based on increasing the production capacity and achieving lower production costs, which can be a competitive advantage. Company's products distributors have an important contribution to the achievement of the market share, this being noted from the fact that they have obtained the third place, along with the company's clients, in that hierarchy.

Another place in this hierarchy is occupied by the majority shareholder who, through allocating the financial resources, can influence the success of the strategy adopted by the company. The suppliers are situated at the same level, because the quality and price of raw materials may affect the production process and the prices of the finished goods. The company's local suppliers of services and utilities, which provide the transport of finished goods, such as industrial water required for the production process, can particularly influence the production costs and selling prices.

The minority shareholders represent a leading provider of reliable capital for the company, their point of view being very important in launching projects in order to be implemented by the company. The conflict with one of these shareholders has stopped launching some important projects that received support from the major shareholder. The company has to plan the communication improvement between them, in order to benefit from a cheap long term source of capital.

The banks which financially support the company have an important contribution to the development project. Local state agencies also have a notable influence on this project because they timely approve and authorize the operation of certain facilities. Some of the investments to be made in society are related to environmental protection.

Company's main competitors are external producers (Poland, Hungary), with whom the company particularly competes for the Eastern European market.

The research results regarding the Stakeholders Analysis are graphically represented below:

Table 1. Stakeholders with national influence level (MAJOR)

No.	Organization / Position	Internal/ External	Position / Interest degree (S, SM, N, OM, O)	Power (S, SM, N, OM, O)							Ability to mobilize resources	Leadership KOL (S, SM, N, OM, O)	Scoring (18)
				Resources									
				Political	Financial	Human	Material	Informational	Technological				
1	The Ministry of Economy (state)	Internal External	4	4	3	2	2	3	2	3	4	27	
2	The Ministry of Finance (state)	External	3	3	3	2	2	3	2	2	2	22	
3	UE	External	1	2	2	2	2	2	2	2	2	17	
4	PCC Polonia (competitor)	External	0	0	0	0	0	0	0	0	0	0	
5	Borsodchem Ungaria (competitor)	External	1	1	0	0	2	1	1	2	0	8	
6	ISCI societies	External	4	2	2	2	2	4	2	3	3	24	
7	Raiffeisen Austria (bank)	External	4	2	3	2	2	2	2	2	2	21	
8	BRD SG France (bank)	External	4	2	3	2	2	2	2	2	2	21	

Source: adapted from the financial accounting information of SC OLTCHIM SA

Table 2. Stakeholders with local influence level (MEDIUM)

No.	Organization / Position	Internal / External	Position Interest degree (S, SM, N, OM, O)	Power (S, SM, N, OM, O)							Ability to mobilize resources	Leadership KOL (S, SM, N, OM, O)	Scoring (18)
				Resources									
				Political	Financial	Human	Material	Informational	Technological				
1.	Distributors	External	3	2	3	2	2	3	2	3	3	23	
2.	Ardava Rm. Valcea (client)	External	3	2	3	2	2	3	2	3	3	23	
3.	Spumotim Timisoara (client)	External	3	2	3	2	2	3	2	3	3	23	
4.	Say Polymers Olanda (client)	External	3	2	3	2	2	3	2	3	3	23	
5.	Eurofoam Ungaria (client)	External	2	2	2	2	2	1	2	2	2	17	
6.	Small shareholders	External	3	2	2	2	2	2	2	2	2	19	
7.	Union	External	3	3	2	3	2	3	2	3	3	24	

8.	Electrica SA (supplier)	External	4	2	3	2	2	2	2	3	2	22
9.	CET Govora (supplier)	External	4	2	3	2	2	2	2	3	2	22
10.	OMV Petrom (supplier)	External	3	2	2	2	2	2	2	3	2	20

Source: adapted from the financial information of SC OLTCHIM SA

Table 3. Stakeholders with local influence level (SMALL)

No.	Organization / Position	Internal/ External	Position Interest degree (S, SM, N, OM, O)	Power (S, SM, N, OM, O)							Leadership KOL (S, SM, N, OM, O)	Scoring (18)
				Resources						Ability to mobilize the resources		
				Political	Financial	Human	Material	Informational	Technological			
19	CFR Marfa Valcea (supplier)	External	3	2	3	2	3	2	3	2	2	22
20	Directia Apelor Olt Valcea (supplier)	External	2	2	2	2	2	2	3	2	2	19
21	Garda de mediu Valcea (supplier)	External	2	2	3	2	2	3	2	2	2	20

Source: adapted from the financial information of SC OLTCHIM SA

Where:

S - sustains development (4)

SM – sustains development without an active involvement (3)

N – neutral position towards certain elements (2)

OM – doesn't fully sustain, moderate opposition (1)

O - total opposition to development (0)

Table 4. Distribution of interest groups influence

Stakeholders – total:	21	100 %
of which:		
- internal	3	14 %
- external	17	81 %
- other	1	5%

Source: adapted from the financial information of SC OLTCHIM SA

Stakeholders, total:	21	100%
of which:		
- state	3	14%
- UE	1	5%
- union	1	5%
- minor shareholders	1	5%
- clients	4	19%
- distributors	1	5%
- suppliers	5	24%
- competitors	2	10%
- banks	2	10%
- ISO	1	5%

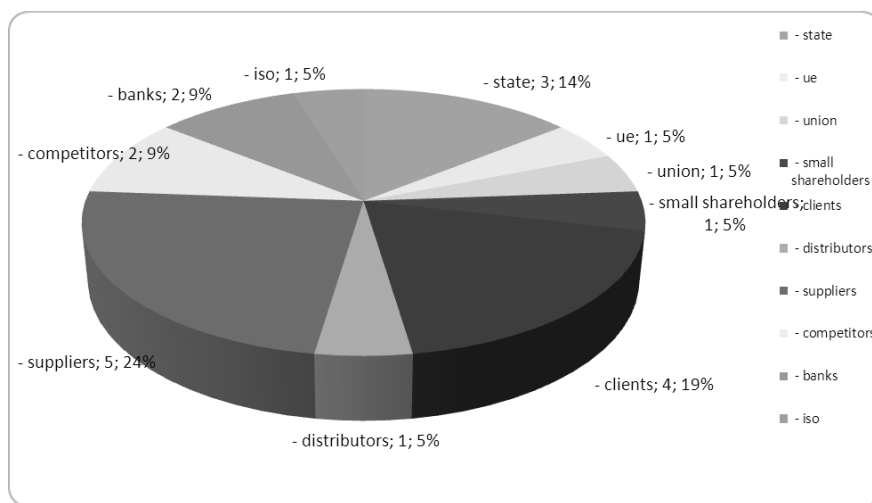


Figure 1. Distribution of interest groups influence

Source: adapted from the financial accounting information of SC OLTCHIM SA

Table 5. Forecasted investments plan 2012 - 2015

-thousands of euros -

No.	Investment	Total				
			2012	2013	2014	2015
1	Increasing capacity of Polioles plant	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
2	Modernization of Propenoxid plant	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
3	Refurbishment of PVC II – Polymerization plant	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
4	Refurbishment of DGL - DLI	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
5	Special Polioles plant	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0

No.	Investment	Total				
			2012	2013	2014	2015
6	Increasing capacity of RAMPLAST	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
7	Refurbishment of PVC I plant	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
8	Increasing plant capacity	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
9	Closing dangerous offals catchpits	6,000	2,000	2,000	2,000	0
	own Souces	0	0	0	0	0
	loans	6,000	2,000	2,000	2,000	0
10	Closing offal catchpits	2,000	200	1,000	800	0
	own Souces	0	0	0	0	0
	loans	2,000	200	1,000	800	0
11	Opening new catchpits	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
12	Treatment of worn out waters - Propylene Oxide section	6,500	3,000	3,500	0	0
	own Souces	0	0	0	0	0
	loans	6,500	3,000	3,500	0	0
13	Modernization of Biological Cleaning plant	16,000	7,000	5,000	4,000	0
	own Souces	0	0	0	0	0
	loans	16,000	7,000	5,000	4,000	0
14	Recovering Propylene from abgas PO + OXO	1,300	600	700	0	0
	own Souces	0	0	0	0	0
	loans	1,300	600	700	0	0
15	Modernization of Final Control Station	3,000	1,000	1,000	1,000	0
	own Souces	0	0	0	0	0
	loans	3,000	1,000	1,000	1,000	0
16	Refurbishment of Electrolysis	10,000	10,000	0	0	0
	own Souces	0	0	0	0	0
	loans	10,000	10,000	0	0	0
17	Monitoring sistem for pollutants AF-DOF	0	0	0	0	0
	own Souces	0	0	0	0	0
	loans	0	0	0	0	0
18	Other investments	18,000	3,000	5,000	5,000	5,000
	own sources	18,000	3,000	5,000	5,000	5,000
	loans	0	0	0	0	0
19	Investment in petrochemy	84,000	84,000	0	0	0
	own sources	0	0	0	0	0
	loans	84,000	84,000	0	0	0
20	New VCM plant	80,000	80,000	0	0	0
	own Souces	0	0	0	0	0
	loans	80,000	80,000	0	0	0
	Total, from which:	226,800	190,800	18,200	12,800	5,000
	own Souces	18,000	3,000	5,000	5,000	5,000
	loans	208,800	187,800	13,200	7,800	0

Source: The investments program of SC OLTCHIM SA

Table 6. Business plan 2012 - 2015

-thousands of euros -

		INDICATORS	No	2012	2013	2014	2015
I		TOTAL INCOMES	1	954,826	1,215,647	1,271,048	1,356,121
	1	Total operating incomes, from which:	2	944,826	1,205,647	1,261,048	1,346,121
		a) sale production	3	936,151	1,196,867	1,252,159	1,337,233
		b) other operating incomes (merchandise)	4	8,675	8,78	8,889	8,889
	2	Total financial incomes, from which:	5	10	10	10	10
		a) incomes from interests	6	0	0	0	0
		b) others financial incomes	7	10	10	10	10
II		TOTAL EXPENSES	8	919,734	1,054,521	1,066,854	1,077,333
	1	Total operating expenses, from which:	9	838,919	980,842	1,000,540	1,018,322
		a) expenses with raw materials and materials	10	495,43	586,792	594,611	605,947
		b) expenses with utilities	11	208,936	230,246	237,65	242,699
		c) salaries and related expenses	12	40,899	42,433	43,945	44,955
		d) amortization expenses	13	24,142	49,135	49,737	50,721
		e) others operating expenses	14	69,512	72,236	74,597	73,999
	2	Total financial expenses, from which:	15	80,814	73,68	66,314	59,012
		a) expenses with interests	16	65,314	58,18	50,814	43,512
		b) others financial expenses	17	15,5	15,5	15,5	15,5
III		RESULT (profit/loss), from which:	18	35,092	161,126	204,194	278,788
		- operating result	19	105,906	224,806	260,508	327,8
		- financial result	20	-70,814	-63,68	-56,314	-49,012
IV		Income tax	21	10	25,78	32,671	44,606
V		NET PROFIT	22	35,082	135,346	171,523	234,182

Source: adapted from the financial accounting information of SC OLTCHIM SA

4. DISCUSSIONS, IMPLICATIONS AND CONCLUSION

As a public held company with publicly traded shares, Oltchim SA must allocate an important role to the financial information provided to the stakeholders. All types of users should be taken into account, such as shareholders, employees, suppliers, clients and all the organizations it is getting in contact with. Despite the possible implementation problems, an efficient communication with every category of interested parties involved in company's economic life is nevertheless required in reaching the objectives of development of expansion and refurbishment

Therefore, in order to underline the importance of financial communication in particular, a transparent communication system, which responds to the expectations of both internal and external stakeholders, as presented before, should be elaborated and applied.

Consequently, realistic objectives are needed to be set by the company in order to be sure that a financial informational flow between the executive management and the stakeholders exists. Internal financial information is preferred, the same as a proactive communication strategy is rather used than a reactive one.

Reaching a new shareholder or a new investor is similar to reaching a new client for the company's shares, a new partner for the business. Maintaining an existent shareholder in the development process of the company, when it needs to invest, is also important.

In terms of a successful financial communication, some principles should take in consideration by a publicly traded company in order to organize a good communication process with the interested parties, such as:

- the company has to take in consideration stakeholders' point of view;
- a partnership between the company and stakeholders must be created in order to reach the forecasted objectives;
- the communication with stakeholders must be based on quality, meaning that the information must be:
 - distributed at the right place and time;
 - clear and easy to understand;
 - consistent with reaching the predictions;
 - appropriate for users;
 - accessible to every group of stakeholders;
 - correctly analyzed, along with its source;
- the right of every stakeholder to correct information should be respected;
- internal communication, which is extremely important in the development process of expansion and refurbishment, should be encouraged.

In conclusion, taking the importance of financial information and communication in the same time, into consideration, the company should be interested in analyzing the increasing the involvement of its stakeholders in its development financial plans and forecasts. Approaching strategically financial communication gives it coherence, consensus and continuity.

REFERENCES

- Carroll, A.B. & Nasi, J. (1997). *Understanding Stakeholder Thinking*. Themes from a Finnish Conference. *Business Ethics* 6: 46–51.
- Freeman, R.E, Harrison, J. & Wicks, A. (2007). *Managing Stakeholders-Survival, Reputation and Success*. Yale University Press, New Haven, London, 2007, pp. 4
- Freeman, E. (1984). *Strategic Management An Approach from Stakeholders perspective*. Boston: Pitman
- Freeman, R.E. & Reed .D.L, (1983). *Stockholders and Stakeholders. A new perspective on corporate governance*, *California Business Review* 25(3), pp. 88-105
- Hill, C.W.L. & Jones, T.M. (1992). *Stakeholder-Agency Theory*. *Journal of Management Studies* 29, pp. 131–154
- Lapteş, R., Popa A.F. (2011). Boundries Regarding The Implementation Of The National Strategy For The Financial Reporting Of The Private Sector Entities. *Proceedings of the 4th International Conference Accounting and Management Information Systems AMIS 2011*, Bucharest
- Maloney, K. (2006). *Rethinking Public Relations: PR Propaganda and Democracy*. 2nd Edition, London: Routledge
- Mintzberg, H., Quinn, J.B. & Ghoshal, S. (eds). (1995). *The Strategy Process*. European Edition, 3rd revision, London: Prentice Hall
- Roberts, R.W. & Mahoney, L. (2004). Stakeholder Conceptions of the Corporations: Their Meaning and Influence in Accounting Research, *Business Ethics Quarterly* 14, pp. 399–431
- Sgârdea, F.M., Stanilă, O.G. & Partal, C.M. (2009). Total Quality Cost - A Reconsideration Of The Importance - Performance Analysis In Managerial Accounting, *Revista Metalurgia International*, vol. XIV, Special issue no.15, pp. 56
- Weiss, J.W. (2006). *Business Ethics – A Stakeholder and Issues Management Approach*, 4th Edition, Mason: Thomson Higher Education
- Conceptual Framework for Financial Reporting* (2010). Retrieved: October 10, 2012, from <http://www.iasplus.com/en/standards/standard4>