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AN EXAMINATION OF FINANCIAL PERFORMANCE: A REVIEW STUDY

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ABSTRACT

In order to undertake any research a strong background study is always required. Research always stands on a strong footing in the form of comprehensive and extensive research review. A researcher has to always get conversant with the prevailing research domains, methods, instruments used by previous researchers for undertaking similar type of studies. Only then the researcher will be able to diagnose the vacuum in the research conducted till date and what addition to existing knowledge can be made by him/ her. Financial performance analysis of firms in similar industries has always been a hot favourite topic of researchers and its never ending as firms might perform well in one year and in other year might even experience depression. Hence, while undertaking research in financial performance analysis a strong base of deep review of existing knowledge is inevitably required. This paper has attempted to summarise the findings of some literature on performance analysis in finance terms already existing in research domain to facilitate research community to take such research ahead in future.

KEYWORDS: *Financial performance analysis, literature review*

1. INTRODUCTION

The assessment of the financial performance of companies operating in the same industry has garnered significant attention from both business stakeholders and researchers over the years. This comparative analysis involves evaluating the financial statements of companies with similar business activities or domains. Such an analysis aims to provide insights into how these selected companies are faring financially in their operations and which among them is demonstrating superior performance.

Comparative analysis has been conducted in various domains, encompassing sectors like banking, insurance, pharmaceuticals, fertilizers, electricity distribution, automobiles, airlines, ceramics, plastics, tea production, paper manufacturing, cement production, information technology, diamonds, sugar production, textiles, and many more.

Comparative analysis of companies within the same industries has been conducted across a range of countries, including but not limited to the United States, the United Kingdom, Germany, Japan, Metro Manila, China, Nigeria, Europe, Sweden, South Africa, New Zealand, Pakistan, and many others.

A literature review holds a crucial role in research as it familiarizes the researcher with prior work in the same subject area. It provides in-depth knowledge about previous studies conducted within the researcher's chosen field, aiding in the identification of gaps between existing research and the upcoming study. So here an attempt has been made to provide a summary of reviewed literature for financial performance analysis.

2. DEFINITION OF TERMS UTILISED

- **Analysis of financial performance**

Analysis of financial performance stands for analysing/ studying how the business units are operating financially. Thereby, it assesses the performance of business units in financial terms. Finance is the life blood of the business unit. As human activities cannot be performed without blood similarly business activities cannot be performed without finance. Thus, finance can also be taken as the spinal cord of the business.

- **Literature review**

Review of literature stands for reviewing the existing ocean of knowledge and thereby making our own way in the research journey. It is like taking the base of whatever is done and thereby design our own path.

- **Empirical Literature**

Literature in empirical sense stands for historical literature already existing in the area of study which researcher wants to explore.

3. SIGNIFICANCE OF THE STUDY

Finance is the life blood of any business enterprise. Without finance no business activity is possible. Moreover, the primary goal of any enterprise is to earn profits, to pay handsome dividends to shareholders, to build prestige in the market etc. All these goals require finance for their fulfilment. The study has relevance in the sense for undertaking any research review of existing literature is needed, this paper will highlight the summaries of many works already conducted facilitating new researchers to undertake research in such arenas easily.

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4. OBJECTIVES OF THE STUDY

The objectives of this paper are:

a. To facilitate the researchers with the existing knowledge of financial performance analysis presented in condensed form.
b. To have an idea of general/ common tools of analysis employed by prior scholars for financial analysis.
c. To know about the important indicators of financial performance.
d. To get an idea of past top performers in different industries.

5. RESEARCH METHODOLOGY

This research paper is mainly descriptive and analytical in nature. The study is mainly based on secondary data. Such data has been collected from already published sources. Research works taken in this study for analysis are mainly obtained from google scholar, Shodhganga and such other sources. An attempt has been made to include even international works in this analytical review.

6. LIMITATIONS

The limitations of this study are as under:

a. Limited articles only are considered for analytical purpose.
b. Research works having analysis of financial performance are only considered.

7. REVIEW OF EMPIRICAL LITERATURE

The empirical literature encompasses an examination of studies conducted to advance the existing knowledge within a specific field of study. This review enables the researcher to become well-acquainted with the goals, methods, and instruments employed by previous researchers in their respective fields of engagement.

- **Author:** Dr. D. Silambarasan, Dr. R. Raja and Mr. P. Mathivanan
  Year: 2022
  Industry: Steel Industry- Tata Steel
  Tools used: DuPont Model
  Examination: Financial Performance assessment of Tata steel using DuPont model
  Conclusions: Performance of the company was good
- **Author:** S. Sowmiyaa, S. Moghana Lavanya, K. Mahendran and V. Geethalakshmi
  Year: 2021
  Industry: Fertilizer Industry
  Tools used: Altman Z Score
  Examination: Financial performance of Indian fertilizer Industry
  Conclusions: The study concluded that companies formed in 1960s performed better financially than the companies of later periods
- **Author:** Manoj Babu P.
  Year: 2021
  Industry: Steel Industry- SAIL and Tata Steel
  Tools used: financial leverages, ratio analysis, predictive analysis
  Examination: Impact of capital structure on financial performance of steel companies in India
  Conclusions: It was observed that both the companies have a progressive fluctuating trend for the internal capitalization value and market capitalization value.
- **Author:** Rajput Vijaybhai Mahendrabhai
  Year: 2020
  Industry: Telecom Industry
  Tools Used: Ratio analysis, Trend analysis, Z Score analysis, measures of central tendency, measures of dispersion, analysis of variance
  Examination: Financial performance of Telecom companies in India
  Conclusions: Conclusions have been drawn for profitability, financial structure, liquidity, activity and Z score analysis.
- **Author:** Barot, Rohitkumar P.
  Year: 2020
  Industry: Pharmaceutical Industry
  Tools Used: Ratio analysis and analysis of variance
  Examination: Financial performance of pharmaceutical companies in India
  Conclusions: Conclusions for calculation of all ratios have been drawn and significant relationship between ratios were observed.
- **Author:** Dr. M. Mohanasundari, Dr. P. Sundharesalingam, Mr. S. Naveen Raja, Mr. V. S. Sivaprakash
  Year: 2020
  Industry: Plastic Industry
  Tools used: DuPont computation, comparative ratio analysis and principal component analysis
  Examination: DuPont analysis for assessing financial performance in plastic industry
  Conclusions: Investors primarily favor Finolex as their top choice among companies. Following closely, Supreme Industries exhibits promising indicators for shareholders who prioritize profits, including positive returns on capital employed, return on long-term funds, a favorable dividend payout ratio, and encouraging results from the DuPont analysis.
- **Author:** Dr. A. Muthusamy and S. Karthika
  Year: 2019
  Industry: Cement Industry
  Tools Used: Correlation analysis, Ratio analysis, measures of central tendency
  Examination: Financial performance of selected cement companies
  Conclusions: selected companies UltraTech cement Limited and Shree Cement Limited has bad performance in liquidity where as good performance was observed in profitability, inventory, investment and debtors' management
- **Author:** Dr. G. Kanagavalli and R. Saroja Devi
  Year: 2018
  Industry: Automobile industry
  Tools used: Ratio analysis
  Examination: Financial performance
  Conclusion: Positive strong relationship of liquidity ratio and little risk for companies for meeting long term liabilities has been observed. Hero MotoCorp has high efficiency or turnover ratio and profitability ratio

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also. Upon a comprehensive examination of all the facets relevant to the research, it was concluded that Bajaj Auto and TVS Motors are deemed acceptable, while Hero MotoCorp maintains a strong market position.

- **Author:** Dr. K. K. Ramachandran and M. Madhumathy
  Year: 2016
  Industry: Textile Industry
  Tools Used: Percentage analysis and multiple correlation tests
  Examination: Capital structure and financial performance of textile industry
  Conclusion: The analysis reveals that Century Enka Limited and Page Industries Limited offer a greater level of financial security to creditors when compared to Nitin Spinners Limited and Kitex Garments Limited. Page Industries Limited and Ambika Cotton Mills Limited exhibit efficiency in their business operations, leading to a healthy net profit margin. Page Industries Limited outperforms all other companies in terms of yield on capital, return on equity, and earnings per share. Century Enka and Ambika Cotton Limited have effectively managed their assets, resulting in higher company earnings. It's worth noting that there is a negative correlation among net profit margin, return on capital employed, return on equity, return on assets, and earnings per share.
- **Author:** Mustafa Hassan Mohammad Adam
  Year: 2014
  Industry: Banking Industry
  Tools Used: Financial Ratios, statistical measures for correlation
  Examination: Evaluation of financial performance
  Conclusion: The study's results indicate a favourable financial outlook for Erbil Bank, with certain financial variables playing a significant role in shaping the bank's financial performance. Furthermore, it is evident that Erbil Bank's overall financial performance is on an upward trajectory, as evidenced by improvements in liquidity ratios, asset quality indicators, credit performance, and profitability metrics such as Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). Based on these findings, the study offers a series of recommendations aimed at enhancing various banking operations, which can lead to increased profitability and an overall improvement in the bank's financial performance.
- **Author:** Zawadi Ally
  Year: 2013
  Industry: Banking Industry
  Tools used: Ratio analysis and ANOVA
  Examination: Financial Performance assessment
  Conclusions: The research discovered that the overall financial performance of banks experienced substantial growth during the initial two years of the analysis. A noticeable shift in the pattern occurred with the advent of the global financial crisis from 2008 to 2009. Nevertheless, the banking sector in Tanzania remained steady, with banks maintaining adequate capitalization, profitability, and financial health. The study also revealed that there is no significant variation in profitability among peer bank groups in terms of Return on Assets (ROA). However, there are significant differences in terms of Return on Equity (ROE) and Net Interest Margin (NIM) among these bank groups.
- **Author:** Akram Alkhatib
  Year: 2012
  Industry: Banking industry
  Tools used: Return on assets, Tobin's Q model and economic value addition employing correlation and multiple regression analysis
  Examination: financial performance of 5 Palestinian commercial banks
  Conclusion: it was concluded that there exists statistically significant impact of bank size, credit risk, operational efficiency and asset management on financial performance of Palestinian commercial banks.

Summary of above reviews

It can be concluded that financial performance analysis has been undertaken in fields such as fertilizer industry, telecom industry, pharmaceutical industry, plastic industry, cement industry, steel industry, banking industry, textile industry and even automobile industry with tools such as ratio analysis, Return on assets, Tobin's Q model, economic value addition, correlation, multiple regression analysis, ANOVA, predictive analysis, financial leverages, DuPont Model, Percentage analysis, measures of central tendency, principal component analysis, Trend analysis, Altman Z Score analysis as well as measures of dispersion.

8. CONCLUSION

This research paper reveals that financial performance analysis have been undertaken by researchers in almost all industries but the difference in the researches lies in the fact that there are different methods of analysis employed by different researchers. This paper is a precise summary of different research approaches utilised in financial performance analysis useful for researchers in advancing their study in appropriate direction.

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