

COMPARATIVE FINANCIAL ANALYSIS: TURKISH VS. ROMANIAN CASES

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ABSTRACT

There have been similar research studies done previously in developed economies and also in emerging ones. This study in the developing economies of Turkey and Romania might differ from previous studies in some significant ways: Turkey and Romania have similarities; both of those located in Southeastern Europe. Romania has been member of the European Union, and Turkey has been on the way of that. The data used in this study were prepared under the compliance with the international financial reporting standards (IFRS). We have investigated the listed companies in Istanbul Stock Exchange and Bucharest Stock Exchange. The data were gathered from the web pages of the Stock Exchanges. Financial analysis was done through ratio analysis, and results were compared. We have found out that Turkish non-financial companies were to maintain better asset management, lower performance profitability, and stronger cash flow returns compared to the Romanian ones. On the other hand, we have concluded that Turkish financial companies demonstrated lower cash flow return, weaker debt management performance with higher financial risk and lower profitability performance.

Keywords: financial analysis, ratio analysis, performance measurement, Turkey, Romania

KARŞILAŞTIRMALI FİNANSAL ANALİZ: TÜRKİYE ve ROMANYA

ÖZET

Literatürde gelişmiş ve gelişmekte olan ülkelerde benzer araştırmalar yapıldığı görülmektedir. Gelişmekte olan ülkelere Türkiye ve Romanya’da yapılan bu çalışma daha önce yapılmış olan çalışmalardan bazı önemli yönleri ile farklıdır. Türkiye ve Romanya ortak bazı özelliklere sahiptir. Her iki ülke de Güneydoğu Avrupa’da yer almaktadır. Romanya Avrupa Birliği üyesidir, Türkiye ise Avrupa Birliği üyesi olmaya çalışmaktadır. Bu çalışmada kullanılan veriler Uluslararası Finansal Raporlama Standartları’na (UFRS) göre hazırlanmış finansal tablolardan elde edilmiştir. Araştırmada, İstanbul Menkul Kıymetler Borsası ve Bükreş Menkul Kıymetler Borsası’nda işlem gören 30 şirketin finansal tabloları incelenmiştir. Finansal tablolar, İstanbul Menkul Kıymet Borsası ve Bükreş Menkul Kıymet Borsası internet sitelerinden elde edilmiştir. Rasyo analizi ile finansal analiz yapılmış ve sonuçlar karşılaştırılmıştır. Araştırma sonuçlarına göre, finansal olmayan işletmeler açısından Türk şirketlerinin Romen şirketlerine göre varlık yönetiminde daha iyi olduğu, daha düşük performans kârlılığına sahip olduğu ve daha yüksek nakit akış getirisi sağladığı tespit edilmiştir. Finansal işletmeler açısından ise, Türk şirketlerinin Romen şirketlere göre daha düşük nakit akış getirisi sağladığı, yüksek finansal risk ile daha zayıf borç yönetim performansı sergilediği ve daha düşük kârlılık performansı gösterdiği tespit edilmiştir.

Anahtar Kelimeler: finansal analiz, rasyo analizi, performans ölçümü, Türkiye, Romanya

INTRODUCTION

Financial statements such as balance sheet, income statement, and cash flow statement provide important information about a reporting entity's ability to achieve objective of creating value for its owners and stake holders (*Anthony, Hawkins, Merchant, 2011:s. 367*). The intelligent users of financial statements would be able to understand how well the reporting entity has performed in achieving this objective (*Needles, Shigaev, Powers, Frigo, 2009, s:211-252*). Financial analysis or financial statement analysis can provide certain techniques to assist the users in this task. In addition, the financial statements reflect how well an entity's management has carried out the strategic and tactic/operating plans of the business. The marketplace, in turn, evaluates this performance, and a value is placed on the entity. Analysts have traditionally conducted ratio analysis by examining ratios related to various aspects of a business's operations.

In general, objectives of the financial statement analysis might be varying depending on two aspects (*Fraser and Ormiston, 2010:s. 180*):

- Perspectives of the financial statement users
- Expectations and specific questions addressed by the analysis of the financial statements.

Financial statement users might be grouped into three depending on their expectations and perspectives (*Fraser and Ormiston, 2010:s.181*): Investors, creditors, and managers. There might definitely be more stake holders. However, it might be difficult to realize their expectations and perspectives.

Investors attempt to have valuable estimation of the entity's future earnings stream in order to have maximized value of the shares being considered for purchase of liquidation. As an investor or financial statement/investment analyst on behalf of the investor, he/she should pose such critical questions as following (*Fraser and Ormiston, 2010:s. 181*):

Table 1: Investors' Questions

Performance	Risk	Competition
<ul style="list-style-type: none">• What is the entity's performance record?• What are the future expectations?• What is its record with regard to growth and stability of earnings?• What is its record of cash flow from operations?	<ul style="list-style-type: none">• How much risk is inherent in the entity's capital structure?• What are the expected returns, given the entity's current condition and future outlook?	<ul style="list-style-type: none">• How successfully does the entity compete in its industry?• How well positioned in the entity to hold or improve its competitive position?

Also historical financial statements can be used for the data forecasted for future for the entity for investors' perspectives. Ultimate objective of the financial statement analysis for investors should be whether the investment is sound.

Creditors are concerned with the ability of an existing or future borrower to make interest and principal payments on borrowed funds. Finding answers of the questions below might be helping creditors to predict the potential of the entity to satisfy future demands for cash, including debt services (*Fraser and Ormiston, 2010:s. 181*):

Table 2: Creditors' Questions

Cause	Financing Structure	Debt Repayment
<ul style="list-style-type: none"> • What is the entity's borrowing cause or reason? • What do the financial statements reveal about the reason a firm has requested a loan or purchase of goods on credit? 	<ul style="list-style-type: none"> • What is the entity's capital structure? • How much debt is currently outstanding? • How well has debt been serviced in the past? 	<ul style="list-style-type: none"> • What will be the source of debt repayment? • How well does the entity manage working capital? • Is the entity generating cash from operations position?

From standpoint of management, financial statement analysis relates to the questions raised for the investors and creditors since these user groups should be satisfied for the entity to be funded properly as needed. Management should be also considering the other stake holders such as regulators, its employees, the general public, etc. Couple areas might be important for management as following (*Fraser and Ormiston, 2010:s. 181*):

Table 3: Management's Questions

Financial Position	Financial Performance	Cash Flows
<ul style="list-style-type: none"> • What are the strengths and weaknesses of the current financial position? • What are the opportunities to improve effectiveness and efficiencies of the current financial position? • What are the threads existing on the current financial positions and what measures can be taken on those. 	<ul style="list-style-type: none"> • What well is the entity performing and why? • What potential operating areas will be contributing to success? • What operating areas are contributing to success and which are not? 	<ul style="list-style-type: none"> • What will be the source of operating cash flows? • How well does the entity manage cash flows? • Is the entity generating cash from operations position? • What changes can be implemented to improve cash flow performance?

At the beginning of the financial statement analysis process, analysts whoever they are should be alert that the financial information or financial statements to be used is prepared and published by the management. Thus, financial statements or financial information is impacted by the accounting and financial reporting policies chosen by the management. Careful reading and understanding notes and other disclosures should be considered first.

1. RESEARCH METHODOLOGY

1.1. Literature Review

Previous research related to financial statements, financial analysis, and ratio analysis has been conducted by Nissim and Penman (2001), Brief and Lawson (1992), Fairfield and Yohn (1999), Feltham and Olsson (1995), Fera (1997), Jansen and Yohn (2002), Lev and Thiagarajan (1993), Ohlson (1995), Penman (1991), Piotroski (2000), and Selling and Stickney (1989). Also, Soliman (2008) provides a review of financial statement analysis literature. These references might be absolutely extended.

1.2. Tools and Techniques

Various tools and techniques have been used by the users to convert the financial information provided in the financial statements into formats facilitating the evaluation of an entity's financial position and financial performance, not only over time but also comparing with the industry and competitors (*Fraser and Ormiston, 2010:s. 185*).

One of the tools and techniques is common size analysis. In common size financial statements, each item on the statements are represented in percentages. Accounts on the balance sheet are represented as percentage of the total assets, items on the income statements are represented as percentage of the net sales revenue (*Hornsgren, Harrison, Oliver, 2009:s. 777*).

Trend analysis highlights the evolution of the financial data over more than three accounting periods. Structural analysis finds out the internal structure of the entity (*Anthony et al., 2011: s. 369*).

Financial ratios that are commonly used standardize financial data in terms of mathematical relationships expressed in the form of percentages or times (*O'Regan, 2006*). For financial statement analysis, "*ratios are tools, and their value is limited when used alone. The more tools used, the better the analysis. For example, you can't use the same golf club for every shot and expect to be a good golfer. The more you practice with each club, however, the better able you will be to gauge which club to use on one shot*" (*Morrison, 2011*). Similarly, financial statement analysts need to be skilled with the financial ratios they use.

1.3. Purpose of the Study

The study aims to realize financial analyses of the high profile financial and non-financial entities of two countries as Turkey and Romania. The study also attempts to compare the financial ratios of companies listed in Istanbul Stock Exchange and Bucharest Stock Exchange. Turkey and Romania are the countries of the Southeastern Europe. They have been parts of the regional organizations for the adopting and harmonizing international

standards in accounting and auditing profession and practices. Also capital investments of each other have been growing gradually. They have been the bridges between east and west especially since the beginning of the 1990's. Because these two countries are both classified as developing countries, in this study it is intended to compare the financial performances of the companies operating in these countries to figure out whether there is any difference or not.

1.4. Method Used and Limitations

For our study, we have decided to analyze the first 30 companies listed at Istanbul and Bucharest Stock Exchange. We conducted our study based on their 2006-2007 financial statements to figure out their financial performances for 2007. We were able to get the financial statement for only 29 Turkish companies and 21 Romanian companies. We classified the companies for both countries as non-financial and financial. Based on this classification the figurative combination of companies are as follows:

Table 4: Sample and Data

	Turkey	Romania
Non-financial Companies	13	12
Financial Companies	16	9
Total	29	21

In order to measure and compare the financial performances of companies, we determined performance measurement criteria for financial and non-financial companies separately and for each criterion we used a group of related financial ratios, presented in Appendix 1 and 2.

The data used in this study were prepared under the compliance with the international financial reporting standards (IFRS). The data for the study were gathered from the web pages of the countries' financial market institutions. First, key financial indicators were determined and then captured from the web pages provided. Then we calculated the averages for the ratios in order to reach a better conclusion.

2. FINDINGS OF THE STUDY

Measuring performance is one of the most important activities of the business life because depending from which perspective you are looking at and what you want to measure the criteria that you choose changes. In this study we measured the financial performances of both Turkish and Romanian companies. Then we compared the Turkish and Romanian companies in terms of their financial ratios. Findings are structured in two parts, presented separately for financial and non-financial companies.

2.1. Findings for Non-financial Companies

We measured financial performances of non-financial companies from the perspective of their cash management, debt management, asset management and profitability. To do that, we determined at least two financial ratios for each perspective.

Table 5: Findings for Non-financial Companies*

	Turkey	Romania	Average of Turkey	Average of Romania
Cash Management Performance			0.48	0.28
Cash Flow Yield	1.14	0.70		
Cash Flow Return on Assets	0.13	0.05		
Cash Flow Return on Equity	0.16	0.10		
Debt Management Performance			1.07	1.12
Current Ratio	1.49	2.39		
Debt Ratio	0.50	0.37		
Debt to Equity	1.21	0.59		
Asset Management Performance			0.78	0.45
Total Asset Turnover	1.45	0.74		
Net Working Capital to Total Assets	0.10	0.15		
Profitability			0.11	0.17
Profit Margin	0.10	0.29		
Return on Equity	0.13	0.13		
Return on Assets	0.11	0.09		

* Based on the financial statements of Turkish and Romanian companies studied for 2006 and 2007.

In order to figure out performances of companies initially we calculated each financial ratio in a group, and then we took the average of group. As a final step we compared the performances of Turkish and Romanian non-financial companies. Findings of our analysis for non-financial companies are as follows:

2.1.1. Cash Management Performance

Cash management is one of the vital aspects of a company's performance. A company can only be regarded as good at in cash management as long as it generates a tolerable amount of cash flow from its operations and from its asset investments and also generates cash for its stockholders. That's the reason why we wanted to start the performance measurement of Turkish and Romanian companies with measuring their cash management performance for the year of 2007. We measured the cash management performance of companies from three different perspectives by using cash flow yield, cash flow return on assets and cash flow return on equity ratios. Considering the average of ratios, we see that Turkish companies' cash management performance is 0.48 but it is 0.28 for Romanian companies and we can conclude that Turkish non-financial companies are better in cash management than Romanian non-financial companies. But of course it is not enough just to analyze the averages; detailed results of the ratios that we have used lead us to the following results:

- a) Cash flow yield represents cash from operations divided by net income and measures the ability of a company to generate cash from its operations. The ratio shows the percentage of net income realized as cash from operations (Giacomino and Mielke, 1993, s:55-58). Some analysts consider cash flow yield ratio as a

measure of the quality of earnings. That is, the closer net income is to cash flows from operating activities, the higher the quality of earnings (Norton, Diamond, Pagach, 2007, s:213). The results indicate that Turkish companies' cash flow yield is 1.14 whereas the Romanian companies' is 0.70. The comparison of ratios of two countries reveals that Turkish non-financial companies are better than Romanian non-financial companies in terms of generating cash flows from their operating activities.

- b) Cash flow return on assets is calculated by dividing cash flows from operating activities by average total assets. This ratio helps users to assess whether a firm is earning an adequate cash flow on its assets (Norton et al., 2007, s: 213). In other words, cash flow return on assets shows how well the company is generating cash from its investments in assets. A company desires to generate as much cash as possible from its assets; however large investments in assets might cause the ratio to be lower. According to the results of the analysis, Turkish companies' cash flow return on assets is 0.13 whereas the Romanian companies' is 0.05. This result can be evaluated from two different perspectives. First, in terms of generating cash from its assets, Turkish non-financial companies are more than twice as better than Romanian ones. Secondly, Romanian non-financial companies have made large investments recently, which lower the ratio value.
- c) Cash flow return on equity measures whether stockholders are earning adequate cash flows from their investments (Norton et al., 2007, s: 213). The ratio is calculated by dividing cash flow from operating activities by average stockholders' equity. Based on the analysis conducted, cash flow returns on equity of Turkish and Romanian non-financial companies' are 0.16 and 0.10 respectively. Therefore, we can conclude that Turkish non-financial companies generate cash flows to their investors more than Romanian companies do.

2.1.2. Debt Management Performance

In order to survive, companies have to finance their operations and they can do that either internally or externally. In other words, they can either use their own resources which we mean their equity or they can use external financing. In both cases the ability to refund or to payback the debt is one of the important signs of the performance of the company. In our study we measured the debt management performance of the companies' from three different perspectives by using three financial ratios. The average value of those ratios indicates that Turkish companies' debt management performance is 1.07 and Romanian companies' is 1.12. Due to the slight difference registered, we can say that both Turkish and Romanian non-financial companies are good at debt management. In other words, both Turkish and Romanian companies are able to pay their debt. We have used current ratio, debt ratio and debt to equity ratio with the aim of evaluating the debt management performances of non-financial Turkish and Romanian companies. The results of the ratios and the comparison of two countries' ratios are explained below:

- a) *Current ratio* equals current assets divided by current liabilities. Current ratio indicates a firm's ability to meet its short term obligations (*Porter and Norton, 2003, s:733*). The results of the analysis show that current ratio of Turkish companies' is 1.49, and the Romanian companies' is 2.39. At first sight the result can be evaluated that Romanian non-financial companies are better than Turkish non-financial companies which means they can pay their short term liabilities 2.39 times with their current assets. But traditional approaches to interpreting this ratio have tended to emphasize ratios such as 2 or 1.5 as prudent. However, more recently, the emphasis has moved away from these simplistic evaluations to considerations such as the age of receivables, the imminence of liabilities, and seasonal factors (*O'Regan, 2006*).
- b) *Debt ratio* is a measure of leverage and it is equal to total liabilities divided by total assets. Debt ratio represents the proportion of borrowed funds used to acquire the company's assets (*Albrecht, Stice, Stice, 2010, s:667*) Creditors prefer low debt ratios because the lower the ratio, the greater the cushion against creditors' losses in the event of liquidation. On the other hand, stockholders may want more leverage because it magnifies their return (*Brigham and Ehrhardt, 2010, s:95*). Our calculation of debt ratio yields 0.50 for Turkish companies and 0.37 for Romanian companies. The analysis came to the conclusion that Turkish non-financial companies are using debt financing for their assets more than Romanian non-financial companies do.
- c) *Debt to equity* ratio compares the total debt with the total shareholders' equity. The ratio reveals the extent to which company management is willing to fund its operations with debt, rather than equity (*Bragg, 2007, s:268*). Moreover, the ratio determines the entity's long-term paying ability. From the perspective of long-term debt paying ability, the lower the ratio is, the better the company's debt position (*Gibson, 2011, s:268*). Lenders are particularly concerned about this ratio, since an excessively high ratio of debt to equity will put their loans at risk of not being repaid (*Bragg, 2007, s:268*). When we look at the results we see that Turkish companies' debt to equity ratio is 1.21 and the Romanian companies' debt to equity ratio is 0.59. We can conclude that Turkish non-financial companies are highly leveraged and more vulnerable than Romanian non-financial companies.

2.1.3. Asset Management Performance

Companies carry out their operations by using their assets and it is important to know whether they are using them efficiently or not. So we determined the asset management as one of the performance indicators of companies and we measured the asset management performance of the non-financial companies from two different perspectives by using total asset turnover ratio and net working capital to total assets ratio. The average of the results of two ratios produces 0.78 for Turkish companies and 0.45 for Romanian companies. Depending on the comparison of the values we are able to conclude that Turkish non-financial companies are better in asset management than Romanian non-financial companies. Comparing average of asset management ratios of Turkish and Romanian

companies provides assistance in understanding the relative efficiency of companies. Nevertheless, comparison of each asset management ratios would give detailed information regarding the efficiency of companies in asset management.

- a) *Total asset turnover ratio* is a measure of how productive the assets are in generating sales and can be determined by dividing net sales by average total assets. If a company is using its assets efficiently, each dollar of assets will create a high amount of sales (*Norton et al., 2007, s:214*). The calculation of total asset turnover ratios shows the value of 1.45 for Turkish companies and 0.74 for Romanian companies. The comparison of two countries' total asset turnover ratios indicates that Turkish non-financial companies use their assets more efficiently than Romanian non-financial companies do.
- b) Current assets are those which are planned to be converted into cash within maximum one year and short-term liabilities are those which are planned to be paid within a maximum one year. The difference between current assets and short term liabilities is called as net working capital. Net working capital measures the potential cash reservoir of a company. To measure this potential we used *net working capital to total assets ratio*. The ratio is computed by dividing net working capital by total assets and it indicates the percentage of total assets the firm carries as net working capital. A higher ratio indicates stronger liquidity condition. It also indicates that the firm finances a higher percentage of its total assets with lower-earning excess current assets net of its current liabilities (*Baker and Powell, 2005, s:50*). According to our analysis, Turkish non-financial companies' net working capital to total assets ratio is 0.10. On the other hand, the Romanian non-financial companies' is 0.15. Based on the comparison of net working capital to total assets ratios we can conclude that Romanian non-financial companies have more potential reservoir of cash than Turkish non-financial companies.

2.1.4. Profitability

Most of the organizations (except non-profit organizations) carry out their operations in order to make profits. So we chose to measure the profitability of the companies as one of the performance indicators. Profitability can be measured from different perspectives. In our study we measured the profitability of companies from three different perspectives by using three financial ratios namely profit margin ratio, return on equity ratio and return on assets ratio. When we get the average of those ratios, we got 0.11 for Turkish non-financial companies and 0.17 for Romanian non-financial companies. Accordingly, we can conclude that Romanian non-financial companies are more profitable than Turkish non-financial companies. But of course it is not enough just to look at the averages of three ratios; comparison of countries in terms of each three ratios gives detailed information regarding profitability of companies in Turkey and Romania. The findings for profit margin ratio, return on equity ratio and return on assets ratio are as follows:

- a) When it comes to profitability at first sight companies always want to know their profit margin in other words how much of their sales are retained as profits. *Profit*

margin ratio shows the percentage of each sales dollar that result in net income. The ratio is computed by dividing net income by net sales for the period. The calculation of ratios results that profit margin of Turkish non-financial companies' is 0.10 whereas the Romanian non-financial companies' is 0.29. The comparison of ratios of two countries shows that Romanian non-financial companies sales retained as profits are more than Turkish non-financial companies.

- b) One of the important measures of profitability is the income available to common stockholders as a percentage of the book value of their investment in the organization because stockholders invest to get return on their money. To measure that we used *return on equity ratio* that is calculated by dividing net income by average common equity. The results of the analysis show that return on equity of Turkish non-financial companies' and Romanian non-financial companies are exactly the same with the value of 0.13. In consequence, companies in both countries provide same level of income for their investors.
- c) *Return on assets ratio* represents the organizations ability to utilize their assets to create profits. The calculation of both countries' return on assets show that Turkish companies' and Romanian companies' return on assets are 0.11 and 0.09 respectively. Although there is a slight difference, the values of return on assets indicate that Turkish non-financial companies utilize their assets to create profits more than Romanian non-financial companies do.

2.2. Findings for Financial Companies

The same analysis was repeated for the Turkish and Romanian financial companies. We measured performances of financial companies from the perspective of their cash management, debt management and profitability. Contrary to non-financial companies, current ratios and asset management performances of financial companies haven't been calculated because we were unable to separate total assets as current and non-current assets.

Table 6: Findings for Financial Companies*

	Turkey	Romania	Average of Turkey	Average of Romania
Cash Management Performance			0.04	0.19
Cash Flow Yield	-0.06	0.56		
Cash Flow Return on Assets	0.001	-0.01		
Cash Flow Return on Equity	0.18	0.01		
Debt Management Performance			3.17	1.98
Debt Ratio	0.75	0.40		
Debt to Equity	5.59	3.55		
Profitability			0.13	0.27
Profit Margin	0.13	0.58		
Return on Equity	0.19	0.11		
Return on Assets	0.06	0.11		

* Based on the financial statements of Turkish and Romanian companies studied for 2006 and 2007.

2.2.1. Cash Management Performance

As it has already been mentioned cash management is one of the vital aspects of a company's performance regardless of its operations. We used cash flow yield, cash flow return on assets and cash flow return on equity ratios with the aim of measuring cash management performance of both Turkish and Romanian financial companies. The average of those three ratios generates 0.04 for Turkish financial companies and 0.19 for Romanian companies with respect to their cash management performances. Accordingly, we can conclude that Romanian financial companies are better in cash management than Turkish financial companies. Results of each of three ratios and information regarding the comparison of Turkish and Romanian financial companies are explained below:

- a) *Cash flow yield* was used to measure the company's ability to generate operating cash flows in relation to net income. When we look at the results we see that Turkish companies' cash flow yield is -0.06 whereas Romanian companies' is 0.56 which means Romanian financial companies are better than Turkish financial companies in terms of generating cash flows from their operating activities.
- b) To measure the companies' cash flow return from their asset investments we used the ratio called *cash flow return on assets*. The calculation of cash flow return on asset generates 0.001 for Turkish financial companies and -0.01 for Romanian financial companies. This result can be evaluated from two different perspectives. On the one hand, we can conclude that Turkish financial companies are better than Romanian financial companies in terms of generating cash flows from their assets. But on the other hand we can say that Romanian financial companies have made large investments recently which cause the ratio to be low.
- c) *Cash flow return on equity* was calculated with the aim of measuring the companies' cash return available to equity investors. The results of the analysis depicts that while the cash flow return on equity of Turkish financial companies' is 0.18, the Romanian financial companies' is 0.01. Depending on this, we can interpret that Turkish companies generate cash flows to their investors more than Romanian financial companies do.

2.2.2. Debt Management Performance

Debt management performance characterizes a firm in terms of the relative mix of debt and equity financing and provides measures of the long term debt paying ability of the firm. In our study we measured the debt management performance of financial companies' by calculating debt ratio and debt to equity ratio. The average of two ratios shows that Turkish financial companies' debt management performance is 3.17. On the other hand, it is 1.98 for Romanian financial companies. Consequently, Turkish financial companies use more debt financing than Romanian financial companies. This situation directly affects Turkish financial companies' ability to pay their debt back and increases their risk. In order to get

more detailed information regarding the debt management performances of companies, the results of the debt ratio and debt to equity ratio are explained below:

- a) To measure the funds provided by external sources other than equity we used debt ratio. The results of the calculation of debt ratio reveal that Turkish companies' debt ratio is 0.75 whereas the Romanian companies' is 0.40. Depending on the results of debt ratios we can say Turkish financial companies are using debt financing more than Romanian financial companies do.
- b) Debt to equity ratio was used to measure the relative proportion of stockholders' equity and debt used to finance company's assets. According to our calculations, while Turkish companies' debt to equity ratio is 5.59, it is 3.55 for Romanian financial companies. It means that like non-financial companies Turkish financial companies are highly leveraged and more vulnerable than Romanian financial companies.

2.2.3. Profitability

As it is well known financial organizations' reason for existence is to make profits, so in our study we determined profitability as one of the performance indicators and we measured the profitability of financial companies by using three financial ratios. Whereas the average of those three ratios is 0.13 for Turkish financial companies, it is 0.27 for Romanian companies. Based on calculation of the average, we conclude that Romanian financial companies are more profitable than Turkish financial companies. The results of three ratios which were used to analyze the profitability of financial companies are as follows:

- a) Profit margin ratio represents how much of companies' sales are retained as profits. The analysis figured out that profit margin of Turkish and Romanian financial companies are 0.13 and 0.58 respectively. Comparing the profit margins of two countries indicates that Romanian financial companies operate with higher profit margin than Turkish financial companies.
- b) With the purpose of measuring the income available to common stockholders as a percentage of the book value of their investment in the organization we calculated return on equity ratio. Based on calculations of ratios we have figured out that Turkish companies' return on equity is 0.19 and Romanian companies' is 0.11. Although there is a slight difference we can say that Turkish financial companies generate more income to their stockholders than Romanian financial companies do.
- c) To measure the organizations ability to utilize their assets to create profits we used return on assets ratio. When we look at the results we see that Turkish companies' return on their assets is 0.06 whereas the Romanian companies' is 0.11. Depending on those values we are able to conclude that Romanian financial companies utilize their assets to create profits more than Turkish companies do.

CONCLUSION AND RECOMMENDATIONS

The study aimed to realize financial analyses of the high profile financial and non-financial entities of two countries as Turkey and Romania. Additionally, it is intended to determine and compare the financial performances of the companies operating in these countries to figure out whether there is any difference or not. The study includes the comparison of the ratios of Turkish and Romanian companies that are separated as financial and non-financial. Based on the ratios analyzed, we are in the position to conclude that:

- Turkish non-financial companies are better in cash management than Romanian non-financial companies.
- Both Turkish and Romanian non-financial companies are good at in debt management.
- Turkish non-financial companies are better in asset management than Romanian non-financial companies.
- Romanian non-financial companies are more profitable than Turkish non-financial companies.
- Romanian financial companies are better in cash management than Turkish financial companies.
- Turkish financial companies use more debt financing than Romanian financial companies.
- Romanian financial companies are more profitable than Turkish financial companies.

One of the interesting conclusions could be drawn from the findings is the fact that; considering the cash management criteria, Turkish non-financial companies are better than Romanian ones, in contrary to that Romanian financial companies are better in cash management than Turkish financial companies. Consequently, further studies can be conducted to point out the reasons of such finding.

Although result of this study provide important implications relevant to development of future studies involving financial ratios, the result of this study by themselves do not provide any information about the predictive power of financial ratios or groups of financial ratios. Further studies should be conducted for current situations and future predictions. Nevertheless, the analysis of financial ratios will provide assistance in selecting potentially useful variables in future studies.

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Appendix 1: Ratios Used for Non-Financial Companies

1- Cash Management Performance:

- a. **Cash Flow Yield:** Cash Flows from Operating Activities/Net Income
- b. **Cash Flow Return on Assets:** Cash Flows from Operating Activities/Average Total Assets
- c. **Cash Flow Return on Equity:** Cash Flows from Operating Activities/Average Stockholders' Equity.

2- Debt Management Performance:

- a. **Current Ratio:** Current Assets/Current Liabilities
- b. **Debt Ratio:** Total Liabilities/Total Assets
- c. **Debt to Equity:** ((Total Assets-Stockholders' Equity)/Stockholders' Equity)

3- Asset Management Performance:

- a. **Total Asset Turnover:** Net Sales/Average Total Assets
- b. **Net Working Capital to Total Assets:** ((Current Assets-Current Liabilities)/Total Assets)

4- Profitability:

- a. **Profit Margin:** Net Income/Net Sales
- b. **Return on Equity:** Net Income / Average Common Equity
- c. **Return on Assets:** Net Income/Average Total Assets

Appendix 2: Ratios Used for Financial Companies

1- Cash Management Performance:

- a. **Cash Flow Yield:** Cash Flows from Operating Activities/Net Income
- b. **Cash Flow Return on Assets:** Cash Flows from Operating Activities/Average Total Assets
- c. **Cash Flow Return on Equity:** Cash Flows from Operating Activities/Average Stockholders' Equity.

2- Debt Management Performance:

- a. **Debt Ratio:** Total Liabilities/Total Assets
- b. **Debt to Equity:** ((Total Assets-Stockholders' Equity)/Stockholders' Equity)

3- Profitability:

- a. **Profit Margin:** Net Income/Net Sales
- b. **Return on Equity:** Net Income / Average Common Equity
- c. **Return on Assets:** Net Income/Average Total Assets