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"The Effectiveness of Financial Analysis in Evaluating Organizational Performance: A Survey Study"

فعالية التحليل المالي في تقييم أداء المؤسسة: دراسة استقصائية

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Abstract:

The purpose of this study was to investigate how well financial analysis assesses business performance. The research was conducted using the descriptive-analytical method. The results showed that financial analysis, which assists in identifying and enhancing areas of strength while resolving deficiencies, is a vital tool for evaluating the financial health of an economic business. Additionally, it greatly aids in decision-making by offering precise financial facts and indicators.

Keywords: Effectiveness, Financial Analysis, Performance Evaluation, Decision-Making.

المخلص:

هدفت هذه الدراسة إلى التعرف على مدى فعالية التحليل المالي في تقييم أداء المؤسسة. تم استخدام المنهج الوصفي التحليلي في هذه الدراسة. خلصت الدراسة إلى أن التحليل المالي يعد أداة جوهرية لمعرفة الصحة المالية للمؤسسة الاقتصادية من خلال الكشف عن نقاط القوة وتعزيزها ونقاط الضعف ومعالجتها، كما أنه يدعم بشكل أساسي عملية اتخاذ القرارات لهذه الأخيرة من خلال تقديم مؤشرات وبيانات مالية دقيقة. الكلمات المفتاحية: الفعالية، التحليل المالي، تقييم الأداء، اتخاذ القرار.

1. Introduction:

In light of the expansion and evolution of economic enterprises' activities, the need for financial analysis has become increasingly prominent. Financial analysis now plays a pivotal role in evaluating corporate performance by offering a comprehensive and in-depth view of the financial situation of institutions. This is achieved through monitoring, examining, and analyzing the available financial data, with the ultimate goal of assessing financial efficiency and the sustainability of profitability.

From a theoretical perspective, financial analysis is considered relatively straightforward due to the clarity of its operational mechanisms. However, its real complexity lies in its proper application, which requires a strong grasp of modern accounting concepts—most notably, the International Financial Reporting Standards (IFRS)—as well as an understanding of the surrounding institutional environment and substantial practical experience built upon defined principles. These variables significantly influence financial analysis methodologies and necessitate their continuous updating.

Moreover, financial analysis is not limited to evaluating current performance; it extends to

providing forward-looking insights that support strategic planning and risk management. This is made possible through the use of a variety of tools and financial ratios, which offer a clearer picture of future performance.

This study aims to explore the effectiveness of financial analysis in evaluating institutional performance. Accordingly, the central research question is posed as follows: **“To what extent is financial analysis effective in evaluating business performance?”**

To address this question, the study proposes the following hypotheses:

- Financial analysis provides information that helps identify the strengths and weaknesses in a company's performance.
- Financial analysis can directly influence an institution's financing and investment decisions.

✓ Objectives of the Study:

The study seeks to determine the effectiveness of financial analysis in assessing a company's efficiency and its achievement of objectives. It also aims to identify the financial tools used in performance evaluation and to examine the actual use of financial analysis within economic enterprises.

✓ Significance of the Study:

The importance of this study lies in its attempt to bridge the theoretical and practical dimensions by examining the real-world application of financial analysis. As financial analysis is among the most important tools for identifying strengths and weaknesses, it also contributes to enhancing communication between investors and stakeholders, thereby supporting continuous improvement efforts through periodic performance assessments.

✓ **Methodology:**

This study adopts a **descriptive method** to present the conceptual framework related to the effectiveness of financial analysis in evaluating institutional performance. It also examines the practical use of financial analysis within economic enterprises. The empirical aspect of the study relies on a set of statistical techniques and tools, using the statistical software **SPSS version 29**. To answer the main research question and test the hypotheses, the study is structured into three main sections:

- The first section is entitled “The Conceptual Framework of Financial Analysis”.
- The second section addresses “Performance Evaluation and the Financial Analysis Tools Used”.
- The third and final section focuses on “*The Field Study*”, which constitutes the empirical part of the research.

2. Section One: The Conceptual Framework of Financial Analysis

2.1 Definition of Financial Analysis

Financial analysis is defined as “a process through which a set of quantitative and qualitative indicators is derived or explored regarding the activity of an economic enterprise. These indicators contribute to identifying the significance and characteristics of the enterprise’s operational and financial activities, based on information extracted from financial statements and other sources, in order to be later used in evaluating the performance of the organization for decision-making purposes.”

It is also defined as “the systematic processing of available data with the aim of obtaining information that supports the decision-making process, evaluating the organization's past and present performance, and predicting its future outcomes.”

2.2 Objectives of Financial Analysis

The primary objective of financial analysis is to assist in identifying areas of strength within the organization in order to reinforce and capitalize on them, and areas of weakness in order to address and improve them. This, in turn, supports the decision-making process within the organization. Financial analysis also aims to:

- Assess the financial position of the company and the industry to which it belongs,
- Compare the overall condition of the organization with peer companies in the same sector,
- Propose financial policies to improve the institution's financial structure and autonomy,
- Evaluate managerial efficiency,
- Assess the financial results used in determining taxable income,
- Utilize available information for control and evaluation purposes,
- And assess the financial standing and the institution’s ability to bear the consequences of borrowing.

2.3 Importance of Financial Analysis

The importance of financial analysis stems from its ability to determine the alignment between financial decisions and their outcomes, and to verify whether the institution under analysis has achieved its planned objectives through various decisions taken.

Furthermore, financial analysis plays a crucial role in:

- Contributing to the development of the company’s financial plans,
- Assisting in forecasting the future of its economic units,
- Determining the efficiency of management in raising and utilizing funds,
- Supporting internal control decisions,

- And creating a solid foundation for making sound strategic and financial decisions.

3. Section Two: Business

Performance Evaluation and Financial Analysis Tools

3.1 Concept of Performance Evaluation

Performance evaluation is defined as “the measurement of actual performance and the comparison of achieved results with the expected outcomes, with the aim of assessing the extent to which goals have been accomplished and plans implemented, in order to take appropriate actions for performance improvement.”

3.2 Importance of Performance Evaluation

Performance evaluation holds significant importance for organizations as it provides crucial information about operational processes to help maintain business continuity and achieve strategic objectives. Its results serve as the foundation for either confirming or adjusting the current strategy. Furthermore, performance evaluation helps in achieving set objectives, establishing a sound and effective system of communication and personal incentives, identifying highly efficient individuals and placing them in the most productive positions, and recognizing underperforming elements that require support for improvement.

3.3 Objectives of Performance Evaluation

The main objective of performance evaluation is to ensure that actual performance aligns with pre-established plans. However, additional objectives include:

- Assessing the organization's achievements relative to its production plan,
- Identifying administrative and organizational deficiencies and problems,
- Verifying the efficiency of resource utilization in a cost-effective manner while ensuring high-quality outputs,
- And fostering growth and development by maximizing returns

and expanding through the creation of new business ventures.

3.4 Financial Analysis Tools Used in Performance Evaluation

3.4.1 Analysis Using Financial Ratios

Financial ratios are among the most widely used analytical tools in the profession due to their ease of application and their usefulness in serving a variety of purposes. This method is based on identifying meaningful relationships between items in the financial statements.

These ratios include:

- **Liquidity ratios** and **current ratios**, such as the quick ratio and cash ratio,
- **Activity ratios**, such as the total asset turnover ratio, which includes both fixed asset turnover and current asset turnover,
- **Profitability ratios**,
- And **leverage (solvency) ratios**.

3.4.2 Analysis of Financial Equilibriums

Financial equilibrium is defined as “the condition in which the cash balance remains positive at all times after meeting all short-term liabilities, thereby ensuring a certain degree of financial ease and liquidity for the organization.”

The analysis of financial equilibriums relies on three fundamental pillars:

- Working capital,
- Working capital requirements,
- And cash position (treasury).

4. Section Three: Field Study

In the theoretical part of this study, we previously addressed the conceptual framework of financial analysis and performance evaluation, as well as the various tools associated with them. This provided the necessary foundation to move on to the field study, which aims to investigate the actual use of financial analysis in Algerian economic institutions and assess its effectiveness in evaluating their performance.

To achieve the intended objectives, a structured questionnaire was designed and subsequently analyzed in order to derive the desired results.

Accordingly, the field study was based on distributing the questionnaire to a selected sample of finance and accounting professionals within Algerian economic institutions, in addition to statutory auditors and certified public accountants. These groups were chosen given their substantial familiarity with the financial and accounting conditions of the institutions in question.

4.1 Statistical Methods Used

To analyze the collected data, the Statistical Package for the Social Sciences (SPSS) version 29 was utilized. The following statistical methods were employed:

- Frequencies and ratios,
- Spearman's correlation coefficient,
- Cronbach's Alpha for testing internal consistency (reliability),
- Descriptive statistics,
- Arithmetic mean (average),
- Standard deviation.

4.2 Questionnaire Distribution

Responses to the questionnaire were collected using various methods:

- Direct interviews with some of the sample members, which enabled immediate responses,
- Leaving questionnaires with the management of some institutions for a designated period, after which they were retrieved,
- Sending the questionnaire to the official email addresses of selected statutory auditors and certified public accountants.

The table below presents the final numbers of questionnaires distributed and retrieved:

Table No. (01): Survey Statistics

Source: Prepared by the researchers based on the survey results.

4.3. Evaluation of the Study Questionnaire

In this section, we will discuss the reliability of the questionnaire and the internal consistency validity using the statistical tools mentioned previously.

4.3.1. Questionnaire Reliability:

To measure the reliability of the questionnaire, we used Cronbach's Alpha

coefficient, and the results are presented in the following table:

Table No. (02): Cronbach's Alpha Reliability Coefficient

Reliability Statistics	
Cronbach's Alpha	N of Items
.924	23

Source: Prepared by the researchers based on SPSS outputs.

The Cronbach's Alpha reliability coefficient for the entire questionnaire was 0.924, which is higher than the accepted threshold of 70%. This indicates that the measurement tool has a high level of reliability and is suitable for study and analysis.

4.3.2. Internal Consistency Validity of the Questionnaire

To assess the consistency of each item in the questionnaire with the dimension it belongs to, Spearman's correlation coefficient was used. The following results were obtained:

Table No. (03): Spearman's Correlation Coefficient for Items in Dimension One

Correlation Value	0.673**	0.572**			
Item Number	10	11			

Statement	Frequency	Percentage (%)
Distributed Surveys	60	100%
Retrieved Surveys	52	86.66%
Unretrieved Surveys	8	13.33%
Canceled Surveys	0	0%
Valid Surveys for Study	52	86.66%

Item Number	Correlation Value	Item Number	Correlation Value
1	0.407**	6	0.604**
2	0.651**	7	0.616**
3	0.614**	8	0.821**
4	0.600**	9	0.754**
5	0.578**		

Note:

** Significant at the 0.01 level or lower

* Significant at the 0.05 level or lower

Source: Prepared by the researchers based on SPSS outputs.

From the table, we can observe that the values of the correlation coefficient for the items in Dimension One, which relates to the use of financial analysis in evaluating the performance of the organization, are positive and statistically significant at the 0.01 level or lower. This indicates a strong correlation between all the items in this dimension.

Table No. (04): Spearman's Correlation Coefficient for Items in Dimension Two

Correlation Value	Item Number	Correlation Value
0.725**	10	0.736**
0.616**	11	0.803**
0.821**	12	0.744**
0.755**		

Item Number	Correlation Value	Item Number
1	0.576**	6
2	0.483**	7
3	0.650**	8
4	0.623**	9
5	0.671**	

Note:

** Significant at the 0.01 level or lower

* Significant at the 0.05 level or lower

Source: Prepared by the researchers based on SPSS outputs.

From Table (04), we observe that the correlation values for the items in Dimension Two, which relates to the effectiveness of financial analysis in evaluating the organization's performance, are positive and statistically significant at the 0.01 level or lower. This indicates a strong correlation between all items in this dimension.

4.4 Analysis of the Characteristics of the Studied Sample

This study is based on identifying the frequencies and percentages of the categories constituting the study sample, relying on personal data represented by: gender, age, current position, academic qualification, academic specialization, and professional experience.

Table No. (05): Analysis of the Characteristics of the Studied Sample

percent	frequen
71.2	37
28.8	15
7.7	4
26.9	14
46.2	24
19.2	10
40.4	21
9.6	5
36.5	19
13.5	7

N°	Characteristics (personal information)				
	Gender				
	Male	Female			
	[21-30]				
	[31-40]				
3	[41-50]				
	51 and Over				
	Directorate of Finance and Accounting				
	Accounting Expert				
	Commissioner				
2	University Professor				
1					

Based on the results of Table (05), we note that in terms of **gender**, the male category is predominant, comprising 37 individuals or **71.2%**, whereas females represent **28.8%** (15 individuals).

Regarding **age**, the largest group includes individuals aged **[41–50]**, accounting for 24 participants or **46.2%** of the sample. In terms of **current position**, 21 individuals (**40.4%**) are executives in the Finance and Accounting Directorate, making them the dominant group.

For **academic qualification**, the largest group holds a **Master's degree**, with 19 individuals or **36.5%**, indicating that the majority of respondents possess a high academic level, which reinforces the reliability of their answers and supports the validity of the study.

As for the **academic specialization**, most respondents come from **Accounting and Auditing**, representing **63.5%** (33 individuals), while the smallest group includes holders of other related degrees such as Accounting and Taxation or Finance and Accounting.

Lastly, the **distribution of the sample based on professional experience** is particularly relevant to our study. The more experienced the participants, the better their understanding of the questionnaire and the financial context of economic institutions. The third most experienced category includes 10 individuals (**19.2%**), with the remaining proportions distributed among the other experience groups.

4.5 resentation and Analysis of Descriptive Study Results

This section presents the responses of the study sample regarding the statements of the research axes, based on frequencies, percentages, arithmetic means, and standard deviations.

4.5.1. Presentation and Analysis of the First Axis Results

Table No. (06): Responses of the Study Sample to the Statements of the First Axis

N°	Characteristics	frequency	percent
4	Bachelor's	8	15.4
	Master's degree	19	36.5
	Magisterium degree	8	15.4
	Doctorate	17	32.7
5	Accounting / Auditing	33	63.5
	Financial Sciences	13	25
	Other	6	11.5
	[1-5]	6	11.5
6	[6-10]	15	28.8
	[11-15]	13	25
	[16-20]	8	15.4
	21 and Over	10	19.2

Source: Prepared by the researchers based on SPSS outputs

Statement	Mean Score	Standard Deviation	Adoption Level	Rank
The opinion of financial analysts is considered the most important reference in making financial decisions.	4.057	0.574	Agree	10
Institutions apply financial analysis to evaluate their performance and compare it with other institutions.	3.82	0.83	Agree	10
The development of financial statement data within the institution is compared with previous years.	4.17	0.61	Agree	3
Financial analysis extracts financial ratios from financial statements and comments on them in an easily understandable manner.	4.30	0.50	Strongly Agree	1
The institution employs various methods and approaches in financial analysis.	4.01	0.54	Agree	7
The institution's elements are evaluated at fair value.	3.76	0.70	Agree	11
Financial analysis in the institution utilizes all information contained in the financial statements according to SCF, including the cash flow statement and the statement of changes in equity.	4.07	0.65	Agree	2
The institution derives its financial data used in financial analysis from internal and external sources, considering the impact of the external environment on the financial	4.01	0.70	Agree	3
Statistical methods are used in the financial analysis process when necessary.	4.11	0.64	Agree	4
Vertical analysis is used in decision-making processes within economic institutions.	3.98	0.61	Agree	5
Comparison in financial statements is used in decision-making processes in economic institutions.	4.26	0.48	Strongly Agree	6

Weighted Mean: 4.05 → Agree
Source: Prepared by the researchers based on SPSS outputs.

Based on the above table, it is evident that the respondents agree that Algerian economic institutions use financial analysis to evaluate their performance. They strongly agree that financial analysis helps extract ratios from financial statements and explain them in an easily understandable way. They also strongly agree that comparative analysis is used in decision-making processes within economic institutions.

4.5.2. Presentation and Analysis of the Second Axis Results

Table No. (07): Responses of the Study Sample to the Statements of the Second Axis

Statement Number	Statement	Mean Score	Standard Deviation	Adoption Level	Rank
7	Financial analysis provides useful information for evaluating the organization's performance.	4.53	0.50	Strongly Agree	1
11	The efficiency and performance of organizations increase when relying on financial analysis.	4.21	0.82	Strongly Agree	12
5	The organization needs to analyze changes in equity to select the best sources of financing.	4.42	0.60	Strongly Agree	4
8	The organization analyzes liquidity to determine its ability to meet urgent obligations.	4.28	0.53	Strongly Agree	7
4	The organization analyzes profitability to determine the optimal use of resources to achieve growth.	4.26	0.68	Strongly Agree	9
9	The organization analyzes the volume of investments and choose a financing method.	4.25	0.65	Strongly Agree	11

Correlations						
Spearman's rho			Analysis	performance		
			Analysis		1.000	.740*
			Sig. (2-tailed)		.	<.001
			N		52	52
performance		Correlation Coefficient		.740**	1.000	
		Sig. (2-tailed)		<.001	.	
		N		52	52	
**. Correlation is significant at the 0.01 level (2-tailed).						
10	Financial analysis enables the extraction of useful indicators that measure the organization's financial	4.48	0.61	Strongly Agree	2	
9	Financial analysis provides information that enhances the effectiveness of performance evaluation	4.40	0.63	Strongly Agree	6	
8	The organization needs to analyze financial balances to understand its financial equilibrium.	4.44	0.63	Strongly Agree	3	
7	The organization needs financial ratios to understand its ability to face potential financial	4.28	0.53	Strongly Agree	8	

11	Financial analysis is used to assess management's efficiency in utilizing the economic unit's resources.	4.25	0.62	Strongly Agree	10
12	The results of financial analysis provide important information to external parties benefiting from the	4.40	0.53	Strongly Agree	5
Weighted Mean		4.35		Strongly Agree	

Weighted Mean: 4.35 → Strongly agree

Source: Prepared by the researchers based on SPSS outputs.

As shown in Table (07), the respondents strongly agree with all the listed statements. Hypothesis Testing will be conducted using Spearman's correlation coefficient.

Main Statistical Hypothesis

There is a statistically significant positive impact of financial analysis on institutional performance evaluation at the 5% significance level ($\alpha = 0.05$).

- **H₀:** There is no statistically significant positive impact of financial analysis on institutional performance evaluation at $\alpha = 5\%$.
- **H₁:** There is a statistically significant positive impact of financial analysis on institutional performance evaluation at $\alpha = 5\%$.

Table No. (08): Hypothesis Testing Results

Source: Prepared by the researchers based on SPSS outputs.

From the table, the correlation coefficient is 0.740, indicating a strong positive relationship, and it is statistically significant since the significance value (Sig.) is 0.01, which is less than the 0.05 threshold. Thus, we accept the alternative hypothesis and reject the null hypothesis, concluding that there is a statistically significant positive effect of financial analysis on institutional

performance evaluation at the 5% significance level ($\alpha = 0.05$).

5. Conclusion

In conclusion, through our study on the topic "The Effectiveness of Financial Analysis in Evaluating Institutional Performance", which included a theoretical overview of financial analysis concepts and tools, it was confirmed that these processes play a crucial role in enhancing transparency, achieving efficiency, identifying strengths and weaknesses within the institution, and ensuring sustainability through their direct impact on investment decisions.

As for the field study, which focused on the reality of financial analysis implementation in Algerian economic institutions and its effectiveness in performance evaluation, the findings revealed that most institutions do apply financial analysis, yet not in its entirety. This indicates a gap between theory and practice. Despite the awareness of the importance of financial analysis among institutions and practitioners, significant challenges remain, particularly in the limited application of modern techniques. These obstacles hinder the full potential of financial analysis in enhancing institutional performance.

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