QUALITATIVE METHODS USED IN ECONOMIC AND FINANCIAL ANALYSIS

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Abstract: The method represents the way a process or a phenomenon is researched, being a theoretical and abstract process, through which a certain conception is established regarding the way an object or phenomenon is studied, in order to get knowledge on its form or composition. The method is made up of procedures used to fulfill an objective.
The procedure consists in the systematic way of action in order to get the desired objective.
All the specific procedures define the techniques.

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The methodology of the economic and financial analysis includes the methods and procedures used to research the company’s activity and to realise the results of the economic activity.

Methods of the qualitative analysis
The main qualitative methods used in the economic and financial analysis are:
A - modelling
B – comparison
C - grouping
D – division and disintegration of results
E – generalization
A) Modelling

The model represents a research tool based on the simplified representation of the reality which holds an important place in the analysis of the economic phenomena.

The model is done with the help of some qualitative analyses, reproducing in a simplified form the phenomenon, making abstraction of what is not essential, but keeping what is essential, its conditioning relations.

Although the model highlights only essential aspects of the real phenomenon, it must be comprehensive enough as to allow, on the one hand, the quantitative and judicious characterisation of the main parts of the used phenomenon, and on the other hand, establish the mutual relations and dependencies between the different components.

The use of model means to go through several phases, namely:

- To define the analysis objective and the levels at which it will be done;
- To establish the information sources on which it is built;
- To establish the main characteristics of the analysed phenomenon;
- To establish the efficiency criteria;
- To establish the possible restrictions;
- To build the model as such.

Depending on the phenomena representation, the models can be:

a) **imitative** – the phenomenon is represented by itself, but at a different scale (maps, photos, model);

b) **analogical** - they are characterised by the fact that some characteristics of the studied phenomenon are represented by other modalities used to visualise economic and financial phenomena (graphs, charts);

c) **symbolic** - it is characterised by the use of symbols in order to represent the economic and financial phenomena, usually, under the form of equations.

In the economic and financial analysis the analogical and symbolic models are used.
B) Comparison

The comparison represents the study method of economic and financial phenomena by comparing them to values considered as reference, established after well-defined criteria, in order to appreciate their essential characteristics depending on these references.

Thus, for the analysis of economic and financial phenomena it is not enough only the size in itself, at a given moment, but it is imposed the existence of a comparison basis (the reference criterion).

The comparison basis can be selected from a multitude of criteria such as (Charpentier et al., 2002: 194):
- the results of anterior period (periods);
- the planned level of some indicators;
- the results of other companies in the same sector of activity;
- the average results on sector;
- the results of some similar companies in other countries;
- the optimum level of the indicator;
- norms, standards, laboratory results etc.

In order to have, as a consequence of comparison, the correct information, the following conditions must be obeyed:
- the indicators which are used must be similar;
- there must be at least two measures, two indicators which are compared;
- the phenomenon and elements which are compared must have an homogenous content;
- the measurement must be done in the same measuring unit;
- the permanence of calculus method must be ensured.

Depending on the chosen criterion, the following types of comparison are met:

a) comparisons in time – they presuppose the analysis of the same phenomenon, but in different moments or intervals of time in their evolution. In these comparisons it is necessary to pay full attention when choosing the comparison basis and, respectively, the interval of time when the phenomenon variation is compared, as comparison basis it is indicated to
choose that period of time in which the phenomenon manifests a normal status of development.

b) **comparisons in space** when there are compared the results of the analysed company with the results of another company in the same sector or the results of two departments of the same company. This analysis is useful to the management’s activity, because it highlights the differences in the economic results of two units.

c) **mixed comparisons**, that is those comparisons which are based on both criteria (time and space);

d) **comparisons depending on a pre-established criterion** when there are compared the results obtained through programmes, norms, standards, contractual clauses.

e) **comparisons with a special character** for which there are other criteria than the ones mentioned above (for example, the comparison of some variants in the case of a technical and economic study; comparisons on the basis of score method).

The comparison result is expressed in values which show the degree in which the analysed phenomenon deviates from the level taken as comparison basis and it can take the form of (Lala & Miculeac, 2009: 55):

- absolute deviation;
- relative deviation;
- index of the relative variation.

a) **the absolute deviation** \(\Delta F\) represents the difference between the effective level and that of the comparison basis for the same phenomenon or economic result, expressed in the measuring unit of the given indicator and it is determined with the following formula:

\[
\Delta F = F_1 - F_O
\]

**where:**

\(F_1\) – represents the effective level of the phenomenon;
\(F_O\) – represents the comparison level of the phenomenon.

b) **The relative deviation** \(\Delta rF\) represents the difference between the effective level of the analysed economic phenomenon or result and the level of the comparison basis recalculated in the condition of the effective activity level,
respectively weighted with the increase index (Iq). It is determined with the help of the following relation:

$$\Delta rF = F_1 - F_0 \Delta Iq$$

c) **The index of the relative variation** (Ip) expresses how many times the effective level of the analysed economic phenomenon or result increased or decreased compared to the level considered as basic and it is determined with the relation:

$$IF = \frac{F_1}{F_0}$$

d) **The index of the relative variation deviation** ($\Delta I_F$) is the result of the comparison which expresses in percents the deviation of the effective level from the comparison level and it is calculated with the formula:

$$\Delta I_F = \frac{F_1}{F_0} \times 100 - 100, \text{ respectiv, } \Delta I_F = I_F - 100$$

or

$$\Delta I_F = \frac{F_1 - F_0}{F_0} \times 100, \text{ respectiv, } \Delta I_F = \frac{\Delta F}{F_0} \times 100$$

C) **Grouping**

It is a research method which implies the separation of the studied group in homogenous groups of units depending on one or several characteristics.

The grouping characteristics are chosen depending on the specific of the studied phenomenon and the analysis goal. For example, when analysing the human potential, several criteria of grouping can be used: on categories of staff, age, seniority, sex, nationality, ways of professional formation.

D) **Division and disintegration of results**

This method is used in the detailed analysis in order to emphasize the specific causes specific to each item which brings its contribution to the development of an economic phenomenon and it consists in the disintegration of the researched phenomena and processes in the constitutive elements.

The main criteria on which the economic phenomena and results can be disintegrated are the following:

a) the division in time of the economic results;

b) the division in space of the economic results;
c) the mixed division of the economic results;  
d) the division on constitutive parts or elements of the economic results.

a) **The division in time of the results** allows one to know the evolution in time of the analysed phenomenon and to highlight the deviations occurred on each division of time, between the effective and the forecasted results. This way, the contribution of each division in time (days, weeks, decades, months, term or year) to the total change of the researched phenomena on a certain period of time can be established.

b) **The disintegration or division in space of results** allows one get to know the results obtained by each organisational link of the company (workshop, section, plant), as well as to establish the contribution of each organisational link to the general change of studied phenomena. By dividing economic phenomena on organisational links, till the working place where this economic phenomenon takes place, all the factors which influence the development of the respective process can be emphasized.

c) **The mixed division** - the simultaneous disintegration on the two criteria space and time.

d) **The disintegration or division of results on constitutive parts or elements** brings its contribution to deepening the analysis of the company’s economic activity, by establishing the contribution of each element to the change of these phenomena. The disintegration on constitutive parts or elements can be applied to the majority of indicators which reflect different parts of the company’s activity, which allows some structural analysis on the quantitative and qualitative indicators. In the same time, the division on constitutive parts and elements represents a precursory stage to establishing the factors which act on the analysed phenomena and to measuring their influence.

The general model of representation of a phenomenon division (F) is presented as a sum of elements (fi) (Buglea & Lala, 2009: 21):

\[ F = f_1 + f_2 + f_3 + \ldots + f_n \]

and the total absolute deviation (\( \Delta F \)) as algebraic sum of partial deviations:
\[ \Delta F = \sum_{i=1}^{n} \Delta f_i \]

where:
\( \Delta f_i \) is the absolute deviation of the element \( f_i \) calculated by the relation:
\[ \Delta f_i = f_{i1} - f_{io} \]

where:
\( f_{i1} \) – the level of the indicator in the current period;
\( f_{io} \) - the level of the indicator in the basic period.

The sense and the size of the contribution of each element to the index of the relative variation deviation (\( \Delta I_F \)) is determined by the calculation of the indexes of the relative variation deviation specific to element "i" (\( \Delta I f_i \)), with the formula:
\[ \Delta I f_i = \left( \frac{f_{i1} - f_{io}}{f_{io}} \right) \times 100 \]

and:
\[ \Delta I_F = \sum_{i=1}^{n} \Delta I f_i \]

In order to measure and characterise through division the relative contribution of each element to the overall result the index of specific weight (\( g_s \)) is used and it is calculated with the relation:
\[ g_s = \frac{f_i}{F} \]

If we want to highlight the realisation of a certain level of structure we use the index of specific weight (\( I_{gs} \)) which shows how many times the effective specific weight deviates from the level of the specific weight, considered as basic:
\[ I_{gs} = \frac{g_{s1}}{g_{s0}} \]

E) Generalisation

The generalisation presupposes, on the one hand, to signal the most important positive and negative parts of the
company’s activity and, on the other hand, to identify the directions to which the management’s attention must be drawn, in order to establish the measures necessary to improve the result of the analysed phenomenon.

We conclude that in the economic and financial analysis a series of methods and procedures are used which can be classified in:

- **methods of qualitative analysis** which aim at knowing in detail the phenomenon, the causal relations;
- **methods of quantitative analysis** which aim at establishing the size of the elements, of the factors which explain the phenomenon.

**References:**