NON-FINANCIAL BACKGROUND OF FINANCIAL PERFORMANCE –
EVIDENCES FROM EASTERN EUROPE

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Abstract: The research is about the relationship between progress in financial performance and firm characteristics – applied capital budgeting methods, presence of a code of ethics, firm size, extent of management ownership and presence of western management culture – of Central and Eastern European firms. Data of 218 non-listed companies are used from a survey in 2006 which focused on the capital budgeting practices and other firm characteristics of firms. The most important financial indicators are followed up reflecting these firms’ financial progresses – sales, profit before tax, net income, earnings before interest and taxes, total assets, equity, debt, return on equity, return on assets and number of employees – from 2005 to 2012. Companies that do not use any kind of formal capital budgeting technique have significantly worse financial performance on average, while companies using the discounted cash flow (DCF) methods have the highest performance indicators. No significant difference in financial progresses between firms using only the accounting based (AB) or the DCF methods are found. Companies where DCF methods are frequently used, and simultaneously there is a code of ethics achieve the best financial performance. Our results provide a strong support for the theory of business ethics. Presence of a code of ethics seems to be a strong separation parameter: companies with code of ethics over-perform companies without it.

Key words: capital budgeting practice; code of ethics; size effect; management ownership; operation efficiency; financial performance; Central and Eastern Europe

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