THE ROLE OF THE LEGAL FRAMEWORK IN ASSESSING THE ECONOMIC AND FINANCIAL PERFORMANCE OF ENTERPRISES

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Abstract:
The legal framework in which entities operate directly and indirectly influences the assessment of economic and financial performance, by regulating transparency obligations, managerial accountability, and financial reporting requirements. This article examines the relationship between legal norms and economic and financial indicators (profitability, solvency, liquidity, cost of capital), emphasizing the impact of European and national legislation on the performance of enterprises. The first section outlines the theoretical framework, the second discusses legal influences on performance, and the final section formulates conclusions and policy recommendations for the current period.

Keywords: *legal framework, economic-financial performance, legal norms, financial reporting, decision transparency, cost of capital*

INTRODUCTION

The main objectives of this study are analyzing the impact of the legal framework on ROA and ROE indicators; identifying how ESG requirements influence the cost of capital; comparing the European and Romanian frameworks regarding corporate governance.

The study applies a legal and economic analytical method that combines a comparative evaluation of European and national legislation with a theoretical analysis of governance mechanisms. The approach is predominantly deductive, based on the selection of specialized literature and existing regulatory frameworks. The limitations of the research derive from the non-empirical nature of the study, and subsequent completion with quantitative analyses is recommended.

Assessing the economic and financial performance of enterprises cannot be conducted outside a regulatory context. The legal framework establishes the rules for the establishment, operation and reporting of economic entities, thereby exerting a direct influence on how performance is measured and interpreted. In the European Union, the harmonization of company law and financial reporting standards aims to strengthen transparency and protect investors[1].

Thus, performance is not only the result of well-founded economic decisions, but also the result of compliance with the applicable legal framework. A solid economic structure can operate efficiently only when it is complemented by legal compliance, as legal norms define the boundaries, conditions, and responsibilities within which economic activity can be carried out. In this regard, performance becomes an expression of the balance between economic strategy and legal discipline, each of these dimensions contributing fundamentally to the sustainability and credibility of the organization. Norms regulating audit, internal control, corporate governance, and information disclosure influence both the credibility of financial data and access to financing and the cost of capital[2].

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[1] Comisia Europeană, *Company Law and Corporate Governance*, Bruxelles, 2024, p. 3-5.

[2] Ribas-Ferrer, V., „Corporate Governance in European Listed Companies”, *Athens Journal of Law*, vol. 2, nr. 1, 2016, p. 28-30.

In Romania, the regulatory framework for financial reporting and corporate governance has undergone significant transformations in recent years, aligned with European directives and standards. The implementation of International Financial Reporting Standards (IFRS) for public-interest entities, the modernization of statutory audit legislation, and the strengthening of transparency requirements have contributed to greater comparability and reliability of financial information. In the current context, characterized by accelerated digitalization, inflationary pressures and the need to adapt to global changes, Romanian enterprises must demonstrate increased rigor in complying with legal norms and risk management.

THEORETICAL FOUNDATIONS: CORPORATE LAW AND FINANCIAL PERFORMANCE ANALYSIS

A. THE ROLE OF LAW IN SHAPING ECONOMIC PERFORMANCE

Law ensures a fair framework for economic actors through rules on shareholder protection, creditor rights, governance, and managerial oversight. Legal norms establish mechanisms that guarantee equitable treatment of stakeholders and prevent abusive or imbalanced practices in resource management. Regulations on all shareholder protection define their rights in relation to the management of the company, from access to relevant information to the possibility of influencing strategic decisions through voting. At the same time, legislation concerning creditors ensures that financial obligations are respected, and default risks are managed in a transparent and predictable manner.

Regarding corporate governance, the law defines the principles and structures required for responsible and efficient management of enterprises. These include the delimitation of roles between governing bodies, managerial responsibilities, reporting obligations, and internal control systems. Managerial control[3], supported by clear regulations, contributes to preventing fraud, improving risk management and increasing investor confidence. Overall, the law functions as an essential mechanism for maintaining the balance between the economic interests of different stakeholders, thereby strengthening the stability and performance of the economic system.

According to the "law and economics" theory, legal norms are mechanisms that reduce agency costs and stimulate efficient behavior[4]. In this perspective, financial performance becomes an indicator of the effectiveness of the legal framework: a coherent and predictable regulatory system promotes economic growth and financial stability. When rules are clear, stable, and uniformly applied, the business environment benefits from certainty, and economic actors can make informed long-term decisions. A well-structured legal framework reduces uncertainty, diminishes operational risks, and stimulates access to capital, as investors perceive a transparent and secure environment. At the same time, legislative coherence strengthens financial discipline within companies, determining compliance with reporting standards, fiscal obligations, and corporate governance norms. Predictability limits volatility and supports stable contractual relations, an essential aspect for the functioning of financial markets. Thus, a company's financial performance does not only reflect the managerial skills or economic strategies adopted, but also the way in which the legislative framework supports or constrains economic activity [5].

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[3] Van der Elst, C., „Corporate Governance and Law in the European Union", *ECGI Working Paper Series*, nr. 128/2023, p. 7.

[4] Gindis, D., Petrin, M., „Economic Analysis of Corporate Law", *Encyclopedia of Law and Economics*, Elsevier, 2020, p. 155-158.

[5] Mathis, K., *Law and Economics of Corporate Governance*, Springer, 2024, p. 21-24.

B. PERFORMANCE INDICATORS AND THE INFLUENCE OF LEGAL NORMS

Financial performance is assessed using indicators such as return on assets (ROA), return on equity (ROE), solvency, liquidity, and asset turnover. Each of these indicators provides a distinct perspective on the efficiency and stability of an enterprise, enabling an integrated analysis of how financial and operational resources are used.

Return on equity (ROA) reflects the company's ability to generate profit from the total assets employed, highlighting managerial efficiency in allocating and exploiting resources. Return on equity (ROE), on the other hand, shows how shareholders are rewarded for their investment and is essential for assessing the company's attractiveness to investors. High levels of ROA and ROE indicate effective management, an adequate financial structure and a sustainable business model.

Solvency measures the company's ability to cover its long-term obligations, reflecting its level of indebtedness and financial soundness. Adequate solvency provides stability and reduces the risks associated with insolvency, a crucial aspect for relationships with creditors and financial partners. Liquidity expresses the enterprise's ability to rapidly convert assets into cash to cover short-term liabilities, serving as an indicator of financial flexibility and the ability to respond to unforeseen circumstances.

The asset turnover ratio indicates how efficiently assets are used to generate revenue, illustrating the operational dynamics and the speed at which invested capital circulates. A high turnover reflects efficient use of asset, whereas low values may signal operational bottlenecks or unproductive investments.

Therefore, the analysis of these indicators provides a complex and nuanced view of financial performance, enabling both the identification of strengths and the detection of structural vulnerabilities within the enterprise. However, the reliability of these indicators depends on the quality of accounting reporting and compliance with legal standards[6].

For example, external audit regulations require verification of accounting data, which increases investor confidence and reduces the cost of capital.[7] Likewise, reporting requirements imposed by European legislation — such as Directive (EU) 2013/34 on annual financial statements (updated in 2024) — improves the quality of financial information[8].

RECENT DEVELOPMENTS IN THE LEGAL FRAMEWORK AND IMPLICATIONS FOR PERFORMANCE

➢ EUROPEAN REGULATIONS AND STANDARDIZATION

The European Commission promotes a unified company-law framework to ensure competitiveness and sustainability of businesses. Through its legislative and policy initiatives, it aims to harmonize national rules on the formation, organization and operation of companies, so that companies in all Member States operate in a predictable and fair legal environment. Such a common framework facilitates cross-border mobility of companies, reduces administrative costs and increases transparency, which are essential for strengthening the internal market.

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[6] Alazzam, F., „Comparative Analysis of Corporate Governance Models", *Economic & Financial Management Review*, 2022, p. 67.
[7] European Commission, *Audit and Financial Transparency Guidelines*, 2023, p. 12-14
[8] Directive (EU) 2013/34/UE, actualizată 2024, art. 4-6.

The Commission also promotes modern corporate governance standards that emphasize managerial responsibility, protection of minority shareholders, and balancing the interests of investors, employees, and other stakeholders. The introduction of requirements on non-financial reporting, sustainability, and social responsibility reflects the EU's orientation toward sustainable development and the integration of ESG (environmental, social, governance) criteria in business decision-making processes.

Moreover, a unified legal framework enhances investor confidence, encourages capital flows and contributes to reducing competitiveness disparities between member states. By modernizing company law, digitalizing corporate procedures and standardizing transparency rules, the European Commission aims to create an economic ecosystem in which enterprises can develop sustainably, adapted to the challenges of the global economy and the green and digital transitions. Thus, European company law becomes a key instrument in supporting competitiveness, resilience and innovation within the European Union[9]. Among the recent developments are the digitalization of financial reporting (ESEF) and the expansion of non-financial (ESG) reporting in accordance with Directive (EU) 2022/ 2464 on corporate sustainability reporting[10].

These legal norms enhance transparency, which empirical studies show is positively correlated with profitability and liquidity[11]. Clear reporting, disclosure, and verification obligations on financial and non-financial information reduce information asymmetries between management and stakeholders. Increased transparency facilitates the correct assessment of a company's performance, boosts investor confidence and can reduce the cost of capital. In addition, by making internal practices more visible and easier to monitor, companies are encouraged to adopt prudent financial policies and efficient resource management, which is reflected in higher profitability indicators.

➢ CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

The "comply or explain" principle represents a central pillar of modern corporate governance systems, particularly in European capital markets. This principle requires listed companies either to fully comply with governance codes or, alternatively, to provide clear, coherent and well-reasoned explanations for any deviations from the recommended practices. Its purpose is to allow investors, analysts and other stakeholders to transparently assess the quality of managerial practices and the degree of accountability demonstrated by corporate leadership[12].

The proper implementation of corporate governance is not merely a bureaucratic formality but proves to be a decisive factor in financial performance. Transparency, managerial responsibility and effective control structures reduce operational and agency risks, increase investor confidence and facilitate access to capital. In this context, companies perceived as well governed are often rewarded by the market through a lower cost of capital and more stable stock valuations.

Recent empirical research confirms this relationship. Studies indicate that companies fully complying with corporate governance codes achieve, on average, a return on equity (ROE) that is 8–12% higher than that of companies deviating from these rules without solid justification. This performance gap is primarily attributed to factors such as:

• higher quality of strategic decisions, supported by a more active and diverse board of directors,
• more effective risk management, based on in rigorous oversight processes,
• stronger investor relations, which translate into reduced volatility and greater confidence in the company's prospects.

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[9] Comisia Europeană, *Corporate Law Package 2025*, Bruxelles, 2025, p. 10-12.
[10] Directive (EU) 2022/2464 (CSRD), JO L 322/15, 2022, p. 16-19
[11] OECD, *Corporate Governance and Financial Performance Indicators*, Paris, 2024, p. 42-44.
[12] *Comply or Explain*, Wikipedia, accesat la 7 noiembrie 2025, p. 2.

Overall, adherence to corporate governance principles proves to be not only a compliance requirement, but also a sustainable growth strategy, contributing to the strengthening of corporate reputation and the improvement of long-term economic performance.

Recent studies further show that companies fully comply with governance rules record, on average, a return on equity 8–12% higher than those that do not[13].

- **THE ROMANIAN LEGAL FRAMEWORK**

In Romania, the Companies Law No. 31/ 1990 (republished, with amendments up to 2025) and the audit legislation (Law No. 162/ 2017) provide the foundation for transparency and managerial accountability. Also, the application of IFRS standards for listed companies has improved the comparability of financial performance[14]. The legal framework governing corporate governance and financial transparency in Romania is primarily based on the Companies Law No. 31/ 1990 (republished), which has undergone multiple amendments up to 2025 to align with European requirements regarding the responsibilities of governing bodies, shareholder protection and the integrity of corporate assets. Audit-related provisions are reinforced by Law No. 162/ 2017 on statutory audit, further complemented by orders issued by the Ministry of Finance and updates generated by the implementation of Regulation (EU) No. 537/ 2014. These acts regulate auditor obligations, their independence and reporting requirements, contributing to greater transparency and improved quality of financial information.

Moreover, listed companies and public-interest entities are required to apply the International Financial Reporting Standards (IFRS), in accordance with Order of the Minister of Public Finance No. 2844/ 2016 and subsequent updates. This alignment with international practices has substantially enhanced the comparability of financial statements, facilitating both investor attraction and performance assessment through uniform financial indicators.

However, despite legislative progress, the effective implementation of regulations remains a challenge, particularly among small and medium-sized enterprises (SMEs). In many organizations, internal control systems are implemented only formally, as a bureaucratic requirement rather than a genuine risk-management tool. Also, the internal audit function is often absent or insufficiently professionalized[15], even though legislation and best practices recommend its development even within entities that are not legally required to maintain it. Resource constraints, a shortage of specialists and low levels of digitalization contribute to persistent vulnerabilities in control and reporting processes.

In the long term, strengthening a compliance-oriented organizational culture, adopting digital monitoring solutions and reinforcing the role of audit committees in larger companies represent essential directions for improving corporate governance in Romania.

IMPLICATIONS FOR PERFORMANCE MANAGEMENT WITHIN AN ENTITY

Integrating the legal dimension into performance management requires recognizing the essential role that transparency, regulatory compliance and auditing play in strengthening organizational governance. A respected legal framework not only reduces operational and financial risks but also contributes to increasing the confidence of investors and business partners. At the same

[13] Jędrzejowska-Schiffauer, I., Thalassinos, E., „EU Regulatory Measures Following the Crises”, *ERS Journal*, vol. XXII, nr. 3, 2019, p. 112-115.

[14] Legea nr. 31/1990 privind societățile, republicată 2024, art. 70-73.

[15] Deliu, D., „Corporate Governance în România: Analiză și provocări”, *Ovidius University Annals*, 2020, p. 213-215

time, the effective implementation of legal norms — beyond their formal existence — supports internal process stability, the accuracy of reporting and the responsible use of resources. Performance management thus becomes a holistic process, in which legality and economic efficiency reinforce one another, generating sustainable competitiveness. We highlight several aspects in this regard, which, when applied, contribute to shaping the performance management of an entity:

1. **Legal transparency as a determinant of financial performance.** In modern managerial frameworks, legal transparency supports financial performance by reducing information asymmetries between companies and stakeholders. Lower perceived uncertainty reduces the cost of capital and enables easier access to diverse and stable financing sources for the organization[16].
2. Legal compliance and integration of ESG requirements as a competitive advantage. As regulatory and ethical pressures intensify, rigorous compliance — including the proper adoption and reporting of ESG indicators — becomes a strategic component of performance management. Companies demonstrating legal responsibility and sustainability achieve greater credibility in financial markets and more easily attract responsible investment[17].
3. Correlating financial analysis with legal audit to validate performance. Performance management depends directly on the reliability of the information used in decision-making. By integrating financial analysis with legal audit — both internal and external — organizations can ensure verification, consistency, and relevance of performance indicators while reducing the risk of reporting errors and strengthening corporate governance[18].
4. Effective application of legal norms as an operational performance factor. The mere existence of a coherent legal framework does not guarantee performance; the decisive element is the way in which the norms are implemented in operational processes. Effective applications of legislation — through clear internal procedures, continuous monitoring and managerial accountability — supports operational stability, reduces litigation and improves overall organizational performance[19].

To illustrate the influence of the legal framework on performance, we consider a listed company that applies ESEF standards and CSRD requirements. The implementation of these regulations leads to increased transparency and reduced information risk, which can lead to a decrease in the cost of capital and an improvement in ROE and ROA indicators. In addition, ESG reporting allows for the strengthening of the relationship with institutional investors, positively influencing the company's solvency.

CONCLUSIONS

This study highlights the essential role of the legal framework in strengthening the economic and financial performance of enterprises. The research demonstrates that transparency, quality of reporting, corporate governance and audit mechanisms are legal instruments that directly influence indicators such as profitability, solvency and cost of capital. The main contribution of the article lies in integrating legal and financial analysis, providing a conceptual framework that explains how European and national regulations are reflected in the economic performance of organizations.

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[16] Pellerin, M., „The Economics of Corporate Governance", *Harvard Law School Forum*, 2022, p. 9-11.
[17] European Banking Authority, *ESG Risk Management and Disclosure Report*, 2024, p. 25-27.
[18] Van Daelen, M., „Internal Audit and Corporate Performance", *ECGI Working Paper*, nr. 64/2023, p. 18-19.
[19] OECD, *Implementing Effective Corporate Governance*, Paris, 2025, p. 33-35.

At the same time, the study also demonstrates that legal norms alone do not guarantee performance: effective implementation, strong internal controls, and the level of compliance determine the extent to which the legal system becomes a functional tool supporting organizational efficiency. In this regard, digitalized reporting, standardized audit procedures, and strengthened corporate governance remain essential conditions for improving financial discipline.

Future research should include empirical analyses of CSRD, ESEF, and IFRS impacts on Romanian companies, comparative studies on corporate governance efficiency in EU states, and quantitative models evaluating the relationship between legal compliance and capital cost. Such analyses will deepen understanding of the interdependence between legal norms and economic–financial outcomes, offering a solid foundation for public policy and sustainable managerial decisions.

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