
COMPARATIVE USEFULNESS OF FINANCIAL AND NON-FINANCIAL INDICATORS IN ASSESSING COMPANY VALUE

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Abstract

This article examines the relative usefulness of traditional financial metrics and non-financial indicators (including ESG indicators, intellectual capital, customer satisfaction, etc.) in assessing company valuation. Based on a review of empirical studies and theoretical approaches, it analyzes the conditions under which non-financial information provides additional information to financial statements, how the market reacts to such information, and the methodological challenges associated with its use in valuation.

Keywords: Company valuation, financial indicators, non-financial indicators, intellectual capital, intangible assets, ESG, sustainable development, customer satisfaction, market value of the company.

Introduction

The scientific novelty of the study lies in the systematization and comparative analysis of financial and non-financial indicators from the standpoint of their relative usefulness (value Relevance) in company valuation. The paper substantiates the complementary nature of these indicators and demonstrates that non-financial indicators do not replace financial metrics, but rather improve valuation accuracy, primarily over the long term.

Valuing a company is a central task in corporate finance and investment analysis. Traditionally, the primary focus in valuation is on financial indicators: profit, cash flow, profitability, and market valuation ratios such as P/E, EV/EBITDA, and others. These indicators form the basis of classic valuation models focused on the current and projected financial performance of a company. However, in recent decades, there has been a significant expansion of the range of information used to analyze firm value, including non-financial indicators such as ESG (environmental, social, and governance) factors, elements of intellectual capital, reputation, customer satisfaction, and other components of intangible capital.

The relevance of this topic is driven by several factors. First, the share of intangible assets in the market value of modern companies is constantly growing, especially in knowledge- and innovation-intensive sectors. Research shows that standard financial statements often do not fully reflect the value of such assets, leading to a gap between a company's book value and its market value. This gap motivates academics and practitioners to study "unrecorded" intangible assets and assess their impact on a firm's market value [1].

Second, the proliferation of sustainable development practices and non-financial disclosure requirements makes ESG factors an important component of investment analysis. Recent research demonstrates that ESG assessments can influence investors' perceptions of a company's risks and future growth, and consequently, its market value. For example, the paper "ESG Analysis in the Business Investment Valuation System" highlights the growing recognition of the influence of ESG factors on investment decisions and the need to integrate these indicators into business valuation models [2]. Similarly, international hybrid literature reviews highlight the link between ESG performance and firm value, although they note heterogeneity in results across different research contexts [3].

Third, non-financial indicators such as customer satisfaction or brand equity are considered components of intangible capital that can reflect future economic benefits and predict market value dynamics. Empirical research shows that high customer satisfaction contributes to the development of sustainable competitive advantages for a firm and can be associated with increased market valuation [4].

Thus, modern valuation practice requires the integration of both financial and non-financial indicators. Financial metrics remain fundamental for analyzing current financial performance and forecasting future cash flows, while non-financial indicators provide additional information about management quality, business sustainability, innovation potential, and risks not fully reflected in traditional financial statements. The purpose of this study is to compare the usefulness of financial and non-financial indicators in terms of their contribution to explaining company value and to propose a rationale for their combined use in valuation models.

The relationship between financial and non-financial indicators and the value of a firm is based on a number of fundamental theoretical approaches in corporate finance and economic theory.

First, discounted cash flow theory views a company's value as the present value of its expected future cash flows. Financial indicators directly reflect a firm's current ability to generate profits and cash flows, while non-financial indicators (management quality, customer satisfaction, and innovation) influence long-term growth rates and the sustainability of these flows [5].

Second, information asymmetry and signaling theory suggests that management has more information about a company's prospects than outside investors. Disclosure of non-financial indicators can signal high management quality and strategic sustainability, reducing information uncertainty and, consequently, the cost of capital [6].

Third, intellectual capital theory and the resource-based view (RBV) argue that sustainable competitive advantages are formed through unique, difficult-to-imitate resources, a significant portion of which are non-financial in nature: employee knowledge, organizational processes, and relationships with customers and partners. These resources are not fully reflected in financial statements but are capitalized by the market in the form of a company's higher market value [7].

Fourth, stakeholder theory The theory extends the traditional shareholder value maximization model by suggesting that effective management of relationships with key stakeholders

(employees, customers, society, regulators) reduces non-financial risks and promotes sustainable value creation in the long term [8].

Finally, the concept of value Relevance considers the usefulness of information through the lens of its ability to explain market value and stock returns. From this perspective, financial indicators have high explanatory power for current valuations, while non-financial indicators enhance the predictive power of models, particularly with respect to future growth and risk [9].

Taken together, these theoretical approaches substantiate the complementary nature of financial and non-financial indicators in assessing the value of a company and the need for their joint use in modern assessment models.

Empirical research confirms that financial and non-financial indicators influence firm valuation differently and have different informational utility depending on the time horizon, industry, and firm characteristics.

Early research in the field of value Relevance studies have shown that financial indicators such as profit and book value of equity retain high explanatory power for a company's market capitalization, especially in the short term [9]. However, as the role of intangible assets increases, their ability to fully reflect a company's value decreases.

A significant body of empirical literature is devoted to non-financial metrics. Studies of customer satisfaction (based on the ACSI index) demonstrate that companies with higher customer loyalty have higher long-term stock returns and lower risk, indicating that the market capitalizes on marketing intangible assets [10].

Works analyzing intellectual capital reveal a positive relationship between its components (human , structural and relational capital) and the market value of the firm, especially in high-tech and service industries. However, the problem of heterogeneity of indicators and measurement methods is noted [7].

Contemporary research focuses on ESG indicators, showing that high ESG levels may be associated with a reduction in the cost of capital and an increase in market value, but the effect is ambiguous and depends on the country, institutional environment and economic sector [11].

Overall, empirical evidence suggests that combined models that include both financial and non-financial indicators have the greatest explanatory power, particularly when assessing long-term business value and sustainability.

The use of non-financial indicators in assessing a company's value requires a careful methodological approach, since indicators such as ESG metrics, intellectual capital, or customer satisfaction are highly informative, but have limited comparability and ambiguous interpretation.

First, the key challenge is the measurement and standardization of non-financial indicators. Unlike financial reporting, non-financial metrics are often calculated using different methodologies and are based on qualitative assessments or ratings. This reduces the comparability of data across companies and periods and requires the use of aggregated indices or verified external sources (e.g., ESG ratings).

Secondly, endogeneity is a significant methodological limitation . High market value can be not only a consequence but also a cause of improved non-financial indicators, as more

successful companies have more resources to invest in sustainable development, personnel, or marketing. To minimize this effect, empirical studies employ lagged variables, panel models, and instrumental methods.

Third, non-financial indicators have a lagged effect. Their impact on firm value often manifests itself in the long term, requiring the use of multi- period valuation models and an extended forecasting horizon. In short-term models, such effects may be statistically insignificant.

Fourth, an important aspect is the integration of non-financial indicators into evaluation models. Three main approaches are used in practice:

- adjustment of projected cash flows taking into account the impact of non-financial factors on revenue growth and margins;
- adjustment of the discount rate by changing the risk premium ;
- use of premiums or discounts to market multiples.

Each approach involves subjective assumptions and requires mandatory sensitivity analysis. Thus, it is advisable to consider non-financial indicators not as an independent basis for assessment, but as a supplement to financial metrics, increasing the accuracy of assessing the long-term value and risks of a company, provided that the methodology is transparent and assumptions are justified.

Valuation practice shows that the importance of non-financial indicators varies significantly depending on the industry, business model , and asset structure. Below are typical situations in which non-financial indicators have the greatest impact on the final valuation.

1. Companies with a high proportion of intangible assets. In the high-tech, pharmaceutical, and service industries, a company's market value is largely determined by intangible factors: the level of human capital, innovative potential, the quality of business processes, and customer relationships. In such cases, traditional financial metrics (such as operating profit) may underestimate the company's value. A practical solution is to adjust revenue and operating margin forecasts to account for non-financial factors, such as R&D expenses, employee turnover, or customer base growth.

2. Capital-intensive and industrial companies. For capital-intensive industries (energy, mining, infrastructure), financial indicators related to assets and cash flows remain key. However, non-financial factors, primarily environmental and regulatory risks, can significantly impact valuation. In practice, this is reflected in discount rate adjustments or cash flow scenario analyses that take into account potential penalties, investments in environmental projects, and regulatory restrictions.

3. Consumer-Focused Companies. In consumer-facing companies, non-financial metrics such as customer satisfaction, brand strength, and reputation are directly linked to future cash flows. Improvements in these metrics may not be immediately reflected in financial statements, but are used by valuers to justify higher growth rates or premiums in multiple valuation methods.

4. Integration of non-financial indicators into practical valuation. In applied valuation models, non-financial indicators are most often used not in isolation, but in combination with financial metrics. The most common are the scenario approach and sensitivity analysis,

which allow one to assess the impact of changes in non-financial factors on a company's final value.

Table 1 - Examples of the use of non-financial indicators in assessing the value of a company

Company type / industry	Key non-financial indicators	Method of integration into assessment	Effect on cost
IT, pharma, consulting	Human capital, R&D, innovation	Adjusting the FCF growth rate	Long-term value growth
Industry, energy	ESG, environmental and regulatory risks	Adjusting the discount rate	Change in risk premium
Consumer sector	Customer satisfaction, brand	Premiums/discounts to multipliers	Increase in market valuation
Companies with a mixed model	ESG, quality of management	Scenario analysis	Reducing estimation uncertainty

Overall, practical examples confirm that non-financial indicators have the greatest impact on long-term valuation and are especially significant for companies where intangible assets are the source of competitive advantage. Their use improves the validity of the valuation, provided the methodology is transparent and the data is correctly interpreted.

The analysis shows that financial and non-financial indicators offer different but complementary benefits in assessing a company's value. Financial metrics remain the key basis for valuation, as they directly reflect current and projected cash flows. At the same time, non-financial indicators provide additional information about long-term growth potential, business sustainability, and non-financial risks, which are not always reflected in financial statements.

Empirical studies confirm that combined models incorporating both financial and non-financial indicators have superior explanatory and predictive power compared to models based solely on financial data. The role of non-financial indicators is particularly significant in industries with a high proportion of intangible assets and in companies focused on long-term relationships with customers and other stakeholders.

From a practical point of view, it is recommended:

- use non-financial indicators as a complement to, rather than a replacement for, financial metrics;
- take into account industry specifics when selecting relevant non-financial indicators;
- integrate non-financial factors through adjustment of projected cash flows, discount rates and scenario analysis;
- accompany the assessment with sensitivity analysis and transparent justification of assumptions.

In general, the integration of non-financial indicators improves the quality of company valuation, especially in the long term, but requires methodological rigor and a critical approach to the interpretation of the results obtained.

In a valuer's practice, non-financial indicators are not used in isolation, but as part of a systematic approach to company valuation analysis. Their application requires a clear algorithm of actions to ensure data comparability, transparent assumptions, and the validity of the final assessment. The table below presents a general procedure for using non-financial indicators in the company valuation process.

Table 2 - Practical Guide for the Appraiser

Evaluation stage	Actions of the appraiser	Indicators used	Result
1. Identification of factors	Identifying relevant non-financial factors, taking into account the industry and business model	ESG, intellectual capital, customer satisfaction, management quality	List of significant non-financial indicators
2. Data collection and verification	Use of company reports and external ratings; comparability check	ESG ratings, non-financial reporting, industry indices	Reliable information base
3. Integration into the model	Including non-financial factors in DCF or multiples	Growth rates, margins, risk premium	Adjusted evaluation parameters
4. Sensitivity analysis	Testing the impact of key non-financial assumptions on value	Scenarios, stress tests	Evaluation of the sustainability of the result
5. Interpretation of results	Justification of the influence of non-financial factors in the valuation report	Qualitative and quantitative findings	Increasing the transparency and validity of assessments

Thus, systematically incorporating non-financial indicators into the valuation process improves the accuracy and analytical depth of results, especially when analyzing a company's long-term value. However, the key to their correct use remains the transparency of the methodology and a clear link between non-financial factors and the business's financial performance.

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