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EXPRESS-ASSESSMENT OF BUSINESS VALUE FOR MAKING TACTICAL DECISIONS IN MANAGEMENT OF COMPANIES

The management of enterprise value by the method of express-assessment of business value is considerate in this work. The author offers a more accurate formula for calculating the business value by net assets. Also we introduce a system of quadrants, that enable to make management decisions in order to increase business value efficiently.

Keywords: business value, express-method, management of business value, quadrants.

The topicality of the present research is caused by the necessity of using new strategies and methods of controlling companies for accelerating their financial activity effectiveness, steady work in daily and crisis conditions of the market system. At the heart of management concept of the business value is understanding that the increasing of business value strategy has prospects not only for owners, but also for investors, for consumers and society. From such point of view the business value is a resumptive result of enterprise activity. The effectiveness of management clarifies its liquidity, profitability or profit's amount, but and also upwarding business "adjustment", which is the object of financial strategy management.

The aim of the present research is to work out practical recommendations of business value assessment to accelerate enterprise management effectiveness, the offer to use a method of express-assessment of business value as a tool for taking tactical and strategical decisions by managers of companies.

Problems, which have been taken during this research, were rated with reference to medium business class enterprises, which do not have intangible assets on statement of the balance.

Methodical machine of assessment of business value, that exists at the moment, does not allow to define business value fast enough, and also to provide top-management with necessary information about changes in company's value tendencies in process of transformations caused by external and internal factors. Quickness, availability and self-descriptiveness are gaining the more significance in managing of business value.

In a constantly changing internal and external environment of enterprises the efficient definition of business value assumes the character of an objective, focused, continuous process. At the same time, the cost control problem of the company at the stage of stable development as well as in crisis situations stays relevant and insufficiently elaborated. The attention should also be paid to the mechanism of balancing the interests of business and society, the influence of social factors on the dynamics of the value of enterprises.

Company cost management is a modern management strategy targeted at increasing investment attractiveness, competitive advantages and sustainability in the market environment in anticipation of the long term. It is based on a systemic approach of using multiple factors that form the value, taking into account the conflicting interests of

different groups of subjects connected with the company. Increasing the market value of the company is the strategic goal of management [1].

To achieve effective governance on the basis of determining the value of business it is necessary to analyze existing methods of valuation. Methods, proposed by foreign researchers, cannot find a proper application in practice for managers of domestic firms at the moment, due to underdevelopment of the equity market and the information base [2]. At the present time there are not so many adapted techniques of value assessment of Russia's business, based on the principle of increasing business value, and each of them has its own nuances that require vast amounts of information. In appraisal practice there are three main approaches to determine the value of the business: profitable, expensive, comparative.

Some appraisers and managers do a prospective analysis of profit on the basis of the retrospective, make adjustments, define by an expert method the proportion of "confidence" to a particular method, and on the base of the three methods by weighting factors we can get so-called integrated index of business value. Immediately the question about the need for a given value emerges. If the owner needs to know the cost of business for management decisions, the method of valuation should possess the following characteristics during the calculation:

- simplicity of calculation;
- self-descriptiveness;
- accessibility for understanding;
- efficiency of definition;
- validity.

Even with very careful check, uncertainty and miscalculation of value of the business will have a place, reflecting a change in the country economics and strategy of the company. The degree of accuracy of assessment will depend on the discount rate (discounted cash flow model), from the stage of the life cycle, from the age of the company. The assessment of the future of the company, based on assumptions about future revenue, will have stochastic nature. Profitable, expensive, or the comparative method of valuation requires the construction of complex multi-factor models based on macroeconomic prognoses, for the calculation by these techniques it requires accessible information about the purchase – sale transaction, the tools of the stock market, which is not always possible in reality. Detailed procedure for determining the "price" of business takes time, effort,

financial investment. It also requires the involvement of certified experts-appraisers.

The head of the company has to make decisions that affect the cost of business regularly. Any of the actions of management of organizations, such as: purchase / sale of the property complex, financial investments, sale / purchase of receivables, securities, etc. have huge impact on business value. Modern methods of assessing the value of labor-intensive are complex for perception for an amateur in the evaluation activities. They require a considerable amount of time.

For efficient introduction of these decisions in terms of assessing the business value we suggest to develop a method of express-assessment of the company value. This method is based on accounting data, it allows to take into account the interests of all participants in business processes. The understanding that it is important for shareholders to increase the market value of property is the basis of this concept. It is necessary to adjust its management policies. Investors have to determine the reliability and financial availability of investments. Appraisers have to find the coefficient (rate multiplier) for the industry to use when calculating in the method of analogues. Society has to determine the level of economical development, to take decisions for possible participation in the national IPO.

In our opinion, special attention should be paid to the method of net assets. The authors propose to clarify this method, taking into account the ratio of accounts receivable and accounts payable (to cover the accounts payable for the account receivable) and ratios of profitability of the enterprise.

The method of net assets is one of the methods of the cost approach to value business, the main idea of which is to determine the value of assets with a further subtraction from the amount of assets of all current liabilities of the company.

According to this method the business value is equal to net asset value, which is calculated by the formula:

$$NA = NCA + WA + TFP - LT \& STL, \quad (1)$$

where NA – net assets of the company; NCA – non-current assets of the company; WA – working assets of the company; TFP – target financing and receipts; $LT \& STL$ – long-term and short-term liabilities [2].

In contrast to existing forms of calculation we suggest a refinement of the net asset formula for determining the value of the business:

$$C = (A - LTL - C\&L - STD / (R/P)) \times (1 + Rpr) * (1 + REC), \quad (2)$$

where C – value business; A – assets of the enterprise; LTL – The long-term liabilities of the enterprise; $C\&L$ – credits and short-term lends; STD – short-term debts; R/P – ratio of receivables and payables; Rpr – profitability, calculated on the profit, REC – profitability of equity capital, defined by profit from sales.

In the revised formula it is suggested to introduce ratio R/P , which plays a significant role in the functioning of the enterprise.

The ratio of receivables and payables, proposed for the calculation of business value, shows how the company is able to pay its short-term debt through the use of receivables, which plays a important role in critical conditions of enterprise activity. It will increase the value of the business if it is more than or equal to 0.5, and reduce the desired rate otherwise.

In addition, it is not the only coefficient, that is suggested by the authors. To clarify it is important to draw attention to the ratios of profitability.

Application of the ratio of profitability of the enterprise plays an important role in calculating the value of the business by the express-method. Profitability of activity shows if the company has positive / negative financial result. This should also adjust the amount of business value, calculated by the proposed express – method. The rate of profitability characterize the position of business in the industry and territorial borders.

The basic idea of calculating the business value is as follows: the cost of business is defined as the product of the difference between the value of assets minus liabilities of the company and the profitability ratio of profit from sales and return on equity capital. Short-term debt in this formula is divided into the ratio of accounts receivable and accounts payable, this action allows you to define how accounts payable may be offset by accounts receivable. Thus, if in the coefficient R/P is more than accounts payable, the value of the business cost is higher, otherwise – the value of cost is less.

The profitability on the equity capital, the profitability of the enterprise, calculated on profit of sales also affect the value of business cost. These coefficients allow to adjust the variable based not only on the value of the assets of the enterprise, but also on financial performance.

Thus, the value of the business in the calculation of the proposed formula (2) will differ from the value calculated by the method of net assets in a big way if the activity of the enterprise is profitable, the receivables will cover the current accounts payable.

To determine the policies of enterprise management based on the definition of business value is suggested to develop a “scenario-model of the enterprise”, with the help of which we can define how any decision affects the valuation of the company.

The model is based on two indicators: the liquidity ratio and the ratio of price of the business to net assets of the enterprise.

The ratio of value of the business to net assets (C/NA) allows us to follow the progress trend of enterprise, it shows the effectiveness of the enterprise management. It also reflects the financial attractiveness of the company. According to proposed calculation by the formula (2), the value of the business should exceed the value of net assets in the presence of competent management and implementation of financial and strategic operations, thus, the coefficient of C/NA must be higher than 1 (the limiting value is 1).

To assess the solvency of companies is used the coefficient of current liquidity. The coefficient of current

liquidity is defined as the ratio of the factual cost of circulating assets, including stocks, goods, cash, receivables, production, etc. to short-term liabilities.

The coefficient of current liquidity is used to assess the ability of companies to meet their short-term obligations. The liquidity ratio characterizes the ability of the company to pay not only at the present moment, but also in case of emergency.

Standard value for the coefficient of current liquidity is from 1 to 2, the value less than 1 indicates a possible loss of paying capacity, and a value more than 4 is on insufficient using of borrowings and as a consequence, a lower value return on equity capital. It should be noted that the standard value for the coefficient of current liquidity depends on the industry in which the enterprise operates [3].

Figure 1 shows a system of quadrants, where on the Y axis the ratio of price of the business to net assets of enterprise is shown, on the X-axis we can see the coefficient of current liquidity. In this system imposed boundary values of defined indicators are brought in, the boundary value of coefficient of C / NA is 1 (optimal value is more than 1), the ratio of current liquidity is 1 to 2.

In figure it is appeared that the boundary values of the indices divide the area into four quadrants.

In the first quadrant the liquidity ratios and the ratio of business value to net assets of the company below the normative values ($KC / NA < 1, Kliq < 1$), we will call this quadrant “nobody nothing” – “Neither for me nor for the people”. Such a state of financial affairs of the company shows the inability of the enterprise to meet its obligations, the fragility of the financial situation, the lack of the strategic value thinking in the company’s management.

In the second quadrant, the liquidity ratio is below normative values, the ratio of C / NA is more than 1 ($KC / NA = 1, Kliq < 1$), let us call it “everybody may be” – “The cost increase at any price”; disparity in the optimal value of the coefficient of liquidity shows the

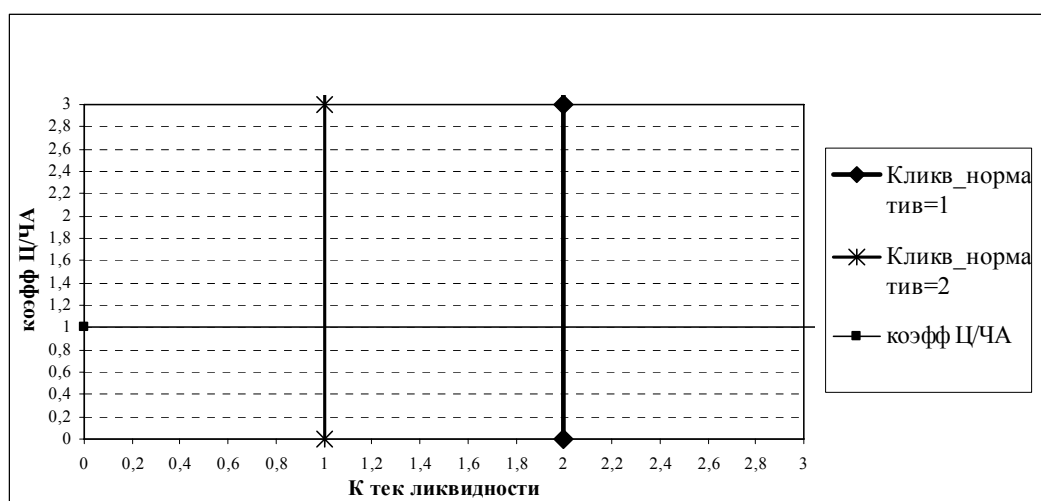
temporary loss of solvency of the enterprise, but the activity of the company is profitable. Management of the organization increases the profits, at the same time paying no attention to the excess growth rate of short-term liabilities over current assets.

In the third quadrant all indicators are favorable at the optimal level. Finding a company in this quadrant indicates competent policy management of the company in terms of the value thinking. Calculations under the third quadrant – $KC / NA = 1, 1 \leq Kliq \leq 2$, we will call it “GOOD TOP” – “For people and for me”. Estimated location “of the enterprise in these boundary values is advantageously for owners, and investors, and government fiscal organizations, and for society, and it also positively characterizes the company in credit institutions.

In the fourth quadrant the liquidity ratio satisfies the optimal value, C / NA below 1 ($KC / NA < 1, 1 \leq Kliq \leq 2$), so let’s call it “No Value” – “No for the values decision”. The policy of the leadership in this case allows you to save the current solvency of the enterprise, but does not think about increasing business value.

Thus, using the proposed system of quadrants, leaders can quickly make decisions that will effectively manage the business on the basis of determining the value of the business. The suggested express-method enables to predict the evolution of the price of business, at the same time paying attention to the level of solvency of the enterprise. In a crisis situation, the proposed dependence of the two factors is the ratio of business value and net assets, the liquidity ratio makes it possible to objectively evaluate the process transformed system of functioning of the enterprise, to make decision to mobilize their own resources to restore solvency.

Management strategy based on the approach of increasing the cost of business is one of the most effective, because it allows you to monitor the dynamics of this indicator, which serves as an indicator of financial-economic activity of the enterprise [4].



System of quadrants

Top managers come to the conclusion that the main characteristics of successful and forward-looking company are not only its liquidity, profitability, profit (like it has been considered earlier), but also the increasing of business value (cost of the business). It means that the main task of competent manager is to increase the "price" of the business, which will be the subject for monitoring, strategic management and investment interest of the State and people [5].

So, using the express-method of assessment of business value, management of the enterprise quickly and without considerable expenses can define the "boundary" minimum rate of market cost of the business, and also choose factors, which have an impact on it.

The value of the business, defined by the express-method can be served as minimal cost of the business and used by professionally licensed appraisers for more through and detailed calculation of business price.

For administrative and financial managers it is recommended to pay attention to the business value as controlled indicator, which has a great influence on all results of company's work, such as increase of investment attraction, financial risks managing, forming of funding sources, social part of company's activity.

In conclusion of the present research it is significant to point out at results received by authors:

1. It was suggested to use the express-assessment of business value as the way to increase the effectiveness of company management.

2. It was reasoned that cost management is a process that considers interests of different parties, such as owners, investors, consumers, society, government of territorial entities of Russia.

3. The calculation formula of business value by the method of net assets was modified, coefficients, which have great impact on value of required indicator, were included.

4. The system of quadrants, which allows to discover management features of business value in different situations, was proposed.

5. It was concluded that the express-method of defining business value has to suit principle of system and guarantee mobilization of all solutions to achieve strategic and tactical goals.

6. It was pointed out, that during crisis situations the express-method of assessing the business value and accepted decisions based on it should be aligned on the preservation of index of value, not on its increase.

The practical consequence of this research is that recommendations about using the express-method to calculate the business value give an opportunity to inform owners and managers of enterprise about business cost dynamics, that can allow to increase the effectiveness of managing companies.

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CONCEPTUAL MODEL OF THE INVESTMENT PRIORITIES ESTIMATION IN INFOCOMMUNICATIONS

We offer a new conceptual model for investment priorities estimation. It provides the analysis in a regional profile, industry profile and on a micro level. The model combines a number of economic-mathematical methods of modeling, including cluster and multivariate regression analyses. It is recommended to use theory and systematic tools of the real options concept for the priorities estimation on a micro level.

Keywords: an investment priority, a cluster, a rating, risks, a real option.

Nowadays the problem of investment priorities estimation has become topical. Its urgency is defined by the necessity of socioeconomic development of Russian regions and by the multichoice of capital investment spheres. Shortage of financial resources explains the necessity to stimulate investment mobilization into the infocommunication complex and their efficient use. Lack of reliable methods and approaches to identify investment

priorities, appropriate to socioeconomic changes, mechanisms and ways of investment management on a regional and industry level makes development of a reasonable strategy of investment activity for telecoms operators rather complicated.

Russian economic system transformation and its integration into the world information and economic community require studying of the world experience and