

# ЕКОНОМІКА ТА УПРАВЛІННЯ ПІДПРИЄМСТВАМИ (за видами економічної діяльності)

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## COST FACTORS IN VALUE-ORIENTED CONTROLLING

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**Introduction.** Development of business environment opens new possibilities before the participants of market of capitals. Having a special purpose reference-points of most investors are not so much in plane providing of operating efficiency of company's work, search of ways of profitability's increase, in the increase of profits as a result of cost increase of company.

For this reason all greater distribution in a theory and practice of financial control is got by conception of the cost-oriented management. The cost-oriented management (eng of value-based management) presents by a soba going near a management, aimed at maximization of joint-stock cost of enterprise.

Essence of conception consists in that a management an enterprise in a long-term prospect must be sent to the appreciation of value of enterprise.

Strategy, aims, business processes, indexes of evaluation of activity and reward, are determined on the basis of analysis of their influence on the change of cost for proprietors. Work in this direction envisages overvalue of existent looks to the management an operating-room, by financial and investment activity of enterprise and submission of her to the priority strategic aim – maximization of cost.

In accordance to this factors scientists examine the package of questions that are fundamental in realization of cost strategy: ground of logical sequence of factors of creation of cost, order of their deference to rank and cooperation; management money streams; determination of rate of discounting and taking into account of risks; an improvement of accounting is in relation to financial results and cash flow.

**The latest sources of research and publications review.** Research on management, controlling carried out by prominent domestic and foreign scientists I. Ansoff, I. Balabanov, A. Blahodarnyi, N. Danilichkina, A. Karminskyi, N. Kozhevina M. Lapusta, E. Meyer, R. Manom, M.A. Meskon, M. Petrenko, M. Porter, M. Pushkar, S. Smyrnov, D. Khan, I. Tsyhylyk and others. The issue of cost-oriented research is the subject of controlling by domestic scientists and economists. Thus, the main provisions of these issues out in the writings by T. Momot, A. Tereshchenko, N. Tkachuk [1 – 3]. But a clear mechanism for the introduction of value-oriented controlling in economic activity on today does not exist. Therefore, the solution of this issue is particularly important and requires special care.

**The purpose of the article** is a generalization of the concept of value-based management and study the factors that affect the value of the company.

**The basic material and results.** Conception of VBM arose up in 80<sup>th</sup> in the USA. Afterwards this conception became popular in Europe, Canada, Japan, Australia, Turkey and other countries. Interest in this conception is caused by aspiration to balance interests of all parties (proprietors, creditors, employees, suppliers, customers, government) concerned.

A. Rapport, author of «Creating Value for Shareholders», and B.A. Stewart («In Search of Value») are the founders of the concept of value-based management. Authors rethink the role of managers in activity of enterprise that consists in the appreciation of value of enterprise for shareholders [4]. Approval of this look

results in the necessity of change of strategic and operative aims, methods of estimation of enterprise activity. A term «Value Based Management» was first applied by D. Maktahard in a book «Imperative to the Cost», written in 1994. Author proved that money streams managed the cost of enterprise.

Among the most famous value-oriented controlling concepts include: concept by Rappoport; concept by Copeland / Koller / Murin; Stern Stewart-concept; Levys' concept. Conceptions of the cost-oriented management have divergences that consist in the features of methodologies of cost estimation, at that time as initial pre-conditions and administrative approaches of scientists are approximately identical. Methodical going near the choice of criterion indexes of cost, that is used within the limits of the indicated conceptions, are various, concentration on the cost of capital for a few periods in Rappoport; simultaneous use of capital value and at a few periods in Copeland / Koller / Murin, Levys' points of view, binding only to one particular period by Stern Stewart. While indicators of value over a long period is calculated primarily based payments (cash flows), and return on excess profits for the period determined on the basis of the settlement or book value (Stern Stewart). Each concept has its advantages and disadvantages in comparison with others. Thus, as the Rappoport's concept strengths can be highlighted practical orientation and integration models used therein shareholder value in the concept of competitive strategies. The weak point is too simplistic assessment of shareholder value to the implementation of the strategy, and exclusion resulting from use of cost of capital. The strength of the concept by Copeland / Koller / Murin is the combined use and constant balancing economic profit criterion that is easily calculated valuation in the short term and the discounted cash flow criterion measuring and control cost – in the long run. Another strong point concept – detailed process model with numerous guidelines on the assessment of the company and use the results of this assessment. The positive is also a system of differentiated performance incentives for managers. It is described that the weakness of the concept by Copeland / Koller / Murin that these external adjustment account in determining the economic profit is not carried out, leading to a distortion of evaluation [5]. There is also the danger of targeting managers to obtain short-term profits as strategic costs in the long term lead to additional cash flow, reduce economic profit. Stern Stewart's approach is simple, its practical use as proposed indicator EVA (economic value added) can be used to assess the economic efficiency of operational activities and strategic projects. The approach in the implementation EVA is positively evaluated. Levys' concept involves evaluation method based on SFROI, which has a domestic interest rate and discounted cash flow the residual value of gross investment. The disadvantages of this concept are: the ability to adjust the manipulation of accounting data, which can lead to difficulties when comparing the values of this indicator of different companies; the calculation to date on the database last period; ignoring the future development of the company; simplified calculation period of the assets on which depreciation is not charged; rejection note of such investments, such as in education and advertising are not displayed in the active part of the balance. Strengths of this method of assessment as value-based ROI: reduce, accounting distortions and manipulation capabilities choosing evaluation methods and balancing, and excluding the effect of inflation; high correlation between the estimated and actual data of market valuation, which is confirmed in practice. Consequently, the value-oriented management of finances can be interpreted as a set of organizational and administrative measures aimed at growth in the value of coordinated and is based on financial information obtained by calculating value-oriented performance. The most common classification divides the cost parameters of the relative (RONA, ROIC, ROI, CFROI, ROS) and absolute (EVA, SVA, MVA, VaR, DRV). The possibility and appropriateness of each of them in practice depends on their importance for effective administrative decisions (benefit they can bring to the manager that they use) [6]. Value-oriented management is an integrated system that includes the following elements:

- Assessment – includes choice of methods of valuation for shareholders and monitoring the process of creating new value;
- Strategy – sets the ways in which the main goal is achieved – the growth of value for shareholders;
- Finance – distinguish the main factors influencing the activities of the company as a whole and its separate units;
- Corporate Governance – aimed at balancing the interests of shareholders and managers, development managers and systems of motivation employees G. Arnold defines the following elements of value-oriented controlling:
  - Increase in the welfare of shareholders in the long term;
  - New value for shareholders, which is created only when the profit exceeds the cost of capital;
  - Incentive, which should be based on internal indicators used to assess the current activities of the company and provide managers with information on the achievement of the main strategic goals – growth of the business. External indicators should be used to evaluate the potential of the company to create value in the long term.

The process of cost management contains five components.

1 – Use the value of thinking in the strategic planning process. Identify areas for further development of the company, and it turns out when and where the value is created, the efficiency of the value chain elements and correlated metrics divisions with those of competitors.

2 – Use of operational planning for cost company’s management. The component includes the development and implementation of indicators for monitoring ongoing activities. The indicator system reflects the value and contribution of each organizational unit of the enterprise in this process.

3 – Managing key drivers of value. Along with the strategy of the company developed a set of programs to influence major cost factors.

4 – motivation that establishes the link between remuneration and reach the target value.

5 – means of communication with shareholders, i.e. the creation of special reporting forms related to the management of enterprise value.

Cost Management means managing cost factors.

Factor cost – the option that the change in the value of the company.

The system cost factors in large enterprises can generate a large number of factors that management requires considerable investments, because the main objective is to determine the key factors. When the key factors implied decimal value 20% factors according to the «Pareto principle» bring 80% of the cost.

Key factors that affect the value of the company are:

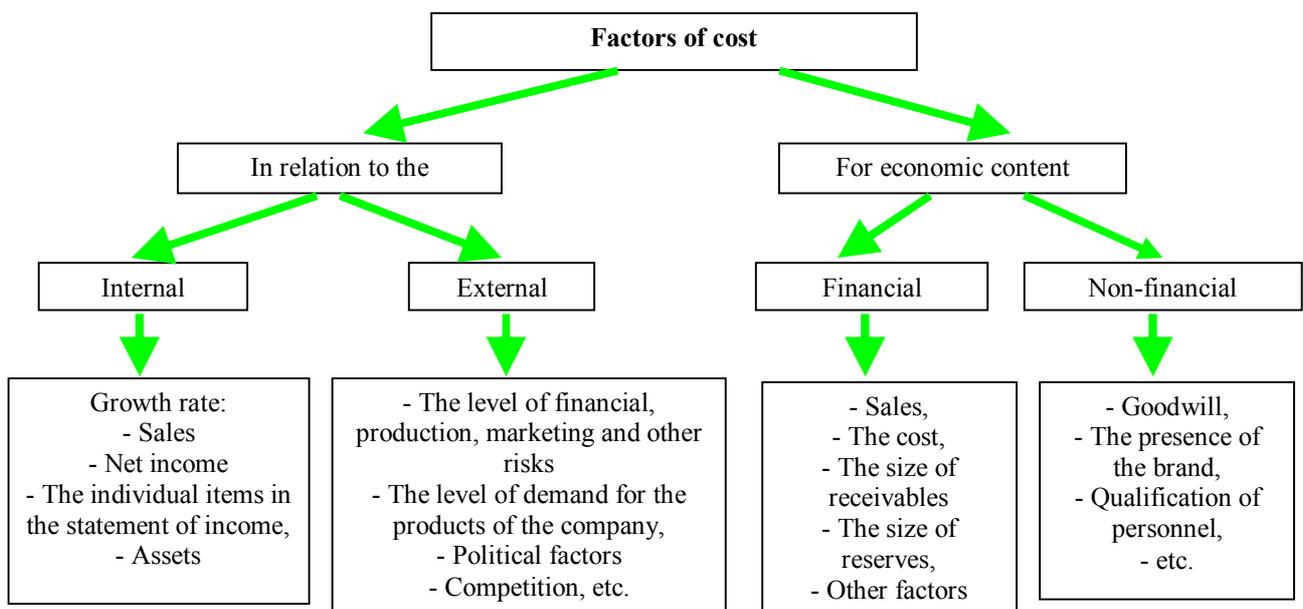
- Market conditions;
- The benefits of business ownership that can be obtained in the future (the rate of profit growth, return on invested capital);
- The risk of profit;
- The degree of control that receives the new owner;
- The liquidity of the company.

Factors value allocated to certain levels:

- General factors, especially the profitability of invested capital;
- Factors that have an impact on profit (revenue and expenses) and the direction of investment funds (asset classes);
- Specific factors (qualified staff, customer base, etc.);
- Operational factors (operating costs, prices of certain types of materials, etc.).

Value factors can be internal and external, financial and non-financial.

Internal factors include the growth rate of sales, net income and certain items in the statement of income, balance. External factors are the level of financial, production, marketing and other risks, the level of demand for the products of the enterprise, political factors, and competition and so on. Financial factors are sales, cost, and amount of accounts receivable, inventories and other factors. Non-financial factors are goodwill, the presence of the brand, qualified staff and so on. In terms of financial controlling, special attention should be paid factor financial. Besides the above mentioned, these include primarily the net cash flows that can generate the estimated object.



**Fig. 1. Factors that influence the formation of value**

In addition to the net cash flows, the cost impact of the risk of investing in it. The risk factor is reflected in the discount rate. However, to calculate the discount rate should be determined beta factor, which reflects the level of systematic risk investments in estimated asset. The beta ratio illustrates the relationship between the rate of the securities of a particular company and stock index profitability index (in this case, the PFTS), the dynamics of return the industry to which the company estimated. Ratio defined as the ratio of standard deviation of returns of securities to the standard deviation of return on the market index, adjusted for the correlation coefficient of return on assets and stock index. Taking into account the norms of risks in determining the discount rate also depends on the structure of product specialization business, assessment of market factors the company on specific market segments, quality and availability of transport and communication services, settings dialogue with local governance and regulation in this field, monopolizing the market.

There are two ways to implement value-oriented controlling the activity of the enterprise:

- «Shock», i.e. value-oriented management immediately implemented for all enterprises;
- gradual, i.e. value-oriented controlling implemented in one of the units as a trial project.

The best period for the introduction of VBM is about a year. Less term is not acceptable because it is not enough for the necessary training programs for the staff. An important step in the implementation of value-oriented controlling the company is to build a tree key financial indicator. One can distinguish three approaches to building a system of indicators:

1. Approval important absolute and relative indicators characterizing value is the result of the work of identification hierarchical method («bottom-up» or vice versa);

2. Cost parameters defined «top» for both divisions and for the enterprise as a whole.

3. We establish normative values for all parameters for the company and its business units.

**Conclusions.** To build a tree key performance factors and the rising cost of the first studies of business conditions and results of financial and economic activity. Based on the information received is determined by the priority and subordination indicators (factors), classification is made according to certain criteria. The advantages of this approach compared to others are the ability to clearly present the value chain, identify sources of value creation, understanding the nature of their relationships. It should be noted that the use of the considered factors or fundamental value indicators (EVA, MVA, CVA, CFROI, etc.) To manage the cost depends on how management companies, owners or shareholders of the advantages and disadvantages of both individual performance and system VBM as a whole. Thus, the advantages of the system of value-oriented controlling are:

- Reconciling the interests of owners and managers of the company;
- The possibility to monitor and forecast changes in value in the long term;
- Ensuring the link between the value and strategy of the company;
- Definition of key factors influencing the change in value and can be tools of strategic and operational management;
- Promoting the development of incentive schemes.

However, the concept is considered like any other, has a number of drawbacks. In particular:

- Enterprise value cannot be reliably evaluated through the use of predictive data on income;
- In conditions of imperfect market stock market value of shares is not an objective indicator because it does not give an accurate estimate of the cost of equity;
- An attempt to harmonize the interests of owners and managers of remuneration ratio by the latter with the growth of value can lead to manipulation of information on the part of managers;
- The owners are not always interested in the growth of value in the long run, because they have their own benefits related to the consumption in the current period;
- None of the indicators are not capable of showing all aspects of the enterprise and enhance long-term value.

The prospect of further research is to improve the factors that affect the value of the company.

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**Ptashchenko Liana, D.Sc. (Economics).** Poltava National Technical Yuri Kondratyuk University. **Cost factors in value-oriented controlling.** It is studied in the article fundamental questions about the formation of value-oriented business strategy and justification sequence factor value. The author analyzes trends and methods of implementation of the value-based controlling. It is classified the advantages and disadvantages of the system of value-oriented controlling.

**Keywords:** value-oriented controlling, key indicators of value growth, cost factors, the concept of value-based management, financial management.

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**Ключові слова:** вартісно-орієнтований контролінг, ключові показники зростання вартості, фактори вартості, концепції вартісно-орієнтованого управління, фінансове управління.

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**Ключевые слова:** стоимостно-ориентированный контроллинг, ключевые показатели роста стоимости, факторы стоимости, концепции ценностно-ориентированного управления, финансовое управление.