AN ANALYSIS OF MAIN METHODS FOR DETERMINING THE VALUE OF ENTERPRISES

Konstantin Viktorovich Zhyzhko1, Gediminas Vaičiūnas2

Dnipropetrovsk national university, Naukova street 13, Dnipropetrovsk, Ukraine
E-mail: dnuzt@diit.edu.ua

VGTU, Department of railway transport, Basanavičiaus g. 28, Vilnius, Lithuania
E-mail: vaic@ti.vgtu.lt

Abstract. The basis of the value management concept consists in the fact that for the shareholders of companies the most important factor is the increase in their assets as a result of operation of their organization. Seeking to maximize the value of its enterprise, the management serves as an instrument which connects the strategic decisions taken on the level of the councils of directors with the lower managerial levels. Increase in the business value must become the main goal of any enterprise, and all efforts of the management bodies should be subjected to this main task.

Keywords: Methods for determining the value of enterprises, operating costs, management strategy, mechanism of monitoring.

1. Introduction

The basis of the value management concept consists in the fact that for the shareholders of companies the most important factor is the increase in their assets as a result of operation of their organization. Meanwhile the given growth is measured not by the capacities introduced, not by the number of employees, not by the company turnover, but by the value of an enterprise held by the shareholders. Alongside with that, value is a more accurate assessment of the operating results of an enterprise since it contains more comprehensive information about the current position of the organization and perspectives of its operation.

The value created within the long-term perspective becomes the only one final indicator which synthesizes the effect of other operating indicators of the enterprise as the factors of increasing or reducing its value, and also serves the best criterion of the optimality of decisions taken by the management.

At the same time, increase in the business value satisfies the interests of all participants in corporate management.

Seeking to maximize the value of its enterprise, the management serves as an instrument which connects the strategic decisions taken on the level of the councils of directors with the lower managerial levels.

The company value management concept the must be focused on the solution of the following tasks:

1) growth in efficiency of the organization – the main goal of value management;
2) development of the enterprise will be effected only by means of those measures that ensure the most dynamic growth in its value;
3) value management presupposes the determination of target efficiency standards and estimating indicators for all structural elements of the organization;
4) by identifying the key factors affecting the value, value management determines the zones of the enterprise requiring special attention on part of the managers thereof.

The company value management aimed the maximization of the value thereof enables to take reasonable solutions on:

– the need to make changes in the assets of an enterprise;
– expediency of participation in the capital of other limited liability companies;
– nature of the dynamics of value of the property and the enterprise in general, with consideration to strategic, tactical and operative goals of the management, as well as many other tasks.

2. Methodology for determining the value of a business

There are a number of methodologies for determining the value of a business [1–6].

In the international practice, for evaluation of the
business value (business appraisal), three principally
different methodological approaches are used: cost-
based; income-based, and comparative (market).
Based on international valuation standards, resolution
No. 1440 of the Chamber of Ministers of Ukraine of
10 September 2003, the National Standard No. 1
“General principles for the valuation of assets and
property rights” was approved.

Based on this Standard, property valuation is
carried out using the methodological approaches
listed below (see table 1).

It should be noted that none of the approaches
and methods listed are self-exclusive, but are
supplementary of one another.

In many cases it is necessary to apply different
methods for estimating the value of an enterprise
depending on the goal of valuation, what will
eventually allow receiving the most reliable results.

In this case, for calculating the value of an
enterprise, data for the minimum three preceding
years of operation of the enterprise should be used, as
well as projected estimates for the forthcoming five
periods should be made.

It is expedient to draft an analytical report on the
formation of a system of value-oriented management
according to the plan provided below:

1. Retrospective analysis of financial-economic
activity of an enterprise.
2. Projected estimates of revenues.
3. Projected estimates of operating costs,
depreciation, other financial components.
5. Formalization of the value-oriented goals of
an enterprise.
6. Elaborating a mechanism for monitoring the
process of maximizing the value of an enterprise.

Table 1. Methodological approaches and methods for estimating the market value of an enterprise

<table>
<thead>
<tr>
<th>Methodological approaches</th>
<th>Principles on which the approach is based</th>
<th>Appraisal methods</th>
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<tbody>
<tr>
<td>The cost-based (property) approach calls for determining the current value of costs in case of restoration or replacement of an object under valuation with further adjustment thereof to depreciation (devaluation) amount.</td>
<td>Principles of usefulness and replacement</td>
<td>The direct restoration method consists in estimating the value of restoration with further subtraction of depreciation (devaluation) amount.</td>
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<tr>
<td>The income-based approach calls for estimating the value of an object under valuation in terms of the current value of income expected from the most efficient use the object under valuation, including income from possible resale thereof.</td>
<td>Principles of the most efficient use and expectations</td>
<td>The direct capitalization approach is applied in case if value steady in its level and even between whiles during the forecasted period is forecasted.</td>
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<tr>
<td>The comparative (the analogy of sales) approach consists of an analysis of the sale values and the supply of similar property, including relevant adjustment of differences between objects under comparison and the object under valuation.</td>
<td>Principles of replacement, demand and supply</td>
<td>Net operating income the receipt whereof is not restricted in time. Capitalization of the net operating income is effected by dividing income by the capitalization rate. The indirect capitalization method of discounted cash flows is applied if the forecasted cash flows from the use of an object under valuation are uneven in their level, unsteady during a particular forecasting period, or if their acquisition is restricted in time. The forecasted cash flows, including the reversion value, are subject to discounting by applying the discount rate for getting their current value.</td>
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3. Conclusions

Increase in the business value must become the main goal of any enterprise, and all efforts of the management bodies should be subjected to this main task. A formalized program for the implementation thereof should be elaborated, and a mechanism for monitoring the growth in its value should be made available. Only then will it be possible to increase the investment attractiveness of national enterprises, and facilitate the development of investment processes using the stock exchange mechanisms for ensuring economic and social development of the country.

References


