

Tatiana PONOMARENKO

National Mineral Resources University (University of Mines)), Saint Petersburg

stv_mail@mail.ru

Anna LEONOVICH

National Mineral Resources University (University of Mines)), Saint Petersburg

leonovich_anna@bk.ru

JUSTIFICATION OF CONSTRUCTION PRINCIPLES FOR THE MODEL OF ECONOMIC RESULTS ACHIEVEMENT IN A MULTILEVEL COMPANY

Summary. The large multilevel oil and gas, metallurgical, mining and chemical and many other companies compete in an oligopolistic market and occupy key positions in the Russian economics. For ensuring the maximization of the value and effectiveness of capital for such companies the construction principles used to formulate a model of economic results achievement should be justified. There are various ways to assess the economic results of the company, the features of holdings formation and functioning, the problems in the assessment of a multilevel company. These factors should be considered in determining the construction principles for a model of economic results achievement in a multilevel company.

Keywords: multilevel company, assessment of economic results, holding.

KONCEPCJA MODELU REALIZACJI I OCENY EFEKTÓW EKONOMICZNYCH W GRUPACH KAPITAŁOWYCH

Streszczenie. Dla gospodarki rosyjskiej w branżach paliwowej, gazowej, metalurgicznej, górniczej, chemicznej charakterystyczne jest występowanie dużych grup kapitałowych konkurujących ze sobą na rynku oligopolistycznym. W takich przedsiębiorstwach o wielopoziomowej strukturze zarządzania w celu zapewnienia maksymalizacji wartości i efektywności wykorzystania kapitału konieczne jest stworzenie modelu realizacji i oceny określonych efektów ekonomicznych. Dlatego też w niniejszym artykule autorzy podejmują próbę sformułowania zasad realizacji i oceny efektów ekonomicznych w grupach kapitałowych, wykorzystując do tego celu istniejące w literaturze i praktyce metody oceny efektywności w przedsiębiorstwach działających na zasadach holdingu.

Słowa kluczowe: grupa kapitałowa, ocena efektów ekonomicznych, holding.

1. Introduction

The large multilevel oil and gas, metallurgical, mining and chemical and many other companies compete in an oligopolistic market and occupy key positions in the Russian economics. In oligopolistic competition the companies closely observe their competitors, the behavior of the company is affected by pricing, marketing, investment strategy, cost management, that may significantly affect the economic results of both the company and its competitors. Therefore, the key internal and external factors of formulating the results determine the success of competitive struggle and efficiency of the company.

Justification of the construction principles for model of economic results achievement designates the actions of management in strategy and tactics, providing the maximization of value and capital efficiency of the company or group.

The aim of the article is to construct the justification of principles for a model of economic results achievement in a multilevel company. To achieve the aim the main ways of companies economic results assessment were analyzed, the features of holdings formation and functioning were considered, the problems in the assessment of the economic results of integrated group were identified.

2. Analysis of the main ways of economic results assessment in companies

Economic results represent the efficiency of the company's economic potential in the whole, which includes human, technical, industrial and financial potential and characterizes the common opportunities, as well as specific types of economic activity¹.

The analysis performed on the works by Volkov D.L., Efimova O.V., Kaplan R., Kovalev V.V., Norton D., Savitskaya G.V., Sheremet A.D. showed, that there are different approaches to the assessment of company's results.

Analysis of the main ways of the assessment of the company's economic results identified their following possibilities²³⁴⁵⁶⁷⁸:

¹ Guseva T.A.: Analysis and diagnosis of the financial and economic activity of the enterprise. Publishing company TRTU, Taganrog 2005.

² Arnold G., Davies M.: Value-Based Management: Context and Application. John Wiley & Sons.: Chichester, UK 2000.

³ Volkov D.L.: The theory of value-based management: financial and accounting aspects. 2nd ed. Publishing company "Graduate School of Management", SPb 2008.

⁴ Efimova O.V.: Financial analysis: a modern tool for economic decision-making. Publishing company "Omega-L", Moscow 2009.

⁵ Kaplan R., Norton D.: The Balanced Scorecard. From strategy to action. Publishing company "Olympus-Business", Moscow 2003.

- Measurement of financial results according to the accounting financial statements, considering the types of profit and cash flow, allows assessing the profitability of the various species and to compare the companies with one other (Efimova O.V., Kovalev V.V.);
- Traditional quality indicators represent a ratio of two homogeneous or inhomogeneous metrics and characterize the efficiency of business processes (Savitskaya G.V., Sheremet A.D.);
- Complexes and scorecards allow revealing the relationship between various indicators and technical and economic factors managed (Kaplan R., Norton D.);
- Indicators of value-based management (VBM) provide the management of company's value factors (Arnold G., Davis M., Volkov D.L.).

The advantages and disadvantages of the main ways of the assessment of companies' economic results are presented in the table.

Table 1

Advantages and disadvantages of main ways of the assessment of companies' economic results

Advantages	Disadvantages
<i>Measurement of financial results according to the accounting financial statements</i>	
Possibility of application in any company	Does not give clear understanding of the organization's effectiveness
Simplicity in application	Lack of stakeholder consideration
Only some accounting statements forms are used	Lack of the company strategy consideration
	Lack of indicators for each level of the company
<i>Traditional quality indicators</i>	
Possibility of application in any company	Lack of stakeholder consideration
Simplicity in application	Lack of the company strategy consideration
Does not require a large number of documents (annual accounting report, primary documents)	Lack of indicators for each level of the company
<i>Complexes and scorecard of indicators</i>	
Formalization of the strategy through the construction of matrices and their documentary registration	Increasing the cost of existing management system upgrading

⁶ Kovalev V.V.: Financial management: theory and practice. 2nd ed., revised and added. Publishing company Prospect, Moscow 2007.

⁷ Savitskaya G.V.: Analysis of enterprise economic activity. 5th ed., revised and add. Publishing company Infra-M, Moscow 2009.

⁸ Sheremet A.D.: Complex analysis of economic activity. Publishing company Infra-M, Moscow 2006.

continuation of table 1

Formulation of optimal or normative values of organizational indicators and its subsidiaries	Initial focus only on the quantitative indicators
Ability to automate the information flows	Impossibility of forming a single and universal set of indicators for the organizations even in one industry
Elimination of employees functions duplication	Difficulty of measuring the effects of the system introduction in the current and strategic activities of the organizations
	Increasing of transaction costs
<i>Indicators of value-based management</i>	
Building on the basis of corporate reporting and planning documents	Significant time and resources
Maximizing of value creation	Growth of management costs
Increase of corporate transparency	Increasing the costs of training and management consulting
Improving the sustainability in global markets	
Harmonizing the interests of managers, shareholders and stakeholders	
Improving the communication with stakeholders	
Establish clear priorities for the management and harmonization of purposes	
Stimulate investments that create value	
Applicability for large companies with difficult structure	

Source: Gordeeva O.G.: Algorithm and problems of introduction of value-based management accounting and analysis. Modern problems of science and education, Moscow 2012, No. 5; Volkov A.I., Ptuskin A.S.: Problems and prospects of business value management based on the Balanced Scorecard. Russian Entrepreneurship, Moscow 2013, No. 24 (246); Yakovlev V.Y.: Advantages and disadvantages of Balanced Scorecard using in the conditions of Russian business / Russian Entrepreneurship, Moscow 2008, No. 2, Vol. 1 (105); Providing a consistent management (maximizing) of shareholder value by corporation. Explanation of Value Based Management (Value-Based Management) [electronic resource] // 12manage [website]. URL: http://www.12manage.com/methods_value_based_management_ru.html (date of reference: 23/10/2014).

It should be noted that all these methods of determining the economic results do not take into account the composition and organizational structure of large companies sufficiently, also management efficiency on multiple levels, sustainable of results in the group of companies what requires consideration of these circumstances in the model construction of group economic results.

3. Features of holdings formation and functioning

The most common form of company structure is holding, typical for the mining, petroleum, metallurgy, energy, engineering, automotive, banking sector. Holdings have the specifics of construction and operation. These features include:

- Different models of the corporate center (CC), including "Financial holding", "Strategic architect", "Strategic controller", "Operator". Depending on the chosen CC model the role in strategy formulation and decision-making for improving the efficiency of vertical-integrated company (VIC) business portfolio will vary.
- Types of organizational management structures (OMS) and management systems (MS) of the company;
- Differences in the financial structure of the company, their responsibility for the formulation of corporate results, allocation of financial responsibility centers (FRC);
- Group financial result of company are formed only by selling outside the perimeter of the group;
- Differences between management (set of units, including the FRC, business units, divisions) and juridical (set of legal entities) structures of the company.

Considering the specificity of formation and functioning of the holdings, the actual task is to develop the approaches for assessment results on the different levels of management. The cumulative result of the integrated company or group of companies does not depend on the method of counting, however, taking into account the influence of these factors, the results of structural units in the management structure become different. Formulation of economic results system in accordance with the integrated group management structure allows managing its value purposefully.

4. Problems in the assessment of multilevel company

The problems of economic results assessment in a multilevel company include:

- Insufficient or lack of use of the indicators for the assessment of company value.
- Identification of effectiveness is not fully linked with the various owners of the resources and information users (stakeholders).
- Differences in the activities of the companies in the group and the choice of indicators based on the preferences of top management preclude the creation of a common standardized system of indicators.

- There is a large number of quality parameters of company activity, and there are problems of prioritization and coordination of different, often opposing aims⁹.
- Little consideration of internal factors, affecting the company's economic results (type of CC, principles of OMS, MS of company, the choice of financial structure).
- External factors, affecting the company's economic results (behavior of competitors, government regulation, economic crises, cooperation with foreign partners, factors of globalization), are not fully taken into account.
- Lack of statistical methods used in the assessment of the results¹⁰.
- Methodological issues of planning and assessment of results are not always linked with the corporate information system (CIS). Because implementation of CIS takes a long time and changing the results of methods formulation complicates management. For example, "EuroChem" and Oracle announced a successful implementation of a fully functional management system Oracle E-Business Suite in the key enterprises of "EuroChem" in 2009, and the pilot project was launched in 2005¹¹.
- Currently, there is no unambiguous interpretation of the reporting elements and criteria for their recognition in the Russian and international accounting standards. Inconsistency of bookkeeping and tax accounting also complicates the achievement of profits.

5. Construction principles of the model of economic results achievement in a multilevel company

The aforementioned problems hinder the development of the algorithm and determine the construction principles of the model of economic results achievement in a company with multiple levels of management:

- Selection as a key aim of functioning and development of a group value – the main indicator of company's successful performance.
- Justification and classification of the indicators for each level of management with regard to their relationship, association of indicators in the system.
- Using SMART-criteria (specific, measurable, achievability, relevance and timing) to the results of the company by analogy with the requirements for goal setting.
- Consideration of external factors, affecting the results of the multilevel company: responsibility for the result on each level (FRC - Divisions - CC); CC type; transfer

⁹ Asaul A.N.: Regularities and trends of modern business. ANO IPEV, SPb 2008.

¹⁰ Berezhnova E.I.: Problems of economic activities assessing results in industrial enterprises [Text]: Ph.D. thesis in Economic Science: 08.00.02: / Berezhnova Elena Ivanovna. - Vladivostok 2000.

¹¹ OJSC "MCC "EuroChem" [electronic resource] // Press releases [website]. URL: <http://www.eurochem.ru/ru/news/press-releases-ru/#.VEIKEvmsVqU> (date of reference: 14/11/2014).

pricing; features of OMS (interconnection and interaction of company management levels).

- Assessment of the achieved results and their prognosis, taking into account the features of oligopolistic market, economic crises, external risks, globalization.
- Using the information base for the calculation of indicators with such quality features as specific, measurable, achievability, relevance and timing.
- Implementation of the method of formulating the economic results in CIS.

The developed model of economic results in a group of companies, which is based on the above construction principles, will facilitate effective and consistent development of modern multilevel companies in the conditions of strengthening competition.

6. Conclusions

In the article the construction principles of the model of economic results achievement in a multilevel company were justified that are recommended to be used in the strategic management and operating activity. The results formulation of the activity in groups of companies occurs at every level of management (FRC - Divisions - CC) by achieving their own aims, management of their own factors of value creation. Special attention should be paid to the account of integration factor. The methods of analyzing the financial and economic activities of the company must be complemented with the analysis of units "connectedness" degree, and their mutual interaction. For maximizing of multilevel companies value it is necessary to pay special attention to the achievement of results in FRC. This basic level of activity determines the overall effectiveness of the group. The mechanism of planning and assessment of results on all levels of management should reflect the contribution of each level in the value creation.

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Omówienie

W artykule poddano analizie rodzaje i metody realizacji i oceny efektów ekonomicznych w przedsiębiorstwach typu holdingowego, działających na rynku oligopolistycznym. Dodatkowo przedstawiono także cechy struktur holdingowych oraz podstawowe problemy towarzyszące ocenie grup kapitałowych. Na podstawie dokonanego przeglądu sformułowano

zasady konstrukcji modelu maksymalizacji i oceny efektów ekonomicznych w grupach kapitałowych. Opracowany model ma za zadanie ułatwić realizację planowanych efektów ekonomicznych zorientowanych na rozwój grup kapitałowych w warunkach wzrastającej konkurencji rynkowej.