

COMPARISON OF TECHNIQUES OF AN ESTIMATION OF COMPANY BUSINESS ACTIVITY

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Key words: company business activity, economic parameters, efficiency of use of resources, activity of staff.

Different authors' approaches to the appraisal of company business activity are examined. The conclusion was drawn that the modern methodology of company business activity evaluation and analysis has essential faults, so it does not allow one to perform a comparative analysis of the activity of several enterprises of the same industry sector. Study of company business activity as the activity of staff groups during their duties performance would enable one to refine the existent methodology and to eliminate the faults.

The term 'business activity' has been used lately in Russian economical published materials. The analysis techniques of financial reporting based on economic coefficient system is widely spread in different countries of the world. Business enterprise activity is studied in published materials on financial analysis, analysis of financial and economic enterprise activity, complex economical analysis by V.R.Bank, N.E.Zimin, G.V.Savitskaya, V.V.Bocharov, V.V.Kovalev¹.

These authors differently define the term 'business activity' and propose various indices of its estimation.

V.R.Bank considers business activity as 'effectiveness of enterprise work relatively the amount advanced resources or the amount of their consumption at producing process'². But advanced resources and resources consumed in production are different concepts. There is no definite definition in the approach which indices are important to compare.

V.V.Kovalev defines business activity as 'spectrum of efforts to promote a firm in the markets of production, labour, capital'³. If the efforts, which the enterprise do in the markets of production and capital, are surely characterized business activity, but labour market promotion does not concern business activity. The more important fact is how effectively labour force is used.

From the point of N.E.Zimin's view, business activity is 'effective usage of material, labour and financial resources'⁴. But activity is a characteristic of an action, and effectiveness is a result of an action.

To author's opinion, the reason that the scientists give so various definitions to business

activity is the nature of the phenomenon has been wrongly defined. Business activity is not an abstract concept, but a concrete characteristic of enterprise activity, emerging in carrying out the plan and refining the indices in comparison with previous period. Activity is only enterprise staff way, the main circulating funds and other resources cannot show the activity without staff participation. That is why, it would be correct to examine business activity through the staff functions/duties. After that we can set the indices of business activity.

Many scientists think that business activity of a commercial organization is in its development dynamics, reaching the aims, effective usage of economical potential, broadening sales markets, circulation speed of circulation funds, etc. according to them business activity is set through quantity and quality indices.

Quality criteria are sales markets broadness; business reputation of enterprises; competitive ability; constant suppliers and customers; exported production; stable ties with clients, etc. such unformalized criteria are necessary compared with similar parameters of competitors⁵. V.R.Bank suppose that quality criteria include the grate the plan carried out, the rates of increasing financing economic activity indices, effective usage of enterprise resources. It is a disputable point because from the author's point of view, these criteria cannot be considered to quality ones.

Quantity criteria of business activity are characterized with absolute and relative indices. Actually all the scientists deal with a correlation – 'golden rule of economy' as one of the quantity value indices:

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$$100\% < T_c < T_r < T_p,$$

T_c - the rate of changing aggregate capital, advanced into commercial organization activity; - the rate of changing the volume of sales; - the rate of changing profit.

The inequations, seen from the left to the right, have an economical interpretation. The first inequation means the capital, invested in commercial organization activity, increases. Increasing assets is one of the main aims, formed by company owners and its management staff in explicit or implicit form. The second inequation

points out that with the comparison of increasing invested capital, the volume of sales increases more rapidly, it means that the funds of a commercial organization are used more effectively. The third inequation. The profit is in advance, it shows that there were a period of lowering production and circulation expenses.

The rate of invested capital must outnumber 100%. The improvement of business activity is increasing the volumes of productions, sales, profit at the expense of internal reserve with advanced capital value.

In V.R.Bank's opinion, the reasons of shifts could be large investments, mastering new making

The indicators included in business activity by different scientists

products and technologies, reorganization of production and management structure, large investments in modernization, renewal, reconstruction of the main means, etc.⁶ The sums of such capital investments must not take into account at deriving the correlation because they do not belong to current enterprise activity. Large investments made by an enterprise in the present period reflect on productions and sales in the next periods. Accounting capital investment must be excluded.

The scientists have serious disagreements about indices of quantity value of business activity (the indices characterize the effective usage of material, labour and financial resources): Should they include in business activity profitability, duration of operational and financial cycles, the coefficient of investing activity, etc. The scientists agree only on one point – the main indices for the analysis of business activity are the indices of funds circulation, but which ones are still under the question.

Various scientists' approaches⁷ to defining the indices of business activity are presented in the table.

The scientists distinguish different indices⁸.

To author's opinion, some indices do not have economical importance for analyzing business activity of an enterprise.

The lack of these approaches is in the absence of a single index of business activity, that is why, it is difficult to estimate business activity of an enterprise⁹, especially some indices have a tendency to increase, the others – to decrease¹⁰.

Many scientists¹¹ propose to take into account the market activity indices, such as balance cost of a share, the coefficient of clear profit, the coefficient of dividends payments. But these indices tie with changing the circumstances at fund market but not with the production activity of an enterprise, that is why their belonging to business activity is not correct.

The modern approach to the analysis of business activity in Russia has some significant lacks.

1. There is no common definition to the concept 'business activity'.

2. There are quality criteria of business activity, but the techniques of their estimation is not developed.

3. 'Golden rule of economy', which is considered as the main quantity criterion of estimating business activity, does not always show an enterprise activity.

4. There is no definite opinion which indices belong to the indices of business activity.

5. Some of relative indices do not have economical importance for estimating and analyzing business activity.

The lacks and disagreements about indices exist because of the incorrect definition of the concept. Studying business activity according to staff functions allows to define exactly the activity indices for every level of employees.

¹ *Bank V.R., Bank S.V., Taraskina A.V.* Financial analysis. – Study material., Moscow, 2005. *Bocharo V.V.* Complex financial analysis. – St.Petersburg, 2005. *Zimin N.E.* The analysis and diagnostics of enterprise financial state. – Study material. Moscow, 2003. *Kovalev V.V.* Financial analysis: methods and procedure. – Moscow, 2006. *Savitskaya G.V.* Analysis of enterprise economical activity. – Textbook – Moscow, 2007.

² *Bank V.R.* The same resource

³ *Kovalev V.V.* The same resource

⁴ *Zimin N.E.* The same resource

⁵ *Bank V.R.* The same resource, *Kovalev V.V.* The same resource

⁶ *Bank V.R.* The same resource

⁷ *Antonova O.V.* Management of enterprise crisis state. Study materials./ under the editorship of V.A. Shvandar. Moscow, 2004. *Sukhova L.F., Chernova N.A.* Training course on business plan and enterprise financial analysis. – Study material – Moscow, 2005. *Economical analysis: Theory foundations. Complex economical analysis of enterprise activity.-Textbook-* under the editorship of *Vojtlovstij N.V., Kalinina A.P., Mazurova I.I.* Moscow, 2006.

⁸ *Bocharo V.V.* The same resource

⁹ *Zimin N.E.* The same resource

¹⁰ *Sukhova L.F., Chernova N.A.* The same resource.

¹¹ *Antonova O.V.* The same resource *Bocharo V.V.* The same resource *Kovalev V.V.* The same resource

¹² *Markaryan E.A.* Economical analysis of business activity – Textbook – Rostov – on-Don: Fenix, 2005.