"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 11, No. 2, pp. 32 – 37
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

EVALUATION OF MANAGEMENT EFFICIENCY ACCORDING TO THE CORPORATION MARKET COST

Oana ION-BOCĂNETE

PhD, Lecturer, "Tomis" University – Faculty of Economic and Administrative Studies, Constanta, Romania, Email: oana_bocanete@yahoo.com

Abstract *The stated purpose of this article is to understand what the corporate cost of the corporation is and how it manifests itself in the real economy, then use it as a tool for assessing the effectiveness of management. Basically, for the realization of this article, we have gone from a problem-chheia, namely, the lack of adequate mechanisms (insufficiency) to assess the efficiency of corporate management. We believe that such mechanisms would allow the precise marking, role and contribution of each of the parties involved in corporate relations and, respectively, to base effective communications, to set concrete management tasks, to control their realization, and to adjust them to motivation and incentive systems. The methodology used is analytical. Our conclusions are in the Conclusions subsection, distinct, last of this paper.*

Key words:
Evaluation
Management
Market cost
corporation
JEL Codes:
G30

1. INTRODUCTION

The majority of domestic and foreign economists and specialists in economics and administration, believe that the stable processes of crises, in general, in many respects, are related to the problems of forming the appropriate new type of economic, managerial, administrative and state relations, modified by the reality economic - corporate relations.

The most convincing manifestations of this situation - the existence of numerous contradictions that hinder the dynamic development of the economy and the creation of new organizational and legal forms - joint stock companies - have not always led to the formation of effective owners in most corporations.

Thus, the evolution of the forms of interaction between the majority shareholders and the hired managers not only did not solve the problem of increasing the efficiency of the SC activity, the joint-stock companies, but vice versa, the existing problems became more acute. The key issue in this case, in the author's opinion, is the lack of methodical toolkit for systemic evaluation of the economic efficiency of corporate management. Such an instrument would allow accurately plotting the role and contribution of each party involved in corporate relations, and to base effective communications, set concrete management tasks, control their achievement, adjusting them to motivation and incentive systems.

2. THE USE OF "RACING RIGHTS"

The additional specificity of this point of view is the use of the "risk rating for the subsequent detection of hidden risk. This rating is "statistically determined" [7], if the company has a negative Z coefficient and is calculated on the basis of the trend of the Z coefficient, the negative value of the Z coefficient and the number of years during which the company is in financial risk . Using the five-point scale in which 1 indicates "the risk but a nonessential event of immediate calamity," and 5 means "the absolute impossibility of preserving the previous state", the manager operates with prepared means for assessing the overall balance of risks related to client credits .

Existing approaches to assessing the management's efficiency in terms of corporate market cost include different methodologies. The main ones include the determination of market cost based on the corporate income capitalization valuation, and on the basis of the cost of the corporation's share price.

In the case of the first treatment, the enterprise's price (V) is determined by capitalizing the benefit according to the formula:

$V = P / K$where

P - the expected income until tax, as well as the percentages for loans and dividends;

K - average cost of the company's liabilities (average), which indicates interest and dividends, which will be required to pay according to market conditions for the borrowed capital.

"Decreasing of the cost of an enterprise means reducing its profitability or increasing the average cost of liabilities" [5] (requirements of banks, shareholders and other depositors). The forecast of the expected reduction requires the analysis of the prospects of profitability and percentages.

It is rational to calculate the enterprise's price for the near and long-term perspective. The conditions for a subsequent fall in the price of an enterprise are usually formulated at the present time and can be preset to a certain extent (although there is always room for unpredictable leaps in the economy).

The corporate risk assessment method is developed by Brunswick UBS Warburg. At the same time, "the different risks that exist in reality and those related to corporate governance are divided" [3] into 8 categories and 20 subcategories, each of which corresponds to a certain clearly defined risk coefficient and the indications for its application.

3. EVALUATION OF RISK TYPES IN CORPORATE MANAGEMENT

The assessment of each type of risk is done by applying penalty points. Correspondingly, the higher the rating of a corporation by the accumulated points, the higher the risk and hence the corporate management efficiency. The application of penalty points by category is as follows (Table 1.).

We will examine in more detail the "corporate governance risk assessment categories" [2] and the method of their assessment.

Table 1. Methodology of corporate governance risk assessment

Category name	*Max points*
Lack of transparency	14
- Financial reports according to US GAAP / IAS	6
-Reputation of degree of opening	4
-The ADR program	2
-Integrations about general annual / extraordinary shareholders meetings	2
Washing the share capital	13

-Accounts declared but not issued	7
-Packaging package for portfolio investors	3
- Existence of protection measures in the statute	3
Removal of assets / transfer pricing	10
- Shareholders with the control action package	5
-Free transfer pricing	5
Combining / restructuring	10
-Comasarea	5
-Restructurizarea	5
bankruptcy	12
-Executed credit debts or debt issues related to budget transfers	5
-Datoriile	5
-Financial management	2
Restrictions on buying and holding shares	3
Restrictions for foreign persons to hold or participate in voting	3
Corporate Governance Initiatives	9
Composition of the Board of Directors	3
Corporate Management Paper	2
The existence of the foreign strategic partner	1
Dividend policy	3
The owner of the registers	1
The quality	1
In total	72

Source [5]

Lack of transparency: maximum number of points = 14

These factors, linked to the lack of information transparency in companies, are divided into four subcategories: keeping financial records according to European standards, existence of the ADR program, timely notification of convocation of shareholders meetings, general reputation and transparency of the company. US GAAP / IAS accounting records: maximum number of points = 6. The number of points varies from six for companies that do not want (as a rule, for fairly well-known reasons) to keep records according to European standards, up to zero, for organizations that have already been keeping accounting records in accordance with the above standards for many years.

Reputation and Transparency: Maximum Number of Points = 4 This is a rather subjective assessment that takes into account the company's existence for the work with the shareholders and the efficiency of its activity, the degree of leadership opening and the existence of company information that is necessary to build its exact development models.

ADR Program: maximum number of points = 2. Two penalty points are calculated for lack of ADR issuance intention, and zero points for the existence of the ADR levels of Levels 2 and 3.

The notification of convocation of the general meeting of shareholders: the maximum number of points = 2. Companies that do not present to shareholders their agenda of the general meeting of shareholders, receive two points, the companies that inform about the gatherings in an irregular and not timely manner, obtain a balloon and half. Share capital: maximum number = 13.

The danger of share capital scavenging is considered to be one of the most serious risk factors.

The existence of a large number of declared actions, which may be issued according to the decision of the Board of Directors, often testifies to a large eventuality of the expected issue, which leads to the washing of the share capital. In order to distinguish the justified issue of unjustified actions, it is necessary to determine whether the placement of the shares has a well-defined purpose if the company's statute contains safeguards against share capital scavenging and whether minority investors can block new emission decisions. [4].

Declared but not issued actions: maximum number of points = 7. The number of penalty points depends on the ratio between the total number of actions declared and the number of shares in the circuit and the degree of confidence of the investors in the fact that the stated purpose of the planned emission corresponds to the real and responds to the interests of the shareholders.

Portfolio investors holding the 25% stake and the blocking right: the maximum number of points = 3. We add 3 penalty points if external shareholders are not able to block the decision to issue shares that cause unfavorable consequences.

Protection measures included in the statute: maximum number of points = 3. The lack of statute of the provisions regulating the preferential share purchase rights of the shares or containing other measures against the protection of the share capital, means three penalty p

Removal of assets / transfer pricing: maximum = 10.

Often, it is difficult to demonstrate asset manipulation and dubious application of pricing methods, but sometimes they can be detected by thorough analysis of financial reports and business termination methods. Practice shows that these methods, being unobserved for investors, lead to a considerable reduction in the cost of the company.

The shareholders holding the controlling stock package: the maximum number of points = 5. Five penalty points are calculated for the companies, the shareholders holding the share packages control of which corporate governance has been negative. If the owner of the controlling stock package is the state (ie the company can act in the interests of the state and not of its shareholders), it receives two points.

Transfer pricing: Maximum number of points = 5. The unclear business deal or the use of offshore companies and / or affiliated traiding companies increases the risk of pricing the assets transferred; according to the results, companies earn from one to five points.

Merging / restructuring: the maximum number of points = 10. If the company is on the brink of merging or restructuring, there is loss of assets or the application of unfair terms, which increases the lack of confidence in the near future.

Cropping: maximum number of points = 5. Companies that do not plan to merge, get zero points; Companies that have declared the terms of merger obtain two points; and those companies, whose mergers will first of all have a negative effect on investors, get five points.

Restructuring: maximum number of points = 5. Assessed on the basis of the accessibility and rationality of the plan for restructuring and analyzing the actual actions of the management in order to achieve the program.

Bankruptcy: maximum number of points = 12

Extinguished debt or tax debt issues: the maximum number of points = 5. This factor considers such events as attempts to initiate bankruptcy, active buyback of the company's debt, including high tax debt or expiring crediting debt.

Debts: maximum points = 5. Penalty points are calculated based on the ability of the company to serve its future financial liabilities. The maximum number of penalty points (five) is obtained by the companies that have accepted the deflator of its claims.

Financial management: maximum number of points = 2. The quality of financial activity management is seriously reflected on the company's ability to get out of complicated debt situations and to avoid the risk of bankruptcy.

Restrictions for purchasing and holding company shares and for voting: maximum number of points = 3.

Some companies have restrictions on the purchase and holding of shares, the right to vote, general meetings for minority and foreign shareholders. We assume that under the rating system it would be rational to calculate the penalty points for such companies because the impossibility of shareholders to influence decision-making increases the possibility of breaching the rights of minority investors.

Corporate Governance Initiatives: Maximum Points = 9.

This assessment is generalized by the management's preparedness to share the benefit with external shareholders and to have a fair attitude towards them, as well as the ability of investors to bring matters to the attention of the Board of Directors. We also want to emphasize that in this category only the assessment of the formal steps taken by company managers to improve relations with minority investors is carried out, and there is no attempt to "guess" the intentions of the management.

Membership of the Board of Directors: maximum number of points = 3. The membership of minority shareholders or independent experts known in the Board of Directors usually "helps to instil confidence in the fact that minority shareholders will at least be informed about the work of the Council, [6] and their problems will be heard.

Corporate Governance Code: maximum number of points = 2. If the company advances the Corporate Governance Code adoption initiative, which clearly outlines the policy regarding external shareholders, but it is usually positively perceived by the market, such a company gets zero points.

Strategic partnership with foreign investors: the maximum number of points = 1. The existence of a strategic partner, a foreign partner working closely with management, increases the chances of this company to pursue a more civilized policy.

Dividend policy: maximum number of points = 3. This indicator assesses not only the existence of a well-defined dividend policy but also the degree of compliance of the dividend size and the timely payment of dividends.

Quality and Safety Degree of the Registrar: maximum number of points = 1.

Corporations receive a penalty payment for the use of pocket bookkeeping companies' services instead of large professional companies.

4. CONCLUSIONS

In our case, according to the methodological tool, corporations that have earned more than 35 penalty points are extremely risky and therefore characterized by a low level of corporate management, and companies with a rating below 17 are considered to be relatively secure , with a high level of management.

The methods examined to assess the efficiency of corporate management testify to different points of view on the issue being studied. [3] This is explained by the fact that, firstly, "corporate governance is an extremely multilateral category, and researchers, when assessing their effectiveness, can pursue different goals that require the use of different methods. [1] Second, the existence of the multitude of methods testifies to the fact that none of them is panacea against all the misfortunes of corporate management.

REFERENCES

- [1] Altman, E.I. *Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy*. in: "The Journal of Finance", 1968, vol. 23, no.4.
- [2] Bocanete, Oana, *Specificul evaluării eficienței economice a managementului corporativ din România [The specific of the economic efficiency assessment of corporate management in Romania]*, în „Studia Universitatis Moldavia" [Revistă Științifică a Univerității de Stat din Moldova], 2013, nr. 2(62).
- [3] Bocanete, Oana. *Analiza experienţei internaţionale a tendinţelor contemporane ale administrării corporative* [*International experiences analysis regarding contemporary trends of the corporate governance*], in "Studii Economice" (ULIM), an 4, 2010, nr. 3-4.
- [4] Burlacu, N. *Problemele managementului corporativ [Problems of the corporate governance]*. in Materialele Simpozionului ştiinţific ASEM,, 24-25 sept., 1998, p. 94.
- [5] Casson, M., *Organization of International Business*, Aldershot, Eduard Elgar, 1999.
- [6] Caves, R., *Multinational Enterprises and Economic Analysis*, Cambridge University Press, 1998
- [7] Ionescu, Ion Gr., *Management of financial and banking,* în „Knowledge Horizons - Economics", Vol. 5(2)/2013.