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COMMENTS ON SOME METHODS AND INSTRUMENTS FOR EVALUATION OF THE CORPORATE ECONOMIC EFFICIENCY

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Abstract *The main purpose of this article is that to analyze into a deeply analytical maniere, issues about the corporate environment, on the managerial side, more precisely the measure of economic efficiency, knowing that only a convincing, flexible and pragmatic approach, more acute and as close as possible by the specificity of corporate activity, can produce - randamment, valued through sales and profit. The methodology used in the research consisted of studying the bibliography and drawing conclusions and structuring them, chronologically, in order to identify their differences, typology and evolution over time. The conclusions are found at the end of this article.*

Key words:
methods
instruments
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efficiency
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JEL Codes:
B40
G39

1. INTRODUCTION

The theoretical analysis of researches in the field of corporate governance efficiency evaluation allows conclusions to be drawn regarding the existence of different methods of corporate governance assessment (Figure 2.1).

At first glance, everything seems classic, but, as always, from theory to practice, it is longer.

We have been able to offer those interested, a typology of methods and tools that can be at hand for corporate management, to increase economic and financial efficiency in corporations, but the heavier part is forcing managers to implement reforms keep pace with economic and financial dynamics in business environments.

All this are cost-dependent, first and foremost, by the exit from the inertia in which any type of firm has and operates.

2. TYPES OF ASSESSMENT OF CORPORATE ENVIRONMENTAL EFFICIENCY TYPES

As a result of our researches we highlight qualitative and quantitative evaluation methods. In the group of qualitative methods, we insisted on two conditions, close to maximum use under current conditions. This is the comparative method and method of corporate risk assessment.

The quantitative methods of corporate governance efficiency assessment are based on the analysis of the corporation's economic activity. At

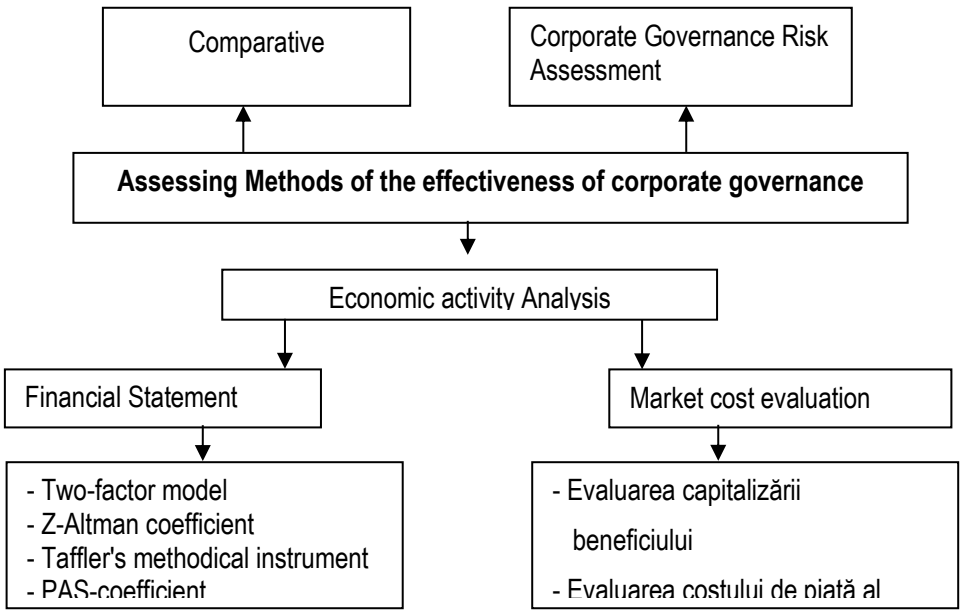
the same time, this group of methods is divided into methods of assessing the financial condition and methods of assessing the market cost.

Let's examine the listed methods.

The comparative method of corporate governance efficiency assessment consists of comparing the mechanisms described in the previous chapters under different corporate governance conditions (typically, geographical breakdown by country). This view is unformalised and allows the comparison of corporate management conditions in different countries.

In this case, is proceeding at the assessment expertise of the development of the country's corporate governance legislation, the degree of its execution, the development of the fund market (the capitalization), the bankruptcy mechanism (compare the degree of simplicity of the bankruptcy procedure and the frequency of its application) - this is the evaluation of the external mechanisms of corporate management.

Figure no. 1 Methods of assessing the effectiveness of corporate governance



Source [1]

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In assessing the internal mechanisms of corporate governance, the activity of the Board of Directors is assessed (the ratio between the number of internal and external directors, the number of Council members, the method of evaluating the efficiency of the Board of Directors, the work of the managers and other indicators depending on the specificity of the Board of Directors' and the purpose of the evaluation) and the formation of the

remuneration system of managers (assessing to what extent the remuneration system brings the interests of managers and owners closer).

2. METHODS BASED ON ANALYSIS OF FINANCIAL DATA

A more concrete point of view on the issue of corporate governance effectiveness has found mirroring in another treatment method. The unity of the methods of this treatment lies in the understanding that the "financial - economic activity of the corporation is the confirmation of the efficiency of managerial activity" [4] corporate. This treatment is carried out in the following main methods. First, assessing the corporation's market cost, second, assessing the financial standing of the corporation, the key moment in calculating bankruptcy eventually.

Among the bankruptcy methods, it is admitted to highlight methods based on the analysis of financial data, which include the operation of some coefficients that are becoming more widespread: Altman's Z coefficient, Taffler's (UK) coefficient and others, and the aptitude to "read the balance sheet" and the methods for comparing the data on bankrupt companies with the respective data of the company under review [2], [6].

The methods based on analyzing financial reports are currently the most widespread. Although, according to a number of scientists, there are objective drawbacks of these methods, which consist of the following. First of all, companies in difficulty keep track of reports by all means and in this way, concrete data can remain inaccessible for years. Secondly, even if the data is communicated, it can prove to be "creatively processed". For companies in similar circumstances, there is a tendency to clean up their activity, often leading to falsification.

A separate aptitude is required, only for experienced scientists, to highlight the multitude of corrected data and evaluate the degree of visualization. The third difficulty lies in the fact that some reports deducted, according to the company's business data, can testify to insolvency, while others may be the basis for conclusions about stability or even some improvement. Under such circumstances, it is difficult to assess the real status of things. But, we could only agree with the third statement, and only on the condition of static evaluation, not dynamic.

Speaking of the first two contradictions, it is necessary to point out that studying the disclosure requirements for corporate activity accepted in different countries allows us to draw conclusions about the lack of such contradictions, as the disclosure requirements include a number of important elements . This is also the presentation of reports once a quarter (in the U.S.), or once a semester (in Germany), which excludes corporations from being able to keep reporting. This is the mandatory audit of financial reports, which greatly reduces the risk of counterfeiting.

3. METHODOLOGICAL PROJECTIVE INSTRUMENTS OF BANKRUPCY

One of the simplest models for forecasting the eventuality of bankruptcy is considered a two-

factor methodological instrument. It is based on two key indicators (for example, the current liquidity indicator and the leverage ratio), on which the eventuality of bankruptcy is dependent.

These indicators are multiplied by the weighting of the coefficients found by empirical methods, and the results are then collected by a constant (const.) Obtained by the same method (statistical experience). If the result (C1) proves to be negative, the eventuality of bankruptcy is small. The positive signification of C1 indicates an increased possibility of bankruptcy.

In American practice, such meanings of the coefficients are established and used:

- for the current liquidity indicator (coverage) (Kn) – (-1,0736);
- for the indicator of the weight of funds borrowed in the enterprise's liabilities (Kp) - (+0.0579);
- constant value - (-0.3877);
- hence the formula for calculating C1 obtains the following formula

C 1 = -0.3877 + Kn*(- 1.0736) +Kp* 0.0579

The methodological instruments with two-factors, examined, does not provide for multilateral valuation of the financial situation of the enterprise, and for this reason very large discrepancies between the forecast and the reality are possible. In order to obtain a more accurate forecast, US practice recommends taking into account the level and trend of changing the profitability of the sold output as this indicator greatly influences the financial stability of the enterprise. This allows to simultaneously compare the bankruptcy risk (C1) and the level of profitability of the sale. If the first indicator is within safety limits and the level of return on production is high enough, the event of bankruptcy is extremely insignificant.

Another quantitative point of view was proposed in 1968 by economist Altman [2]. The solvency index is made up of the Multiple Discriminant Analysis (MDA) and allows for the first-time splitting of economic agents into potential bankruptcy and non-bankruptcy.

When the indicator was set up, Altman studied 66 enterprises, half of which went bankrupt in 1946 and 1965, and the other half successfully activated, and investigated 22 analytical coefficients that could have been useful for predicting possible bankruptcy. From these indicators he selected five more important and built a regression equation with several factors. Therefore, Altman's indicator is a function of several indicators that characterize the economic potential of the enterprise and the results of its activity in the expired period.

In general, the solvency ratio (Z account) has the following:

Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + X5

Where

X1 - Circulating capital / total assets;
X2 - non-distributed income / amount of assets;
X3 - Operating income / asset value;
X4 - market cost of shares / debts;
X5 - Receipts / Amount of Assets.

According to Altman's methodological tool, the results of the multiple calculations have shown that the generalizing indicator Z may have meanings within [-14, +22], while the enterprises for

which Z> 2,99 are in the stable financial category, the enterprises for which Z < 1.81 are insolvable unconditionally, and the range [1.81-2.99] is the uncertainty area.

The Z coefficient has a common drawback: according to essence, it can only be used in relation to large companies that assess their stock market shares. For such companies, an objective market equity assessment can be obtained.

In 1983, Altman obtained the modified version of his formula for companies whose shares are not traded on the stock exchange:

K = X2 + 8.38X1 + 0.63X4 + 0.054X3

(here X4 - the market price of the shares, not the balance sheet.)

Altman's coefficient refers to the most common coefficients.

The four-factor methodological forecasting tool

Further detailed criteria are known. Thus, the British Taffler proposed in 1977 the four-factor methodological forecasting tool, to which he used the following point of view [5]:

By using the computerized technique, at the first stage, 80 reports on the data of bankrupt and solvable companies are calculated. Subsequently, using the statistical method, known as the analysis of multidimensional discrimination, the methodological instrument of solvability can be constructed, determining the particular relations, which at best highlight two groups of companies and their coefficients.

Such selective determinations of ratios are typical for determining key business dimensions such as „profitability, circulating capital adequacy, financial risk, and liquidity [3]. By aggregating these indicators and generalizing them in a proper way, the methodical solvency instrumentation demonstrates the precise picture of the financial situation of the corporation. The typical methodical tool for company analysis, the shares of which are traded on the stock exchange, will take the following form:

C1x1 Z = C0 + + + C3x3 C2x2 C4x4 + ...

where:

x1 = income up to current taxes (53%)

x2 = current assets / total amount of bonds (13%)

x3 = current liabilities / total assets (18%)

x4 = lack of credit (16%)

C0, ... C4 - coefficients, the percentages in parentheses indicate the proportion of the instrumental instruments; x1 measures return, x2 - state of circulating capital, x3 - financial risk and x4 - liquidity.

To amplify the model prediction role, the Z coefficient can be converted into the Perfomance Analysys Score (PAS) coefficient - the coefficient to track the company's activity over time. By studying the PAS both higher and below the critical level, it is easy to define the moments of decay and rebirth of the company.

The PAS coefficient - is only the relative level of the company's activity, deducted on the basis of its Z-factor for a given year and expressed as a percentage from 1 to 100. For example, the PAS coefficient, equal to 50, indicates that the company's activity is positive, while the PAS, equal to 10, testifies to the fact that only 10% of the

companies are in a very bad state (unsatisfactory situation). Therefore, by calculating the Z coefficient for the company, the absolute value of the financial statement can then be converted into the relative value of the activity.

4. CONCLUSIONS

If the Z coefficient indicates that a company is in a state of risk, the PAS coefficient reflects the historical trend and the current activity for the outlook.

The strength of this view lies in the ability to combine the key features of the income and loss report and the balance sheet into a unique presentation report. Thus, the company that obtains income, but is weak in terms of balance sheet, can be compared with the least profitable, the balance of which is balanced. Therefore, by calculating the PAS, you can quickly assess the financial risk associated with this company and the way business conditions vary. Essentially, the point of view is based on the principle that a whole is more valuable than the sum of the components.

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