

Impact of Financial Sustainability on Enterprise Value Expansion

Eshov Mansur Pulatovich

ABSTRACT---As enterprises are an important component of the national economy, increasing their value is a key factor for sustainable development in the country.

In world practice, there is no uniform approach to the factors that influence the value of enterprise. One of the most important factors of increasing the value of the enterprise is ensuring its financial stability through the effective use of financial resources of it. Therefore, it is important to develop a system of indicators that characterize its financial sustainability and take measures to ensure its financial sustainability in improving the value of the enterprise.

In world practice, the financial performance of the sustainability of enterprises is not systematized, and in different countries these indicators differ. In assessing financial sustainability, the characteristics of enterprises are taken into account. Moreover, this poses a challenge in assessing the financial sustainability of enterprises.

The article explores the theoretical aspects of enterprise value valuation and management. The impact of financial stability of enterprises on their value has been evaluated and analyzed. Proposals have been developed to ensure financial sustainability of enterprises.

Keywords: enterprise value, financial stability, liquidity, assets, equity, debt, cash, forecast.

I. INTRODUCTION

World practice shows that in recent years one of the directions of modern management in the enterprises - the concept of value management is being consistently introduced. In the basis of this concept lies in the idea that the most important task for the owners (shareholders) of the enterprise is to effectively use the resources of the enterprise and maximize its financial results.

Studies show that the welfare of owners is measured not by the amount of additional capacity invested in the enterprise, the number of hired employees or the company's working capital, but by the value of the business they own. At the same time, after the global financial and economic crisis in foreign countries, there has been seen a shift from market value management at enterprises to valuation and management of its fundamental value.

From this point of view, for providing the value growth of Uzbek enterprises, it is an effective way to focus on internal (fundamental) factors of investment in their innovative development.

Due to the implementation of large investment projects in Uzbekistan in recent years, new production facilities and capacities have been put into operation. This facilitated the process of modernization and technological re-equipment of

industries and enterprises. All of them have had a significant impact on the growth of the value of enterprises.

At the same time, transition to an effective strategic management system, which affects the prospects for enterprise development, increases their production capacity and value is a prerequisite. For doing this, it is important to study the impact of financial performance on the value of an enterprise, in particular, to evaluate and manage its contribution to the value of the enterprise.

II. THE REVIEW OF LITERATURE

Assessment and management of enterprise value plays an important role in the scientific research and works of many economists. As noted by Alfred Marshall, one of the founders of market value and enterprise management: "... what remains from its (owner or manager) profit after deduction of interest on capital at the current rate can be called its business or management profit" [1]. A. Marshall's view is that the concept of profit, called residual income or economic profit, is fundamentally different from the current notion of income as measured by net income in accounting.

In the 1930s, Irving Fischer, Nobel laureates Franco Modigliani and Merton Miller made a significant contribution to the theory of enterprise value management in the late 50s and early 60s. Specifically, I. Fisher investigated the relationship between the net present value of the company and the discounted cash flow expected. F. Modigliani and M. Miller have shown that investment decisions of a company with a net present value are a key factor in the growth of its stock value [2].

According to P. Drucker, the business will be unprofitable until it generates a profit that exceeds the cost of capital. At the same time, businesses pay taxes as if they were actually making a profit. In fact, an enterprise returns to the economy much less than it receives in the form of resources, meaning that a company cannot create value without taking into account the cost of capital attraction [3].

According to the findings of Russian scientists V.G. Kogdenko and M.V. Melnik, value management of the company is a field of activity and science related to the development and implementation of decisions aimed at managing the market, operational, financial and investment activities of a company that is cost-effective. From a company perspective, these authors define value-based management as a comprehensive company management approach that aims to increase value for shareholders on the one hand and create value for consumers on the other. [4]

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Eshov Mansur Pulatovich, Candidate of Economic Sciences, Ph.D.,
The Dean of Faculty of Accounting and Audit, TSUE, Tashkent,
Uzbekistan (Email: m.eshov@tsue.uz)

Impact of Financial Sustainability on Enterprise Value Expansion

N.A.Jerebtsova describes enterprise value management as a simple methodology, but an integrated process for qualitative improvement of strategic and operational decisions at all levels of the organization [5] by incorporating company philosophy into action, a comprehensive system of results evaluation and planning, and integrating common efforts into key value factors.

Many economists argue that the value of an enterprise depends on its financial aspects. In particular, According to R. Kumar's research [6], the corporation's finance focuses on the principle of maximizing its value and the value of the company is directly related to its financial position, investment and dividend policy.

Other researchers point out that the value of an enterprise should be taken into account when assessing and evaluating financial needs, and the following key issues are being considered when assessing an enterprise's financial needs [7]:

- the main source of funding is to invest in research, development and testing of a business idea or project.
- initial financing consists of a financial need assessment. The aim of the resources required is to identify and develop a pre-existing project.
- expected growth funding is the time it takes to launch initial research.
- development financing - Financial resources support corporate growth. Business idea and product and market tested; as a result, financial resources support commercial and marketing activities.
- change - controlling over funds in the development of corporate financial transactions.
- final financing - like initial financing, a financial need assessment is important in a business recovery decision.

According to Christopher A. Hartwell and Anna P. Malinowski [9], evaluation of enterprise value in an unstable institutional environment is largely related to the development of informal property rights and other external factors for the enterprise, while the specifics of the enterprise have little effect.

Jean-Laurent Viviani and Carole Maurel Established that [8], if an enterprise is capable of delivering high performance, investing in social and financial goals can significantly affect the value of these investments in enterprise value creation. The authors also developed a method for measuring multidimensional value creation through enterprise value creation sources.

It was founded by Zvika Afik, Roi Haim and Yaron Lah, that large businesses and highly liquid stocks have a significant impact on the company's value after 15 days of employee strikes or labor disputes. Companies with relatively liquid shares have been proven to have a significant impact on enterprise value from the first day of employee strikes or labor disputes.

Isabela Jonek-Kowalska proved [11] in their research that the value of coal mining companies is influenced by the consumption of domestic coal and, by external factors, coal and its substitutes. The author also believes that in order to increase the value of coal mining companies, it is necessary to constantly monitor and protect prices, to improve and strengthen relations with suppliers and customers, and to develop relations with internal and external stakeholders.

J. MacDiarmid, T. Tholana, C. Musingwinians [12] analyzed key factors influencing the value of large mining companies in 2006–2015. According to the conclusion of the authors that net profit, raw material prices and EBITDA are key factors in the value of mining companies, regardless of product structure. The net profit of these three indicators is the strongest influence on enterprise value. The authors proved that the debt and borrowing ratio for two types of debt, EBITDA, can only be attributed to EVs when commodity prices and earnings fall, and that cost factors may change as economic conditions change. Therefore, it is important for mining companies to identify the key factors of enterprise value in different economic periods and measure their results.

D.A. Alimov, N.K. Obrosova, and A.A. Shananin [13] developed a methodology for assessing the value of a sector enterprise whose economic activity declined based on the Bellman's equation. The first version of this methodology is characterized by the presence of infrastructure constraints. In the second version, the impact of debt burden on the company is taken into account.

According to a study by Uzbek economists, the value of an enterprise is, for a specific date, expressed in money as a whole property complex, taking into account all possible future income and their sources [14]. In addition, indicators for assessing the value of industrial enterprises are recommended by the authors.

Enterprise value management, as an economic category, is based on the impact of the value of the enterprise on its value. It is responsible for the interests of legal entities and businesses that invest in the development of this enterprise. Thus, valuation of an enterprise is seen as the main management object in which management decisions aim to increase it. On the other hand, valuation of the enterprise proves the character of management decisions taken [15].

According to the analysis of the results of the above research, we believe that enterprise value management is an activity aimed at maximizing enterprise value. The following conclusions can also be drawn from the evaluation of enterprise value:

Firstly, the value approach to enterprise management involves value management at all levels (from board of directors to managers);

Secondly, maximizing value is not a one-time task, but the circle of a continuous and renewable strategic and operational management decision;

Thirdly, it is not possible to effectively manage an enterprise's value without understanding value-driven indicators;

Fourthly, its financial position, including its financial stability, plays an important role in increasing the value of the enterprise;

III. RESEARCH METHODOLOGY

Analysis of liquidity, solvency and financial stability is of great importance in assessing and enhancing enterprise value. Financial sustainability is a description of the steady

excess of enterprise revenues and the continuous process of free maneuvering and utilizing the enterprise's money, a continuous process of production and sales. Financial stability is formed during production and economic activities and is a key component of the overall sustainability of the enterprise.

The need to analyze the balance sheet liquidity in market conditions is driven by the tightening of financial constraints and the need to assess the enterprise's creditworthiness. The balance sheet liquidity is defined as the level of coverage of an enterprise's liabilities with its assets matched by the maturity date. Asset liquidity is an indicator that is contrary to the balance sheet liquidity at the time the assets are converted into cash. The less time it takes for this asset to be in monetary form, the higher its liquidity.

The adequacy (excess or deficiency) of the sources of reserves formation is a general indicator of liquidity.

Assets of the enterprise are divided into the following groups, depending on the level of liquidity and the rate of cash flow: 1) the most liquid assets are cash and short-term financial investments of the enterprise; sums on items of cash which can be used immediately to make current payments; 2) quick sale assets - accounts receivable and other assets.

If the current assets of the enterprise exceed its short-term liabilities, the enterprise is company liquid. An enterprise may be more or less liquid. An enterprise with working capital consisting mainly of its own cash and short-term receivables is generally more liquid than an enterprise with working capital. For checking the actual level of liquidity it is necessary to analyze the balance sheet liquidity.

Liquidity ratios are of interest not only to the management of the enterprise, but also to the subjects of external analysis: absolute liquidity ratio - for suppliers of raw materials and supplies; coefficient of coverage - for investors; fast liquidity ratio - for banks.

Indicators of liquidity and financial stability allow to calculate the following coefficients (Table 1).

1. *Absolute liquidity ratio* ($K_{мл}$). The absolute liquidity ratio shows which part of an enterprise can meet its short-term liabilities with cash in the near future, and can be found as follows:

$$K_{мл} = (\text{Cash} + \text{Short-term financial investments}) / \text{Short-term liabilities}$$

This ratio is important for suppliers of raw materials and supplies. Normative value of the indicator $K_{мл} > 0,2$.

2. *Rapid liquidity ratio* ($K_{мл}$) indicates which part of the current assets can be repaid with deduction from reserves and calculated by the following formula:

$$K_{мл} = \text{Liquid Assets} / \text{Current passives}$$

This ratio helps to assess the enterprise's ability to repay short-term liabilities when the company is in a difficult position and cannot sell stocks. The optimal value of this indicator is recommended in the range of 0.8 to 1.0.

3. *Current liquidity ratio* ($K_{мл}$) reflects the company's ability to pay current (short-term) liabilities solely through working assets, and found as follows:

$$K_{мл} = \text{Current assets} / \text{current passives}$$

If the value of this coefficient is higher, the enterprise's solvency is better. This figure assumes that not all assets can

be sold quickly. Depending on the economic sector, the value of the coefficient is normal at 1.5-2.5.

4. *Receivables and accounts payable debt ratios*, ($K_{др}$). Coefficient of accounts receivable and payables shows how much accounts receivable is equal to 1 sum and found as follows:

$$K_{др} = \text{The amount of debt of Receivables} / \text{Accounts payable}$$

The recommended minimum value of this indicator should be less than 1. The rate of growth of accounts receivable should be at the rate comparable to the growth rate of accounts payable.

5. *The coefficient of the provision of working capital*, ($K_{яв}$). This indicator describes the adequacy of working capital required for the financial sustainability of an enterprise and can be found as follows:

$$K_{яв} = \text{Current assets} / \text{own equity resources}$$

Lack of working capital means that all working capital of the enterprise and possibly part of non-current assets is formed from debt sources. The coefficient of the provision of working capital should be greater than 0.2.

6. *The coefficient of maneuverability of their own working capital* ($K_{яв}$). This coefficient shows the ability of an enterprise to maintain its working capital level and replenish working capital, if necessary, from its own sources, found as follows:

$$K_{яв} = \text{Equity: Own capital}$$

It is recommended that The ratio of maneuverability of working capital depends on capital structure and industry specificity, the optimal value of the index is in the range of 0.2-0.5. There may not be universal recommendations on size and trends of change.

7. The coefficient of debt and equity ratio ($K_{дк}$) indicates how closely an enterprise is linked to debt and can be found as follows:

$$K_{дк} = \text{Debt funds} / \text{equity}$$

It is worth noting that the closer the coefficient is to 1 or greater, the more closely the enterprise is linked to debt. Analyzing and forecasting the above financial performance indicators is important for developing measures to ensure financial sustainability of the enterprise. Ensuring financial stability is a key factor in increasing the value of the enterprise.

IV. ANALYSIS AND RESULTS

We evaluate and analyze the financial performance of enterprises in the operating in "Electric Rural Construction" Joint Stock Company in Uzbekistan for 2013-2018.

The data presented in Table 1 shows that in 2013-2018, the absolute liquidity ratio, although different, was below the benchmark and ranged from 0.03 to 0.08 during the analysis period. This shows that the solvency of the enterprise is very low.

During the period under review by "Electric Rural Construction" Joint Stock Company, the liquidity ratio was above the statutory demand (Table 1). The main reason for this is that the growth of accounts receivable is very high.



Impact of Financial Sustainability on Enterprise Value Expansion

Conversely, a decrease in the operational liquidity ratio and its lower than normal may indicate a decrease in the ability to pay off its liabilities in the near future;

Table 1
Dynamics of financial stability ratios of “Electric Rural Construction” Joint Stock Company

№	Indicator	Standard	Years					
			2013	2014	2015	2016	2017	2018
1	Absolute liquidity ratio, $K_{\text{МЛ}}$	min 0,2 (optimal level 0,2-0,7)	0,07	0,08	0,03	0,08	0,03	0,04
2	Rapid liquidity ratio, $K_{\text{ТЛ}}$	min 0,8 (optimal level 0,8-1)	1,21	1,52	2,02	2,89	1,48	2,29
3	Current liquidity ratio, $K_{\text{ЖЛ}}$	min 2 (optimal level 2-3)	1,96	2,35	3,15	4,03	3,18	3,86
4	The maneuverability ratio of working capital, $K_{\text{ок}}$	max 1,0	1,16	1,43	1,90	2,72	1,41	2,16
5	The coefficient of the provision of working capital, $K_{\text{ѳ}}$	min 0,2	0,49	0,53	0,65	0,73	0,66	0,73
6	The maneuverability ratio of working capital, $K_{\text{ѳам}}$	0,2-0,5	0,75	0,68	0,66	0,72	0,69	0,68
7	Debt and equity ratio, $K_{\text{кѳ}}$	max 1,0	0,78	0,60	0,36	0,26	0,35	0,11

*It was calculated by the author based on annual report data of “Electric Rural Construction” Joint Stock Company.

The current liquidity ratio for the analyzed enterprise was only at the optimum standard in 2014. The capital structure for 2015–2018 indicates that it is inefficient. As Table 1 shows, the ratio of accounts receivable and payables of JSC “Electric Rural Construction” exceeds 1 (in the range of 1.16 to 2.72). The fact that accounts receivable is more than payables mean that withdrawal of funds from the business turnover may result in the need to attract high-quality bank loans and loans to maintain the current production and economic activities of the enterprise. Significant excess of accounts payable over accounts receivable threatens financial stability of the enterprise.

During the analyzed period, the Company's own capital ratio increased from 0.49 to 0.73. It is worth noting that in 2016 and 2018, this figure reached a maximum of 0.73 (Table 1). Consequently, low liquidity (non-current) assets should be financed through the most sustainable sources - equity. In addition, a certain amount of equity must remain in order to finance current activities.

In 2013-2018, JSC “Electric Rural Construction” maneuverability ratio of its working capital fluctuated from 0.66 to 0.75, which is higher than the normative value. This means that the enterprise's own sources of funds are mobile.

The ratio of debt to equity in the enterprise during the analyzed period was less than 1. For example, in 2013 its value was 0.78. However, by the end of 2018, the cost of debt and equity ratios for the enterprise had changed to a positive value of 0.11 (Table 1).

Correct calculation of all forecast parameters is important in determining enterprise value. Based on the above analyzes, we have developed projections of liquidity and financial stability for the period 2019-2022.

The absolute liquidity ratio forecast for 2019-2022 has a tendency to decline from 0.031 to 0.007. In addition, during the period under review this indicator was below the norm.

During the forecast period, the liquidity ratio rose steadily, which corresponds to the set norms. By 2022 this coefficient will be 3.16 which is higher than the norm and will increase by 0.87 compared to 2018 (Table 2).

Table 2
The forecast of financial stability ratios of JSC “Electric Rural Construction”

№	Indicator	2018 ѳ. (base year)	Forecast of coefficients by years			
			2019	2020	2021	2022
1	Absolute Liquidity Ratio, $K_{\text{МЛ}}$	0,04	0,031	0,019	0,013	0,007
2	Rapid liquidity ratio, $K_{\text{ТЛ}}$	2,29	2,53	2,84	3,00	3,16

3	Current liquidity ratio, $K_{жл}$	3,86	4,32	4,94	5,25	5,55
4	Coefficient of receivables and payables, $K_{\partialк}$	2,16	2,38	2,68	2,82	2,97
5	The provision of working capital ratio, $K_{\text{я}}$	0,73	0,79	0,87	0,91	0,95
6	Coefficient of working capital, $K_{\text{уам}}$	0,68	0,67	0,66	0,65	0,64
7	Debt and equity ratio, $K_{к\text{я}}$	0,11	-0,01	-0,13	-0,25	-0,37

*It was calculated by the author based on annual report data of “Electric Rural Construction” Joint Stock Company.

According to the current liquidity ratio, its value does not meet the regulatory requirements. This coefficient is larger than the standard requirement for forecasting (Table 2).

Another key indicator used in determining the value of the enterprise is the ratio of receivables and payables. This indicator is more than the maximum (max 1.0) in the forecasted period. In general, between 2019 and 2022, the ratio of accounts receivable and payables increased insignificantly - from 2.38 to 2.97.

Ratio of working capital is one of the few coefficients that meet current practice. According to the analysis, the coefficient was greater than 0.2 during the forecast period from 2019 to 2022. In particular, the ratio of own working capital for the forecast period increases from 0.79 to 0.95, which is 0.16 (Table 2).

The data presented in Table 2 show that the projected own working capital ratio exceeds the normative requirement. According to the forecast, by the end of 2022, these indicators will decline significantly. Specifically, the projected maneuverability coefficient is 0.67 in 2019 and is expected to decline to 0.64 by 2022.

According to the forecast of debt and equity ratios, starting from 2019, there will be a normative requirement (max 1.0) with the trend of a sharp decline in this indicator.

IV. CONCLUSIONS AND SUGGESTIONS

1. A system of value-added indicators for the evaluation and effective management of enterprise value should be developed and analyzed. At the same time, the composition of non-financial indicators, with financial and non-financial indicators as indicators of value, is determined individually for each enterprise, while financial indicators are often the same and reflect the efficiency of market management of any industrial enterprise.

The main financial objective of the enterprise is to coordinate business value management, where the following indicators can serve as financial indicators for successful achievement of objectives:

1) The results of the strategic effectiveness of the company and, accordingly, the value indicators that allow the company to measure the value growth; 2) efficiency of operating activities (results of key activities of the company to increase sales, reduce costs or increase productivity); 3)

efficiency of investment activity; 4) Effectiveness of activities about raising capital .

2. Financial stability plays an important role in increasing the value of the enterprise. Therefore, analyzing indicators that characterize an enterprise's financial sustainability, in particular liquidity, solvency and profitability, as well as developing practical recommendations for their compliance with regulatory requirements, is one of the key factors in increasing the value of the enterprise.

The analysis of financial stability of JSC “Electric Rural Construction” in Uzbekistan, which is the object of our research, has allowed improving the following conclusions:

1. During the analyzed period (2013-2018), the absolute liquidity ratio of the enterprise was below normal, although it had different values. It is necessary to attract short-term financial investments and increase the share of cash assets against current liabilities in order to meet the normative requirement of absolute liquidity ratio.

2. The rate of growth of accounts receivable should not exceed the rate of growth of accounts payable. For this purpose it is necessary to take measures on withdrawal of the Enterprise funds from the business turnover and collection of accounts receivable.

3. The current liquidity ratio of the company was only close to the optimum standard in 2014. The excess of the optimum value in the other years of the analyzed period indicates that the capital structure of the corporation during these years is unacceptable.

It is desirable to maintain a balanced ratio between debt and equity to ensure optimal levels of the current liquidity ratio.

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Impact of Financial Sustainability on Enterprise Value Expansion

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