

Methodology of socially oriented management of business structure financial safety parameters during the crisis period

VLADIMIR KUNIN,
St.Petersburg University of Management and
Economics, St.Petersburg, Russia

Abstract:

Ways of financial safety increase of business structures during the period of economic crisis are analyzed. Estimates of financial safety indicators are given. The universal technique of safety coefficient determination according to the managerial accounting is offered. Dependencies of decrease in safety indicators on determination of a market conjuncture and starting position of business structure is established. Socially oriented approach to deduction of acceptable parameter values of financial safety in case of country risks impact is offered. Methodical recommendations about ethically correct methods of expenses restructuring in crisis conditions are formulated. Influence of application of the offered technique of expenses restructuring on dynamics of financial safety indicators is estimated in case of market conjuncture determination. Classes of business structures, for which application of offered methodology is most effective, are allocated.

Keywords:

Safety coefficient, stock of financial durability, restructuring of expenses, financial safety, profit on sales, revenue, net income, structural risk, break-even, conjuncture.

1 Introduction

Instability, that is typical for the present days world economic system, generates country risks which negatively influence financial safety of business – structures. Consequence of the impact of country risks is the growing threat of the loss-making enterprises, growth of unemployment and decrease in standard of living. In its turn, the decrease in the standard of living generates decline in demand for goods and services, worsens market conjuncture and further reduces the financial safety of the business-structures. In doing that, the destructive positive feedback mechanism of parameters deterioration of financial safety of business – structures is realized together with the decrease in the living standard. The implementation of this mechanism leads to an increase in social tension in society, which generates greater instability and enhances the country risks. Especially strongly noted destructive feedback manifests itself during the crisis periods. At the same time, measures undertaken in the crisis periods to contain the parameters of financial safety in acceptable limits typically involve reducing the number of employees. This inevitably leads to increased burden on the budget, decrease in the standard of living

of the population and other negative socially – economic consequences. Therefore the questions of development and implementation of the methodological apparatus of socially- focused management of business – structures financial safety parameters during the crisis period are becoming so important. And that is what the present work is devoted to.

2 Assessment and analysis of financial safety parameters

Financial safety of business – structures can naturally be characterized by remoteness of gross income from a zone of losses. As it is known, the border of a zone of losses is characterized by a break-even point, and remoteness from this border by the following indicators: " a stock of financial durability" (" a safety limit ") and " a safety coefficient " [1]. These indicators characterize the maximum allowable absolute and relative values of decrease in revenue at which the entrepreneurial activity remains profitable [In the same place]. By definition "the safety limit" and "safety coefficient" are calculated according to the formulas–

$$SL = NI - NI_{BEP}, \quad (1)$$

where

SL - safety limit;

NI - net income;

NI_{BEP} - value of net income, in accordance with break-even point,

and

$$SC = \frac{SL - NI}{NI_{BEP}},$$

where

SC - safety coefficient.

As it's shown in [2], equalities are fair

$$NI = NI_{BEP} \cdot \left(1 + \frac{POS}{FE} \right), \quad (3)$$

where

POS - profit on sales;

FE - fixed expenses,

$$SL = \frac{POS}{FE} \cdot NI_{BEP} \quad (4)$$

and

$$SC = \frac{\frac{POS}{FE}}{1 + \frac{POS}{FE}} \quad (5)$$

As we can see from (5), for any enterprise safety coefficient is determined by the only parameter - ratio of profit on sales to fixed expenses. The greater this ratio is, the higher the value of safety coefficient is.

In the limit at $\frac{POS}{FE} \rightarrow \infty$ safety coefficient tends to 1. Graphic dependence of safety coefficient on this parameter is shown in figure 1.

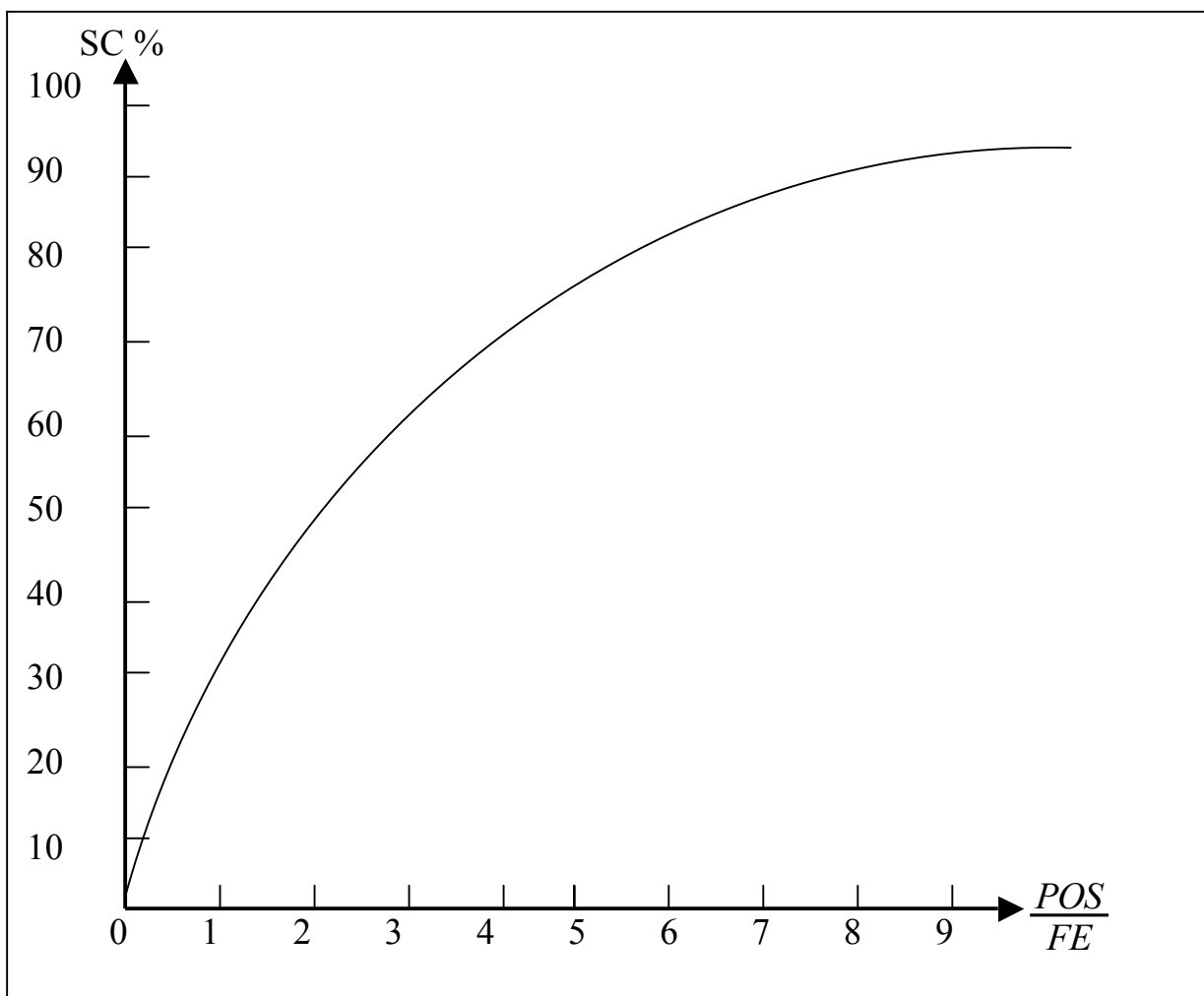


Figure 1. Dependence of safety coefficient on ratio of profit on sales to fixed expenses

Use of the received formula (5) allows to define the value of safety coefficient without calculating of a break-even point in accordance to the data of management accounting. It simplifies the procedure of determination of safety parameters and allows to reduce risks of wrong assessment of these parameters.

3 Socially oriented approach to restructuring of expenses

For the crisis periods deterioration of sales market conjuncture which is accompanied by decrease in net income of enterprise structures is characteristic. Decrease in net income causes decrease in profit on sales and reduction of a stock of financial durability and safety coefficient. These negative processes increase the risk of loss-making activities of businesses and the development of others negative socially – economic consequences. The most significant decline in profits from sales at deterioration of market conjuncture is observed for business - structures with a high proportion of fixed expenses. These entities are characterized by a high level of operating leverage effect and also are most strongly affected by the structural risk. The structural risk is manifested in damage emergence owing to discrepancy of expenses structure to sales market conjuncture. At deterioration of sales market conjuncture and decrease in revenue total expenses of such entities decrease slightly. It causes strong decline in profit on sales, resulting in the high risk level of loss-making activity.

To lock the financial safety parameters within acceptable limits, measures directed on reduction of expenses are usually undertaken. These measures are usually associated either with the reduction in the number of employees, or with the reduction of the working day or working week. Quite often in similar situations for cutting on expenses, workers are sent on unpaid leave. All these measures generate the unemployment growth, poverty, rise in crime and other negative social consequences. Besides, these measures do not promote withholding of net income from further decrease.

In the present work socially- focused approach of business – structures expenses restructuring is offered. This approach allows us to reduce rates of decrease in parameters of financial safety without reduction of number of employees. According to the offered approach, restructuring of expenses on the basis of implementing of personnel motivation system, which is focused on withholding of net income from further decrease, is carried out. For this, the size of a wage fund is fixed and a certain share of a salary (for example, 30 – 50%) is put in dependence on net income. It is expedient to accompany the implementation of the offered system with other measures, directed on decrease in a share of fixed expenses in total expenses.

Among these measures, renting out or lease of inefficiently used office spaces and other objects of fixed assets can be listed. As well as updating of advertising policy focused on the exclusion of expenditures on inefficient advertising, PR and other similar measures. Implementation of these measures promotes decrease in fixed expenses and shifts the break-even point to the left. It causes decrease in boundary size of the net income providing profitable economic activity and decline in rates of financial safety parameters drop at deterioration of market conjuncture. Besides, orientation of personnel motivation system to achievement of resulting effect initiates development and implementation of the offers directed on growth of revenue. That promotes increase in a stock of financial durability and decrease in risk of loss-making economic activity.

From the received data (2) – (5) follows, that at decrease in net income, due to deterioration of market conjuncture the relative increase in safety coefficient, owing to restructuring of expenses, can be estimated on a formula

$$\delta SC = \frac{\Delta SC}{SC} = \frac{c^{(r)} - c}{b \cdot c \cdot c^{(r)}}, \quad (6)$$

where

δSC and ΔSC - relative and absolute change of safety coefficient;

$$b = \frac{NI_2}{NI_1} - \text{coefficient of net income change;}$$

$$c = \frac{NI_1}{NI_{BEP1}} - \text{"launching site" before restructuring of the expenses, defined by the ratio of net income to its}$$

value in a break-even point, before restructuring of expenses;

$$c^{(r)} = \frac{NI_1}{NI_{BEP1}^{(r)}} - \text{"launching site" after restructuring of the expenses, defined by the ratio of net income to}$$

its

value in a break-even point, after restructuring of expenses.

This implies that, the greater decrease in net income at deterioration of sales market conjuncture is, the closer "launching site" to the break-even point is, the greater safety coefficient increases, caused by restructuring of expenses.

The analysis of the data (6) shows that application of offered methodology of restructuring business-structures expenses is especially efficient for certain businesses. These businesses are characterized by a high proportion of fixed expenses in total expenses, as well as a high proportion of expenses on salary and taxes on it in fixed expenses.

The large enterprises, which are characterized by a high proportion of the fixed expenses and which considerable part is comprised by depreciation charges, possess a high lag effect. It is impossible to restructure expenses of such enterprises quickly. Therefore it is necessary to provide small analytical services in organizational structure of such enterprises. These services have to be engaged in forecasting the sales market conjuncture and preventive development of recommendations on restructuring of expenses. The organization of such services should reduce structural risk and keep financial safety parameters at the deterioration of sales market conjuncture.

References

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Contact :

Vladimir Kunin
 St. Petersburg university of management and economics
 Russia 190103
 St.Petersburg
 Lermontovskij pr.44
v.kunin@inbox.ru

