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Strategical financial indicators concerning the interests of the workers

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Abstract

In present investigation we are aimed to study closely the subject of the personnel's dominating participation in the operation of business: to analyze the business concerns of the given group partakers, to determine the forms of calculations of relevant financial result and capital values and to compile an algorithm of strategical value-based indicators' calculations.

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1. Introduction

Modern concept of financial accounting and financial statement is based on the supposition that the principal users of financial information are creditors and proprietors of the capital being invested in the enterprise. Accordingly, the provision of users with reliable information about the paying capacity and shareholders' profit of the enterprise is considered as a fundamental intention of financial accounting and financial figures. However in the theory of management except for creditors and proprietors the following groups are customary singled out as well: suppliers, buyers, workers and state. Each of the aforesaid groups has its' own economic concerns and respectively, is interested in gaining individual financial figures and accounting data indicating the results of their contribution to the economic procedure of the enterprise. It defines the specifics of forming the financial information units in the system of management accounting and financial controlling, especially in cases when dominating participation in running the enterprise and ensuring its' well-being is inherent for some particular group of contenders. In present investigation we are aimed to study closely the subject of the personnel's dominating participation in the operation of business: to analyze the business concerns of the given group partakers, to determine the forms of calculations of relevant financial result and capital values. On the basis of the said statements we suppose to compile an algorithm of generalizing

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value-based calculations compulsory for settlement of discount-analytical ensuring of financial management and controlling.

2. Direct participation of the personnel in the operation of business

Dominating participation of the employees in the operation of business is a widely spread phenomenon, which is therefore overwhelmingly crucial for studies. The present form of dominating participation is characterized by two alternative: direct and mediated personnel's participation in the management of economic procedure of the enterprise. The direct participation is in turn characterized by a situation when a considerable share of the ownership for an enterprise belongs to a group of employees or even to a single worker. Most frequently the instances of the abovementioned situation may be overseen in small-scale enterprise. However the similar form may be infrequently met in middle scale and large-scale enterprises. To abandon the superfluous details which do not correlate with this particular survey let's make a supposition that the owner and the director of the enterprise is one and the same person simultaneously. The fact that this entity would be interested not only in the revenue received by the enterprise, but either in all other economic goods, seems to be obvious: one's wage and other maintenance costs for the director which on the same extent happens to be a relevant income item for him. Accordingly all of the managerial decisions will be directed at the increase of these two income items of the proprietor. It follows that financial result the proprietor-worker is interested in should be formed in accordance with the following algorithm of calculation in the sphere of accounting and planning (formula 1)

$$\begin{aligned} \text{Result}_{p-w} &= \text{Revenue} + \text{Expenditure}_{p-w} = \\ &= \text{Income} - (\text{Total}_{\text{exp}} \text{enditure} - \text{Expenditure}_{p-w}) \end{aligned} \quad (1)$$

where Result_{p-w} - relevant financial result for proprietor – worker;

Expenditure_{p-w} - proprietor – worker maintenance costs.

On the basis of this indicator one may calculate cost-oriented figure of economic profit (formula 2)

$$\text{Economic profit} = \text{Result}_{p-w} - IC \times WACC \quad (2)$$

where IC – invested capital;

WACC – weighted average cost of capital.

The rightful part to be selected as a relevant sum of invested capital is one the dominating in the field of management proprietor-worker is capable to affect proximately, i.e. to change having a purpose to receive a sort of financial result which would be relevant for him.

3. Mediated participation of employees in the operation of business.

Even more widespread and that is why exceptionally meaningful for investors is a mediated participation of workers in the running of economic procedure. In order to demonstrate the significance of such participation with the purpose of financial controlling and management accounting, one should pay due attention to the following two factors, characterizing any probable economic procedure:

- social nature of any economic subject and economic procedure itself. In other words any acting enterprise is an institution by which people try to achieve their individual targets;

- intellectual basis of economic result which is being received from economic procedure.

From the point of view of financial controlling and management methodology, the necessity of the second factor being explained crops up. One should lay stress that the deviation of actual effectiveness of a single economic procedure (a sort of economic activity) or a whole industry (reimbursement onto invested capital) from market average cost of capital is a phenomenon in the ideal model of market relations. As numerous researches on the nature of similar deviation show, an ideal market is characterized by a peculiarity that excess average – industry index of invested capital's profitability (or the index of profitability of a single enterprise taken up with original economic activity) over the value of market average cost of capital leads to an additional inflow of investments into the industry (original economic activity). As a result of rivalry amplification the profitability of an industry (of original kind of

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