The author proves great urgency of applying of value approach in a strategic business management. All factors of corporate value are presented. Also there is different classifications of factors of corporate value which were developed by other scientists. The place of value strategy in strategic business management is researched.

The author proves that certain types of corporate value depend on main goals of corporate administration. He classifies some types of corporate value and financial indicators which correspond to them. Author defines financial methods of corporate value management and researches the influence of applying of each of them on corporate value.

**Keywords:** Balanced Scorecard, income approach, buyback, merger & acquisition, tax shield.

**Introduction**

Any enterprise is created for achievement of some main target, for execution of a certain mission on market. Normal development of each business is impossible without carefully developed strategy. Execution of strategy is based on system of certain control indicators of economic activity of the enterprise. This difficult system of communication of corporate strategic objectives with limited quantity of periodic economic indicators (are called as key performance indicators, KPI) is a basis of the concept of the Balanced Scorecard.
The BSC concept is comprehensive and often contains such KPI, as sales volume, receivables turnover, level of satisfaction of clients, efficiency of work, number of new clients, number of new regions of sale, etc. [14, p. 14, 30, 99].

All KPI should correspond to specifics of concrete business, besides among all “KPI library” enterprise value is allocated (or according to the system of a management, which was developed by S. Stern and based on economic value added, value is the general characteristic of observance efficiency of all KPI).

Unfortunately, introduction of a value approach in business management (including strategic value management) in Ukraine and other CIS countries occurs only since 2007 [15] and is urgency.

**Research methodology**

Works of such scientists, as Stegmann J. P. [1], Copeland T., Koller T., Murrin J., Stern S., Fedotova M. [16], Sherbakova N. [17], Staryuk P. [16] and others, are devoted to problems of corporate value management. However, in their works the place of strategic financial value management in a system of strategic management is insufficiently characterized, also all of only-financial methods of corporate value management isn’t researched. The presented work is devoted to these questions.

The main goals of this article are to research the place of financial value management in strategic corporate management, to generalize the main targets of financial value management and methods, which are corresponding to them.

Value of the enterprise is defined by total cost of property and property rights which belong to it. Value is the most comprehensive indicator of working efficiency of the enterprise (including its financial condition, current risks and the perspectives of its development), therefore corporate value often changes under the influence of many economic factors. Among them there are:

1. *factors of the internal environment*:
   • competitive advantages of a product (are defined by its consumer qualities and efficiency of marketing policy as a combination of such components: pricing, advertizing, sale and aftersales service);
   • rate of the current innovativeness of production cycles of the
enterprise;

• efficiency of financing of economic processes (liquidity and solvency of the enterprise, ensuring financial balance by using budgeting of cash flows, efficiency of risk management);
  • competitiveness of personnel;
  • efficiency of transactions of the enterprise with suppliers;

2. factors of the external environment:
  • development and observance of the sovereign legislation, and part of tax payments in enterprise expenses;
  • degree of economic development of the country (currency policy of the central bank, dynamics of inflation, degree of the financial market development, etc.);
  • capacity of the target market (GDP, competition level, purchasing power of the population);
  • political stability in the country;
  • climatic, seismic and ecological features of the country;
  • degree of development of health care and other factors.

Also there are other classifications of value factors. For example, Stegmann J. P. allocates three key factors of share value of the enterprise: production resources (ability to direct investments into unique resources and into the intellectual capital, so minimizing the physical capital), market power of the enterprise (sum of ability to influence the prices and sales volumes with the main goal to rise own financial results, of ability to satisfy demand, of having the competitive advantages) and innovations, which are directed into own economic activity. Copeland T., Koller T. and Murrin J. agree with this opinion. We think, that these scientists define these factors as key factors because they can be easily measured.

Certain type of corporate value is subject of valuation and further management, this type depends on the main goals of corporate administration. Also to each type of corporate value corresponds unique complex of financial indicators:

1. fundamental and market value. These types are defined by using of some approaches:
  • income approach: by using of economic value added (is defined by using of NOPAT, WACC and sum of the invested capital), sum of free cash-flow and return on equity (it can be calculated by using ratios of profit margin,
asset turnover, operational profitability, tax burden and percentage burden, financial leverage effect). Except the ROE, the WACC could be used as the discounting rate, or TSR rate could be used too (it could be defined by using dynamics of price of certain shares and their dividend profitability throughout the reporting period);

- market approach: by using of such financial ratios (for example, (corporate value)/(net assets), (corporate value)/(net earnings), (corporate value)/(net profit), etc.);

- asset based approach: by using a method of accumulation of net assets, the analysts define market value of corporate assets and the current value of corporate liabilities; the using of a method of replacement means the estimation of value of replacement of the property, the accumulated depreciation and value of the land, which stays in corporate ownership;

2. investment value (usually is defined by using of income approach, option approach or market approach with certain financial indicators);

3. liquidation or mortgage value as the sum of expenses for liquidation of corporate property minus the sum of corporate liabilities;

4. value for the taxation (it is calculated by using of asset-based approach or option approach, with certain financial indicators). Sometimes it’s used for preparation of the unprofitable enterprise for M&A.

Usually market or investment values are used as target types of value of the developed business (because they are generalizing indicators of efficiency of managing and profitability of the investments enclosed in the enterprise). The absolute sum of value is influenced by the factors listed above, so the sum changes and stays under regular revision by using of the certain financial indicators. Some of such factors also could be fixed in financial strategy (aggregate capitalization of business or market price of shares, return on equity, etc.).

Strategy is a complex of actions which are executed for achievement of the approved medium-term and long-term goals of corporate development. Financial strategy is one of functional strategies of corporate development (Fig. 1); it includes the most effective directions of financial activity of the enterprise for achievement of its long-term financial targets; it includes the financial actions to prevent of more possible risks.

Fig. 1 shows that the enterprise with several economic activities has five levels of strategy. The highest level is market mission of the enterprise. Sladkevich V. [5, p. 10] isn't agrees with opinion of Blank I. [6, p. 24] and
allocates mission in separate level of strategy. As well as mission, corporate strategy covers all activities of the enterprise and provides definition of the most priority directions of corporate development (strategy of not-diversified enterprise coincides with its business strategy).

Creation of functional strategy occurs at level of structural divisions of the enterprise, the content of this strategy is coordinated with corporate strategy and business strategy. Blank I. tells that financial strategy is the most important strategy among the functional strategies of the enterprise, because only it determines the directions of supply of economic processes by financial resources and determines ways of their effective expenditure [6, p. 25].

**Figure 1:** Levels of the development strategies of diversified business  
(Source: made by the author on a basis of [5, p. 10; 6, p. 24])

Financial strategy consists of some components:

- analysis of market development, dynamics of last and forecast financial results of the enterprise;
- the list of the current and perspective financial requirements that is defined by investment strategy of the enterprise; information about the most acceptable structure of financial sources;
- information about a condition of corporate governance: about
dividend policy, about structure of securities which were emitted and sold in stock market, about total capitalization (market value) of issuer which depends on market price of its securities;

• the list of actions, which are directed for improvement of economic activity and achievement of target financial parameters.

The specified list means that financial value management is a part of corporate financial strategy and it includes actions on 1) regulation of conditions of formation and expenditure of corporate financial resources, 2) improvement of corporate governance (it comprises the relations with investors, planning of financial actions, which are directed for improvement of economic activity, and the analysis of their influence on corporate value). However financial value management excludes management of non-financial value factors, which are on a list on a top. Kulieva E. tells that forecasting of a future condition of the international financial market also is a financial method of value management of the international enterprises [7]. We think that forecasting of the future condition of the financial market is a complex of actions which aren’t directed on change of the external or internal environment of the enterprise. That’s why these actions can’t be a method of corporate value management.

Let’s define and characterize all possible groups of financial methods of corporate value management:

1) management of formation of financial resources:
   • minimization of expenses by introduction of system of its calculation and by introduction of system of operational financial management of cash flows. Among them there are ABC-analysis, direct-costing and budgeting;
   • minimization of tax expenses by management by a “tax shield”, including amortization and percentage expenses;
   • management by financial balance and solvency which prevents of penalties and fines. Usually it is realized by budgeting;
   • financial improvement of business which is realized by:
     • restructuring of accounts payable and other debt. These actions increase solvency and, as result, reduce threat of bankruptcy of the debtor, its market capitalization grows;
     • M&A. In that case, value of the enterprise depends on its financial condition and on strategic targets of both participants of process;
     • corporate reorganization by a partition. Influence of reorganization on corporate market value depends on features of economic divisions which are under separation, also it depends on further conditions
of their functioning (in case of further vertical or horizontal integration into structure of the same economic complex, or in cases of further sale or liquidation);

2) management of investment attractiveness of securities:
• management of periodicity and volumes of dividends. There are five main types of dividend strategy of the enterprise: strategy of the fixed dividends (it is usually applied at issue of preference shares), strategy of residual dividend payments, strategy of the minimum dividend payments with non-regular extra charges, strategy of unstable volumes of dividends (in financial management is the most applied) and strategy of constant increase in volumes of dividends. Usually volumes of dividend payments are defined by the current stage of life cycle of business. In that case the generous dividend policy tells us about a stage of stable growth or a maturity of the enterprise, and, as a result, about a low level of the investment risks of its shares. These factors are combined with expectation of further large dividend payments, they increase dividend attractiveness of shares, so their market price and corporate market capitalization are increasing (as result, conditions of further involving of loans become better). On the other hand, low dividend payments minimize market price of shares and total capitalization of the enterprise, and as a result, threat of its acquisition by other enterprises increases.

a) dynamics of market price of PJSC “Ukrnafta” shares at the “Ukrainian Stock Exchange” (UAH);

b) dynamics of sales of PJSC “Ukrnafta” shares at the “Ukrainian Stock Exchange”, (mln. UAH)

**Figure 2:** Dynamics of market price of shares PJSC “Ukrnafta” since 08.2009 until 08.2012
As is shown on Fig. 2 a, b, expectation of dividend payment could raise market price of shares and could increase its sales volumes. For two years, until 26.01.2010, meetings of PJSC “Ukrnafta” shareholders didn’t occur because of the corporate conflict between two large owners of the enterprise – NJSC “Naftogaz of Ukraine” and financial-industrial group “Privat”. That’s why expectations of payment of dividends insignificantly affected market price.

However, next year the price of shares of the enterprise showed steady growth by 236 %, at the same time sales volume of shares grew in 5.11 times (Fig. 2, b). On 26.01.2010 was made the decision on record dividend payment from the sum of profit 2006-2008. It became the main reason of price growth before the following meeting of shareholders. On 25.02.2011 also the decision on payment of dividends from profit of 2010 was made;

- change of an organizational and legal form of the enterprise. Usually the administration of the enterprise establishes restrictions on sale of shares because it is disinterested to involve new investors. Therefore, introduction of a private form of joint-stock company minimizes quality (rating) of corporate governance. As the result, informational and other closeness of the enterprise for the investment market, and impossibility of purchase in the blocking minority ownership at the market, reduce market value of the issuer;

- management of investment attractiveness of shares through their split (increase in quantity of shares by proportional partition of value of each initial share) or return split. The low value of some shares can be a barrier to their release in stock market. Realization of return split in aggregate with increase in demand for shares could be a method of increasing of corporate capitalization and, as a result, of increasing of the market price of consolidated shares. In a case of split there are the same factors of increasing of corporate capitalization.

Realization of each of two methods can become the reason of changes in structure of owners which control the enterprise. It also can make a specific impact on market value of the enterprise;

- management of attractiveness of common shares by issue of convertible bonds or convertible preference shares. Influence of such actions on market value of the enterprise is doubtless, however it is defined by individual conditions of corporate development;

- increasing of profit on financial operations, management of risks of corporate acquisition and control of market price of shares by a method of their purchase. The method of minimization of a part of free-float in the
market allows:

- to secure the current owners of the enterprise against concentration of a block-ing minority ownership at new participants;
- reduction of quantity of shares in the market causes the increase in market de-mand and, as result, increases their market price. The enterprises are interested to support market price because the high-capitalized enterprises have rather high credit ratings and have simpler access to direct investments and credit resources [8, p. 46]. In addition, gradual increase of the price stimulates market speculators to increase volumes of their investments;
- to increase number of investors and volumes of their investments. Issuers who are presented in the developed markets, differ from the Ukrainian enterprises by bigger share of strategic investors in structure of owners. In addition, strategic investors of foreign issuers often function in accompanying economic spheres [8, p. 40].

By such actions, the enterprises support liquidity of own shares and can involve additional large volume of financing from short-term investors (mutual funds, banks, insurance companies and other active participants of stock mar-ket). Therefore, systematic monitoring and support of level of market price can essentially increase enterprise capitalization. For example, OJSC “Lukoil” (Russian Federation) actively uses options for purchasing of own shares in the market (since 2010 the enterprise spent more than five billion US dollars for purchase of 11,25 percent of own shares; OJSC “Lukoil” plans to 2015 to make secondary sale at the Hong Kong stock exchange [9; 10]);
- to increase volume of profit because it is a component of net financial sources. As a result corporate value would grow. The enterprises can sometimes get ad-ditional profit by purchase of own securities at the price, which is below than their price at the moment of sale. For example, in the middle of 2012 European banks actively bought mortgage bonds which were emitted by them earlier. In the conditions of global financial crisis they were encouraged to buy up securi-ties at greatly reduced market quotations than the price at the moment of their first sale [12];

3) management of financial resources:

- attraction of the subsidized debt. The subsidized debt, as well as subordinated, is separate form of a privileged loan. The using of the subsidized debt provides the cheaper percentage payment. Limitovskiy M. [11, p. 38] developed the most simpli-fied approach according to which the additional corporate value is a result of attract-ion of the subsidized debt:
\[ V = V_U + VTS + VLS \]

\( V_U \) – value of net assets of the enterprise, \( VTS \) – total value of tax shield, \( VLS \) – value of additional benefits of the enterprise as a result of attraction of the subsidized debt;

- additional issue and sale of shares. These operations could be the reason of great changing of control over the enterprise due to loss of control by shareholders which have no money to purchase additional emitted shares. In this case market value of the enterprise increases by the sum of additional emitted and sold shares. At the same time the price decreases together with falling of quality (rating) of corporate governance;

- additional issue and sale of bonds. During of increasing of a long-term debt the market capitalization of the enterprise becomes minimum. This case is presented in formula [13, p. 56]:

\[ MC = EV - ND = EV + C - D, \]

\( MC \) – market capitalization of the enterprise, \( EV \) – economic value or market value of the invested capital (MVIC), \( ND \) – net market value of corporate long-term debt, \( C \) – highly liquid assets, \( D \) – market value of corporate long-term debt (the sum of a long-term debt before its payment for the current year).

Methods which are specified above, are intended for change of conditions of formation of corporate financial resources or expenditure of them, and make the certain impact on corporate value. All these methods are the integral elements of system of financial value management and can be used for achievement of the operative and strategic goals of corporate development.

**Conclusions**

Thus, research yielded some results:

1. Value of the enterprise is a generalizing indicator of efficiency of its development because it is formed under the influence of many financial and other factors.

2. Strategy of corporate development defines target type of corporate value. A certain group of financial factors corresponds to each type of target value (for example, strategy of minimization of value for the taxation provides
increasing of tax shield, including amortization and percentage payments; maximizing of investment value is provided with increase in net financial resources).

3. Value management is an element of functional financial strategy of the enterprise and is provided by using of three groups of financial methods: management of formation of financial results, management of investment attraction of securities, management of formation of financial resources.

References


