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Analysis Role in the Strategy of Post-Crisis Management

Abstract. Article regards the problem of analyzing the consequences of the financial crisis in terms of impact on the value of the business in order to apply the procedures of restructuring, taking into account the current legal framework. The solution to this problem is to solve the scientific problem of adapting existing mathematical and instrumental methods of business valuation in the Republic of Kazakhstan. The implementation of these objectives envisages the solution of problems of business management in the conditions of the crisis through the application of various strategies of company management.

Key words: crisis, restructuring, business, management, assessment.

Introduction

Undoubted importance of the new Address is a new large-scale program development proposed by the President – New Economic Policy of Kazakhstan «NurlyJol», which has countercyclical nature and further structural reforms focused on our economy [1].

Geopolitical crisis and sanctions policy generate at the same time many environmental, social, economic and other problems, which involves application of integrated approach to the solution of existing and emerging problems.

Without analyzing the regularities of the global financial and economic crisis and the new global risks and threats, without considering the peculiarities of their manifestation in different socio-economic systems it is hardly difficult to create accurately a model of the further development of society.

The negative affect of the financial and economic crisis on performance of the company in the short term, causing various losses and leads to a reduction in the cost of business are obvious. This can be seen as an example of reducing the value of securities of listed companies, as well as the results of the financial statements of public companies that took place in 2008 and 2009, recognized the impairment of various types of assets.

However, an interesting and important question is: Is it possible to benefit from the economic crisis

in the long term? This article addresses governance issues of the business, as well as the possibility of restructuring the management of the cost of business in sustainable growth and in times of crisis.

Methods

Financial restructuring – a tool to help investors and creditors, and management companies in a difficult financial situation, the development, negotiation and implementation of plans for restructuring and changes in their financial activities. It must be remembered that the mistakes made during the restructuring could lead to lower costs and bankruptcy of the company.

In some cases, companies may also require an operating business restructuring. In this situation, as a rule, it is developed an anti-crisis plan, including the introduction of appropriate control mechanisms, cash management, cost reduction, sale of noncore assets, etc.

In the process of restructuring of the business, it cannot be managed without a long-term financial and economic model of the company, which allows taking into account all significant aspects of the business. Scenario modeling of different scenarios, including using the Monte Carlo method, allows in this case developing an optimal strategy and tactics aimed at increasing business value and competitiveness of the company in the long term.

Restructuring in the process of cost management is available in the following situations:

- at normal, systematic development of the company in a favorable macroeconomic environment, such as optimization of costs, working capital management, etc.;

- in the deteriorating results of operations and condition of the company under the influence of external factors or internal causes. This deterioration can be both gradual and abrupt, especially in a crisis, up to the company's bankruptcy.

At revealing of negative factors a planned development of the company and in crisis situations may take various measures:

- under favorable environmental conditions and market growth of the company gives special attention to the optimization of business processes and increase business value;

- in the deteriorating macro-economic factors or ineffective business processes, lagging technology, promoting competition and loss of market share is necessary to increase its stability, solvency, improve business processes and systems to restore business;

- at risk of bankruptcy and liquidation of the business requested to take urgent and, as a rule, emergency measures to overcome the crisis.

In the process of solving tactical and strategic objectives and business value management company can choose between a strategy of organic growth and the implementation strategy of mergers and acquisitions – to-market M & A (from english. Mergers and Acquisitions). Let us consider each of these options.

Main body

Organic growth involves the development of the company's internal resources, reinvestment of retained earnings, their revenue generating capacity in the future, and ultimately increase its value.

In crisis conditions company can spend a reasonable cost reduction (not at the expense the strategic objectives and without loss of image in the

future), to increase staff motivation and team spirit in a difficult situation, to attract and retain qualified personnel, to oust competitors in the presence of operational and financial benefits.

In the pre-crisis period, the main goal was external expansion, which resulted in increase of gross income was achieved, sometimes with a lack of attention to the effectiveness and relative cost-effectiveness. In other words, more attention was paid to increase sales than cost control. During the crisis, companies have realized the need to reduce costs and received an enabling environment [2].

For example, based on our experience and data from public sources of the average were able to reduce costs by 10-25% depending on their species.

However, according to the research of management consulting of KPMG in the process of reducing costs companies are faced a number of difficulties:

- less than 47% have a clear idea of its own cost structure;

- there is no clear understanding of how should be distributed responsibility for cost optimization;

- no target to reduce costs and, in principle, culture of economy.

It can be assumed that the reduction in costs on an emergency basis (eg, shorter working hours, layoffs, etc.) takes place only up to the point A. In the future, the savings achieved by improving the control systems, improve the efficiency of business processes, renegotiation with suppliers; reduce residual materials and work in progress, selecting priority, that is out of less profitable areas of business development [3].

Reduction in personnel costs is possible without cuts and cuts in the wage fund – by increasing the efficiency and redistribution of responsibilities. Otherwise, this reduction in costs negatively affects the image and long-term development of the company.

The ratio of revenues and expenditures of the company at different stages of the cycle is shown in Fig. 1.

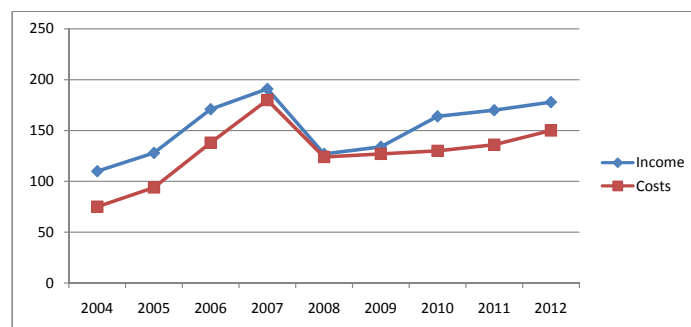


Figure 1. The income and expenses of the company at different stages of the economic cycle

If we talk about the use of the strategy of mergers and acquisitions, particularly in times of crisis, we can distinguish the following features:

- ✓ more efficient management as a result of integration achieve synergies and realization of new strategies;
- ✓ sale of non-core assets, which could lead to an increase in return on equity, efficiency, freeing resources for organic growth or acquisitions;
- ✓ acquisition of undervalued assets relevant for the company with the funds received from the sale of non-core assets and cost savings; business restructuring and debt and the achievement of synergies from the acquisition of new assets that will provide dynamic development of the company after the crisis and capture market share from competitors who for various reasons have not been able to respond quickly to changing external conditions;
- ✓ focus on profitable lines of business;
- ✓ primary placement of minority shareholdings – IPO procedure followed by refinancing or restructuring of existing debt;
- ✓ sale of a substantial portion of the business to a strategic investor or joint venture with the market leaders [4].

One example of the possibility of acquiring undervalued assets is the situation in the capital market in late 2008 – early 2009 subject to the availability of funds. According to a study of the Evaluation Group of KPMG, conducted in September 2009, the capitalization of the majority of the largest public companies in 2008 decreased by an average of 69.3%, while the value of the assets according to the financial statements of companies decreased by 4.6% (from 0.5 to 11% according to different sectors of the economy).

Of course, this difference can be explained by the insufficient size of impairment in 2008. This is also confirmed by the statements for 2009: a num-

ber of companies recognized impairment losses at 31 December 2009, as probably did not fully aware of the impact of the crisis when testing assets in the end of 2008. At the same time, falling of capitalization at December 31, 2008, all the same seems excessive, which could be caused by a lack of liquidity and panic on the market.

Growth of capitalization in 2009 somewhat mitigated the situation, but by analyzing the information we have on these reporting companies are already in 2008-2009. We still found that in two years the capitalization of the companies under consideration decreased by 28-61% depending on the sector economy, while impairment of companies ranged from 1 to 18% of pre-crisis market capitalization depending on the sector.

Thus, it is clear that a number of companies at the end of 2008 and in 2009 was underestimated and the acquisition of control over them would significantly increase the cost of business in the short term provided to the rising cost of shares in 2009-2010.

As for the long-term goals of the company, it is necessary to consider the application of the concept of VBM-control (from the English. Value Based Management). This concept is new for domestic companies, but in recent years there has been growing interest in methods of cost management and crisis just might encourage companies to become more active.

Fig. 2 the cost of the company conventionally represented as the sum of the components – the current value of the business and the future value. As can be seen, the future value can also be arbitrarily decomposed into components associated with the expectation of growth, and a component due to increased efficiency. In the case where the company cannot fully influence the growth component (which in times of crisis will be even negative value), it is necessary to focus on the second component [5].

Component of the future value	Opportunities to achieve the growth	Growth
Value of the business in its current state	Opportunities to increase the efficiency	Efficiency

Conclusion

However, this is often not achieved in practice. According to the study «Creating economic profit. The analysis of Russian companies,» conducted by the department in 2010, KPMG Management Consulting in conjunction with the State University – Higher School of Economics, 28 of the 70

selected largest companies consistently demonstrated an inability to create a positive economic value added for 2005-2008. How does the concept of VBM measures can help in enhancing the value of the business and the implementation of the restructuring?

In our opinion, progressive corporations may

use financial models and the concept of VBM for solving various problems, including such as:

monitoring of current operations and the impact on operating results;

motivation of staff and senior management, the implementation of long-term bonus programs to link long-term goals of the company with the interests of decision-makers;

control by shareholders and creditors of the real state of affairs and changes in the value of the company;

identify long-term trends and short-term measures, adjusting the strategy and tactics of doing business;

interaction with the financial and economic

community – increasing the transparency and simplification of procedures for the preparation and provision of information to auditors, potential and actual shareholders, rating agencies;

reduction in the cost of capital and capital structure optimization.

In the application of financial models and implementation of a set of measures will be gained experience, adjusted approaches to business management.

As a result, companies can build a flexible system of business management, capable to solve problems to reduce the negative effects of the crisis in the short term and to ensure the sustainable development and growth of their value over the long term.

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