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**BUSINESS ACTIVITY AS A CHANGE
AGENT OF COMPETITIVENESS
OF THE COMPANY
IN THE STOCK MARKET**

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Attraction of relatively low-cost funds for enterprises remains its applicability in any phase of its development. As on date, one such source is the stock market which may allow them to build productive capacities and demonstrate transparency in their activities indicating the level of company development. As it is known, the stock market has a number of benefits which can include the following:

- Money attracted by placing of securities are the cheapest in the world.

- When placing securities, mortgage securities is not required.

- Placing of securities allows the company to know its value and its increment.

- Reduces the cost of financing in local banks.
- It gives the possibility to enter international markets, etc. [1].

However, the degree of use of all advantages of the stock market for the company's financial status shall be determined, as the financial position of the company shall be subject to careful attention of the potential investor that takes the decision about investing in the stock market. As Peter Lynch wrote in his article «The twenty golden rules»: «Never invest in a company if you don't know its financial condition. It is a company with a bad financial situation who led to record losses» [2]. Accordingly, one of the main indicators of the company competitiveness in the stock market is a business activity as it describes the economic situation and development of the enterprise. Today, there are many definitions of business activity, describing it from every side. To our opinion, the concept of business activity of the enterprise can be viewed as a set of indicators characterizing the results and effectiveness of the current production operation.

According to Kovalyev, quality criteria of these indicators shall be:

- Breadth of products sales markets.
- Availability of products for export.
- Goodwill of business which is expressed in reputation of clients using its services.

The quantitative criteria of business activity of the enterprise shall be:

- rate of plan delivery (fixed by the superior organization or self-fixed) for the main aspects;
- assurance of prescribed rate of their growth;
- level of resource efficiency at the enterprise [3].

According to T.I. Yurkov and S.V. Yurkov indicators of business activity enable determining the cost-effectiveness of resources used by the entity. Advantage of this definition is its brevity. However, this definition does not give a complete description of the analyzed category. An even more narrow concept of business activity of the enterprise was given by the financial economists A.D. Sheremet, R.S. Sayfulin and E.V. Negashev. In their view, it is characterized by only «the rate of current assets turnover of the entity».

The advantage of this definition is that it details the main factor of enterprise business activity.

Business activity is a complex and dynamic characteristic of entrepreneurial activities and the efficiency of resource use. Levels of business activity of a certain organization reflect the stages of its life (origin, development, growth, recession, crisis, depression) and show a degree of adaptation to rapidly changing market conditions, the quality of management. Business activity can be described as motivated macro- and micro-level of process management of sustainable economic organizations

activities aimed at ensuring its positive dynamics, increasing employment and effective utilization of resources in order to achieve market competitiveness.

Business activity of the organization in the financial aspect makes itself felt in the turnover of its means and their sources. Therefore, financial analysis of business activity is to study the dynamics of the turnover factors. The efficiency of organizations shall be characterized by turnover and profitability of sales tools and sources of their origin. Therefore, business activity indicators that measure the capital turnover shall be considered as indicators of business performance. Indicators of turnover are important for the following reasons:

Firstly, amount of the annual turnover depends on turnover speed;

Secondly, the relative size of semi-constant expenses relates to the size of turnover and, therefore, the turn – round: the faster the turnover, the lower expenses relates to each turnover;

Thirdly, accelerating of turnover at some stage of the cycling of resources entails acceleration of turnover at other stages.

The financial situation of the organization, its ability to pay depends on how quickly the funds invested in assets are transformed into real money.

Various external and internal factors have an influence on the duration of inventory in use. The external factors include: sector profile shall be determined based on predominant field of activity which in turn shall be determined based on ratio of income derived by an enterprise from different spheres of activity); the field of organization activities; the scale of organization activities; impact of inflationary processes; nature of business relationships with partners. The internal factors include: effectiveness of asset management strategy; pricing policy of the organization; methods of inventory evaluating.

As it was mentioned above, the financial situation of the organization depends directly on

how quickly funds invested in assets are transformed into real money. All funds have different speed of turnover that is largely determined by the internal conditions of enterprise activity, first of all, the effectiveness of the strategy for assets management.

According to N.E. Zimin and V.N. Solopova «Analysis and diagnosis of the financial and economic activity of the enterprise», business activity shall be characterized by indicators reflecting the efficiency of use of production goods, material and financial resources. A sign of business activity is a ratio called the «golden rule of enterprise economy». This ratio is as follows:

$$R_{gop} > R_{pp} > R_{ac} > 100\%, \quad (1)$$

where R_{gop} – is gross operational profit rate of change; R_{pp} – rate of change of profit proceeding; R_{ac} – rate of change of advanced capital.

This ratio reflects the widening economic potential of the enterprise. At that, proceeds from the sales are increasing faster that reflects the efficient use of resources and profit increases pointing at that to the relative cost reduction of production and trade.

«The golden rule of enterprise economy» reflects the final result which is also used to assess the business activity.

The business activity of the organization is apparent in the capital turnover rate when intensive use of capital turnover shows the growth of company business activity as a whole. Capital turnover rate affects the profitability of the enterprise and its liquidity, solvency and financial stability.

Capital turnover rate shall be determined by the following indicators:

- Turn – round rate
- Duration of one turnover.

Turn – round ratio shall be determined by the formula:

$$Rt - r = \frac{\text{Sales proceeds}}{\text{Average capital sum for the reporting period}}. \quad (2)$$

Duration of one turnover:

$$Dt = \frac{\text{Average capital sum for the reporting period} \times \text{number of calendar days for the analysed period}}{\text{Sales proceeds}}. \quad (3)$$

Let's review the business activity of «KazTransOil» JSC. «KazTransOil» JSC is the largest oil pipeline company of the Republic of Kazakhstan rendering the services on oil transportation in the domestic market and for export. It is also a member of the project «Public IPO» [4].

Let's study the financial condition of «KazTransOil» in terms of «the golden rule of enterprise» (Table 1).

According to Table 1 for all periods, «the golden rule of enterprise economy» has not been fulfilled. In most cases, the growth rate of gross operational

profit does not exceed the growth rate of sales proceeds which is affected by a large proportion of products prime cost. Since 2010 «the golden rule of enterprise economy» has not been almost completely fulfilled, except for the last ratio, i.e., the increase in proceeds was accompanied by significant increases in products prime cost. Thus, the business activity of «KazTransOil» JSC can be described as low.

Let's study the relative indicators of business activity of «KazTransOil» JSC which are able to fully describe the activities of the company (Table 2).

Table 1

Fulfillment of «golden rule of enterprise economy» condition

Period	Rgop	</>	Tpp	</>	Rac	</>	100%	Fulfilled/not fulfilled
2007	109	<	126	>	117	>	100	not fulfilled
2008	134	>	125	>	82	<	100	not fulfilled
2009	110	>	106	<	123	>	100	not fulfilled
2010	102	<	110	<	129	>	100	not fulfilled
2011	79	<	102	<	107	>	100	not fulfilled
2012	98	<	102	<	110	>	100	not fulfilled

Table 2

Indicators of total assets turnover of «KazTransOil» JSC

Period	Turn-round rate for total assets	Duration of one turnover
1	2	3
2007	0,32	1145
2008	0,41	900
2009	0,43	853
2010	0,37	982
2011	0,32	1129
2012	0,30	1207

According to Table 2 for the period from 2009 to 2012, the total assets turnover ratio of «K» JSC has been declining, as seen in on the chart 1, and by 2012, the company's business activity had fallen to

a level below the level of year of 2007 which is the indicator of effectiveness reduction in the use of all available resources by the enterprise.

Business activity is an important indicator in the study of the company's investment attractiveness.

Analysis of the company competitiveness in the stock market shall be accompanied by an assessment of its attractiveness as a set of objective evidence, properties, tools, and opportunities that drive potential effective investment demand. To assess the investment attractiveness we need a few indicators of the company's financial condition which include working capital ratio, business activity ratio, return on assets and EBITDA¹ margin. It should be noted that EBITDA margin shows headline earnings profitability of the company.

¹ EBITDA – (Earnings Before Interest, Dividend, Tax and Amortization) gross operational profit before deduction of accrued interests, dividends, taxes and amortization for fixed assets and intangible assets.

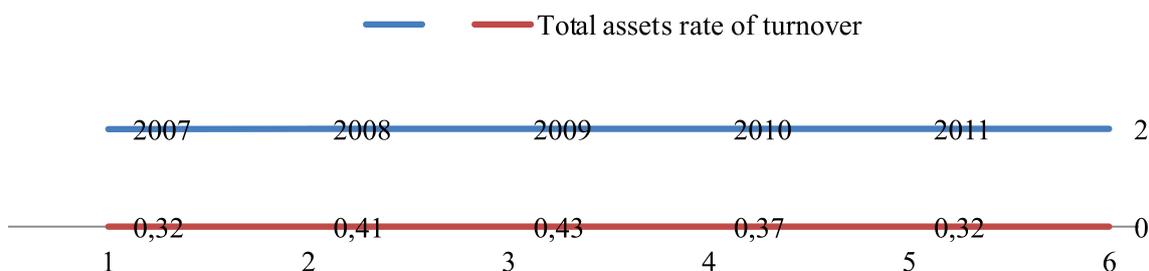


Fig. 1. Dynamics of change of a rate of assets turnover at «KazTransOil» JSC

Using all the above data let's us to calculate the summary indicator of investment attractiveness mark with one of the proposed distance methods, which looks as follows:

$$Ria = \sqrt{\sum_{i=1}^n \left(1 - \frac{X_i}{X_{iet}}\right)^2}, \quad (4)$$

where Ria is the summary indicator of investment attractiveness; n – number of financial ratios used in the calculation; X_i – the value of the financial ratio i ; X_{iet} – reference value of the financial ratio i .

If you calculate these ratios for the company «KazTransOil» we will get the following.

A lower value of investment attractiveness witnesses its high rate Investment attractiveness of «KazTransOil» JSC varied greatly during the monitoring period which clearly can be seen in Fig 2.

Over the period from 2007 to 2008, the company increased investment attractiveness as a result of increase in the working capital ratio, return on assets and business activities. However, in the period from 2008 to 2010 the company's financial position has been deteriorating that resulted from

a reduction in business activity, return on assets on EBITDA. Increase in working capital ratio reduced the decline in investment attractiveness of «KazTransOil» JSC. By 2012, the attractiveness of

«KazTransOil» increased for the potential investors, however, the decline in business activity rate reduced the increase in investment attractiveness of «KazTransOil» by 0,02.

Table 3

Calculation of investment attractiveness of «KazTransOil» JSC

Rate	2007	2008	2009	2010	2011	2012
Working capital ratio	1,54	1,75	1,39	2,11	2,22	2,26
Assets turnover ratio	0,32	0,41	0,43	0,37	0,32	0,30
Return on assets	0,05	0,07	0,10	0,05	0,06	0,07
EBITDA margin	0,53	0,40	0,40	0,36	0,48	0,50
Investment attractiveness	0,63	0,42	0,43	0,57	0,46	0,41

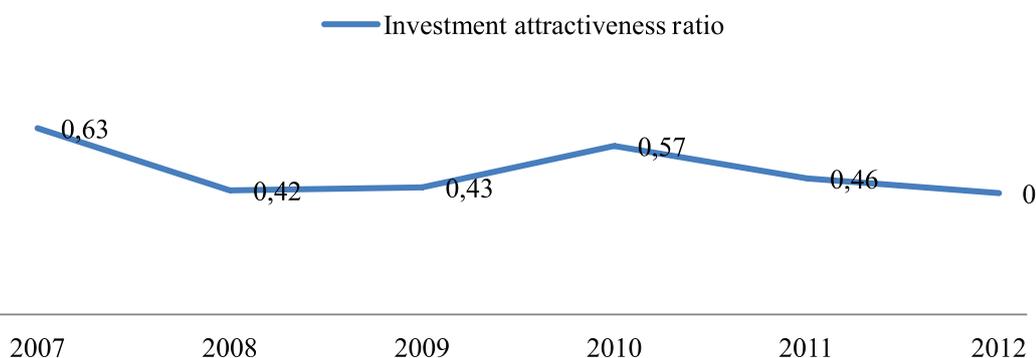


Fig. 2. Dynamics of investment attractiveness change of «KazTransOil» JSC over the period from 2007 to 2012

Having investigated the business activity of JSC «KazTransOil» we came to the conclusion that this rate of the company is not high that has adversely affected its investment attractiveness. In addition, the rate of change in gross operational profit below the rate of changes in sales proceeds reflecting the high cost in the company. «KazTransOil» JSC should conduct a more detailed analysis of its business activities and identify the sources of increase in the rate that will help to improve the management of their own assets, therefore, the investment attractiveness of the company in the stock market.

Thus, business activity plays an important role in assessing the financial position of any enterprise which is the object of attention of potential investors. Business activity is an indicator of the effec-

tive management of enterprise asset which in turn has an impact on the competitiveness of the company in the stock market.

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