

Materials of Conferences

**THE ROLE OF ECONOMIC
INDICATORS FOR THE EVALUATION
OF THE EFFECTIVENESS
OF ECONOMY FUNCTIONING**

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The article considers the issues of improving the efficiency of the economy, the role of the economic mechanism in market conditions, the international experience is shown, reflected the criterion of efficiency of production and the necessity of developing a system of economic indicators to evaluate the functioning of the economy.

Development of the economic mechanism consistent with the new market conditions of managing acts as an essential element for enhancing economic efficiency. Thus rather relevant is the understanding of the new content that is embedded in the concept of efficiency in the context of individual production resources, economic categories, a variety of business entities on individual levels of management of the national economy and the economy as a whole.

In any human society, the most important industrial relations are the relations arising in the process of production and consumption. The latest appears as a crucial condition for the existence of human society, and the first as a means to secure it and to meet social needs. With limited resources production, society is not indifferent to the price it pays for the implementation of this process and obtaining the final result. In other words there is a problem of balance expense and the final result or the problem of production efficiency.

In modern conditions, it changes the actual content of "efficiency", since the company's success is determined by the volume of sales because just a fact of the realization would indicate that really needed products and services were manufactured, which would be recognized by consumers. In this regard, immeasurably increased the role and significance of transaction costs, as well as trade and overall infrastructure divisions. "As a result, in the cost of goods increasing role is being played by the payment service provider and not the cost of materials and payment for production workers. Added value is increasingly created in the service sector. Losing the sense of separation of the economy into productive and unproductive sector, the first and second division, and so on" [3, p. 237]. Thus, in a market economy, it puts not only the traditional question of raising the efficiency of the use of productive resources but also the entire enterprise and improves its competitiveness. This significantly ex-

pands the list of study of external and internal factors affecting the results of the enterprise, including market conditions, relationships with suppliers and consumers of finished products, the use of strategic management, information, and choice of different strategies of enterprise development and new management methods.

On improving the efficiency of the company and its competitiveness is strongly influenced the task of facing society as a whole. They, in turn, vary depending on the understanding of the wealth, which differently understood in each historical time period. If in the Middle Ages, it was associated with the volume of agricultural production in the early stages of capitalism – with the production of the most significant for the economic development of products, including coal, steel, oil and so on, to in modern society is of paramount importance of the development of computerization, information, technology, high technologies. In the early stages of development of human society, its goal was in the comprehensive increase in material goods and services. And from that, how much and how effectively they have been produced, depended the fate of a person, that is, commodity fetishism was not overcome until the end. Obviously, in the long term the company will be the main resource person, his intellectual and scientific potential, its ability to quickly adapt to changing environmental conditions and effectively manage it.

In this view the role and importance of non-productive sphere, including culture, education and health is rising. If until now the education served as the reproduction of skilled labor, the future is increasingly called upon to educate comprehensively developed personality. Health contributes to increasing life expectancy and thus extends the "age of wisdom" – "when a man begins to give the public more, than he takes" [2, p. 166].

Thus, the non-productive sphere has a direct impact on the effectiveness of social production. In this regard, the viewpoint on non-production sphere, existed in the planned economy, must be overcome as the secondary sphere, which does not create national income, so that the task was all-round reduction of funds allocated for its development, which led to a backlog of its level of development in comparison with other countries. It is necessary to abandon the principle of residual financing unproductive adopted in the planned economy, when the first funds were allocated for the development of the production sector. As for the minimum funds available for the development of non-production sphere, becoming only the task of the development of mandatory irrespective of the result of the effectiveness of their use.

The challenge now is to create a new branch of the economy – the economy of non-productive sphere with the division on economy, education, health, culture, consulting services, etc. with mandatory consideration of the effectiveness of means allocated for their development. In this connection, no accident in the industrialized countries to invest in the human factor is considered to be more promising and effective. "In the works of G. Bekkera (Nobel Prize 1992) J. Mincher, a T. Schultz, E. Henisona and others proved that the investments in human capital (education, development initiatives, mobility, social skills, physical and mental health) are not a deduction from the national income, and the most effective, although with a long payback period, type of investment" [3, p. 146].

Along with the aforementioned, there are other features of a functioning market economy, which estimate the direct impact on its effectiveness, and that should be considered when determining the efficiency of production. In modern conditions, in addition to quantitative characteristics of the factors of production are important quality characteristics of the means of labor, objects of labor and labor itself, the level of progressiveness of applied technologies and development strategies. Significantly increases the role and importance of information and management. Since the market economy is very dynamic, market conditions are constantly changing, to make rational management decisions dramatically increases the need for constantly changing operational, reliable and relevant information. And as it usually is not enough, the profession of manager becomes akin to art, it strengthens the role of the professional skill and intuition. At the same time requirements to general manager are rising in the transition from the administrative and commanding to economic methods, which imply flexibility and adaptability to changing environmental conditions, the widespread use of professional, systemic and situational approach.

An obligatory condition of effective functioning of the economy of any type is to ensure it's balanced, which means the proportion in the production of certain types of related products and individual units of production and non-production sphere. In a market economy, it puts a difficult task, namely, the achievement of balanced, proportionate development on the basis of improving the economic mechanism in the direction of self-financing to meet the interests of producers in terms of expansion of their independence through comprehensive development of horizontal linkages between them, while respecting the economic proportions.

Certain features exist in the use of production capacity. Committed to their most fully loaded is a common feature characteristic of any mode of production. However, in a market economy it allowed them a certain reserve, so that businesses can quickly adjust production, the need for which turned out unsatisfied. It is important to conduct

a feasibility study of production capacity derived in reserve, in order to profit from the additional production would be higher than the damage that is caused by their disuse.

In modern conditions the role and significance of the environmental component in the functioning of the market economy, in the direction of increasing costs for the improvement of the environment, and increase the impact of the environmental measures. In developing an investment policy foreign economists, along with taking into account the purely financial factors of development of innovations in equipment and technology, pays great attention to the organization of production, management, marketing, accounting and coordination of interests of various social groups, changing patterns of thinking and economic behavior, the revival of the spirit of thrift and enterprise [3, s. 383].

On the basis of the above it can be concluded that under current conditions the commercial success of economic agents depends on the action of the set of external and internal factors, the effect of which is marked by interrelationship, complexity, dynamism and uncertainty. In this regard the characteristic is widely used mathematical methods to describe economic phenomena and processes, and development on this basis of economic – mathematical models and new products in the form of stand-alone programs and computational models. In countries with developed market economies to determine the effectiveness it is used up to 100–150 indicators and ratios. In some cases, for these purposes are invited to use the index of electricity since its production and consumption are synchronous, so that more accurately reflects the impact of economic activities. There are the proposals to phase out the monetary – valuation of economic efficiency and use them instead of the average life expectancy of the population.

However, in the economic literature the disadvantages of these methodologies for assessing economic activity are noted [1, s. 42–43]. Application of mathematical methods for the analysis of economic systems involves the use not only of the objective laws, but also the subjective perceptions and judgments of people. At the same time, concepts used by people from the point of view of classical mathematics have a vague sense. A similar situation occurs when dividing complex systems into separate subsystems, the boundaries between which do not actually exist. Besides the models used by foreign countries are generally not used in domestic enterprises due to the lack of appropriate indicators in the statistical reporting. In the study of the efficiency of all social production, its separate areas, departments, production resources, including the design of the mechanism of formation and use of working capital is important to study the criterion of production efficiency.

This criterion is meant by distinguishing feature, the basic principle, a measure of evaluation of

an object or phenomenon. It is caused by the existing relations of production, the economic laws peculiar to a given social-economic formation. Since social production appears decisive condition for the existence of human society, the problem of increasing the efficiency of production is not only a production and economic, but also a social problem, which underlines the relationship produced costs, on the one hand, and the needs of the people – the other. In this regard there is the desire of many scholars to justify the needs as a criterion for the efficiency of production often at the expense of the use of value indicators. In particular, the planned economy in the justification test the efficiency of production came from the fact that it should contribute to meeting the needs of society, so that this criterion should act as a set of material and spiritual goods suitable for this purpose. This downplay the role of profits, because it was thought that it could not serve as a criterion of efficiency, because society is not interested in profit as such, but a set of consumer values can satisfy different needs. In addition it was assumed that the profit is mainly intended for industrial consumption in the future, although the company is not only interested in this kind of consumption, but also the current consumption. That is why the post-war years in the collective sector of the economy in general not calculated cost of production is, that is, it must be done at any cost. In other words, the ratio of benefits and costs, which is the problem of the efficiency of production as it did not exist. This point of view so far held by some scientists. A. Ptushenko believes that the primary task of the company – “to meet all their urgent needs”, offers as the criterion of economic efficiency average life expectancy of the population. At the same time the author opposes the “total abstracted” profits of the whole society or type ND GDP like any other value criterion to assess the efficiency of the economy. “The reason for this, he sees that in the application of the cost criterion “Private and deliberate deceit”: after all, nothing prevents authorities from spending national money to include in the “final results of economic activity”, a dozen yachts for the members of the government, the cost of keeping too large protection and subservient etc. and so on [p. 161–162].

I would like to draw attention to the fact that in this case it is not about a lack of organically characteristic cost criteria, and of the shortcomings associated with its use. This explains why there is a provision governing the validity of the inclusion of various expenses in the cost of manufactured products.

The estimated average life expectancy of the population as a criterion of efficiency in our opinion hardly applicable not only at the primary level of the economy – enterprises, associations, businesses, and other levels of government and subsystems of the economy, including in the different sectors, in general, in material production, in the non-manufacturing sector and the economy as a whole. This is due to the fact that it is practically impossible for

life expectancy to judge the effectiveness of the individual sub-systems and the economy as a whole, not only on analytical but also on the correlation level. This is due to the fact that there is no basis for the development of the coefficient of reduction of these indicators as a variety of the human condition characterized by numerous specific, including the value indicators, often with mixed trends, while life expectancy is calculated only in years. Besides individual factors operate not directly, but indirectly through the action of other factors and their number may be significant. For example, it is difficult to imagine the impact of education on life expectancy. However, the level of education in the country will certainly affect the efficiency of material production and through the life expectancy of the population. The same is true of culture, art, law, etc. In our opinion, the challenge is to move from the use of funds allocated from the budget as a residual, as it was in the planned economy, to the creation of an independent branch of economics, namely the economy of non-productive sphere, including the economics of education, health, culture and etc. This is explained by the fact that the services of various departments unproductive in the market economy are the specific commodity and they should be subject to the existing laws of the market economy.

As mentioned in the economic literature, in modern conditions of “Theoretical basis of evaluation of the effectiveness and the choice of model of reform becomes weelfare economics – a special area of economics, designed to determine, what is good and what is bad in the development of modern society as sound management solutions taking into account not only market indicators, but above all the interests of different social groups and society as a whole” [3, p. 145]. It is no coincidence “the indexes of human development, used by the statistics of the United Nations, takes into account each country’s three main indicators – life expectancy, literacy and per capita income” [3, p. 146–147].

It can be concluded, that although the economy is a holistic system of industrial relations, including many spheres of human activity, but also on the level of its development, cannot judge the human society as a whole. We believe the economy can serve only as a subsystem and partially characterize the level of development of human society. In this regard, the average life expectancy of the population cannot be summarizing the criteria of economic efficiency. This criterion is more general and characterizes the level of development of the individual and society as a whole and not as the sole indicator, but as part of the other.

In light of this construction of the economic mechanism should be made towards improving the efficiency of social production. Obviously, the successful solution of this problem is achieved by the subject to the greatest result produced per unit cost, i.e., provided a higher level of productivity of labor. In our opinion, it is the productivity of social

labor, including the use of labor and materials, can act as a criterion for the efficiency of the economy as a whole, individual departments and use of production resources. On this basis, the system of economic indicators for evaluating the performance of the economy must be developed at different hierarchical levels of management.

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The work is submitted to the International Scientific Conference «The production management, accounting, analysis, finance», United Kingdom (London), October 17–24, 2015, came to the editorial office on 29.09.2015.

METHODOLOGICAL APPROACHES TOWARDS EVALUATION OF BUSINESS

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The article studies problems of necessity to implement new approaches towards improvement of business evaluation mechanisms, recommendations for procedures of its evaluation are suggested and grounded.

As it is known, total value of an evaluation object depends on correct identification and description of it with further grounding of evaluation process method. The result of it is an increase in significance of a company's business evaluation in a certain sector of economy in case of sale of liquidation. According to the fact that the basic criterion of market value of business, used in management processes, is increase in an enterprise's value, evaluation of business is aimed to solve the following problems: preparing strategic plans of company development; management estimation (according to its efficiency); evaluation of managing measures' efficiency; definition of a share's market value.

According to Russian law, nominal value of all common shares, issued by a certain joint stock company, must be equal, as well as rights that they provide to shareholders. In this case law supports interests of stock market participants for whom equality of common shares of the same joint stock company is more convenient from the point of setting a single market value that situation when common shares with different characteristics of a certain company are present at the market simultaneously [1, p. 27].

Authorized fund defines minimal size that a given joint stock company should possess in order to guarantee interests of its creditors.

Further we should transfer to the concept of "market value". Market value of an evaluation object is considered as the most probable price for which the object of evaluation can be alienated at an open market in terms of competition when parties of transaction act on their own will and possess all necessary information, and price value is not affected by any extraordinary circumstances, in other words, when the following conditions are set:

- one of the transaction parties is not obliged to alienate evaluation object, and the other party must not accept execution;
- transaction parties are well informed of the subject of transaction and act according to their own interest;
- evaluation object is presented at open market via public offer, typical for similar objects of evaluation;
- transaction value represents a sensible reward for evaluation object and no enforcement towards committing a deal has taken place from a transaction party;
- payment for evaluation object is expressed in monetary form.

During estimation of market value it is possible to realize comparative, cost-based, or income-based approaches or reject their implementation. Evaluator must provide grounding of his selection of the implemented evaluation method in terms of cost-based, comparative, or income-based approach or rejection of using approached in his evaluation. In case of impossibility to implement certain method, explanation of implementing any other evaluation method or explanation of rejection is provided [3, p. 32].

For income-based approach the basic factor of value is income, generated by actives (property) of an organization in process of their utilization as it defines price value of an object. The greater income, provided by evaluation object is, the great is value of its market price, all other factors held equal. In this case other significant factors are: period of receiving possible income, degree and type of risks that attend to this process. Income-based approach is calculation of present value of future income that will arise as a result of utilizing property and its possible future sale. In this case principle of expectation is applied [2, p. 24].

Comparative approach is especially effective when an active market of similar property objects exists. Accuracy of evaluation depends on quality of the collected data as, while utilizing this approach, evaluator must collect reliable information on recent sales of similar objects. This data includes: economic characteristics, period of sale, location, terms of sale, and terms of financing. Reality of this approach degrades in case: few transactions took place; moment of transactions and moment of evaluation is separated by a significant period of time; market is in abnormal condition, and rapid changes of it have led to distortion of indexes. Comparative approach is based upon principle of replacement.