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Methods for Assessing the Financial Activity of a Small Business Enterprise

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Abstract: The paper is devoted to the financial analysis of factors affecting the efficiency of small businesses. To evaluate the activities of small businesses, it is necessary to apply different methods of economic and financial analysis, including the use of financial ratios to achieve various goals, since the result is important for a particular user of analytical work. The differentiation of analysis's methods and evaluation from the point of view the interested groups is shown: managers, owners, partners and creditors. The characteristics of the assessing advantages the value of a business in terms of the management efficiency indicators are given. Recommendations aimed at increasing the value of a small business enterprise are given.

Keywords: small businesses, financial analysis, target groups, business value, business performance, valuation performance, small business performance.

Introduction. The stable development of the financial activity of an innovatively developing business depends largely not on its resource capabilities, but on innovative activity. Innovation drives economic growth.

Under the leadership of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev, a number of measures were taken in the field of entrepreneurship development, which plays an important role in ensuring economic growth, innovative development and competitiveness. For investment and management companies, the validity of the benefits provided for in paragraphs 2–4 of President Degree No. UP-5583 dated November 24, 2018 has been extended. The benefit is an exemption from paying all types of taxes, with the exception of the unified social payment for paragraph 9 of Appendix No. 1 to No. UP-42 dated December 30, 2021: new venture funds co-financing high-tech entrepreneurial start-up projects [1, 2]. In addition, the Law of the Republic of Uzbekistan "On Innovation Activity" [3] implies the development of a legal framework for the creation and development of venture funds, venture financing, as well as financial mechanisms that stimulate the introduction of innovations and new technologies into the economy. But, despite this, innovatively developing enterprises face problems of financial support. Improving the mechanisms for their financial support can be beneficial and help to increase the effectiveness of their strategic development process.

Research methodology. In the process of working on the study, the author, based on an analysis of current trends, legislative and regulatory support for small businesses in Uzbekistan, used a systematic approach, the foundations of fundamental and scientific analyses.

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Literature review. The issues of financial analysis have always been the subject of close attention for both scientists and practitioners. In this area, a lot of research has been and is being carried out on the topic: which indicators better reflect the real financial condition of the enterprise and help make the right financial decisions. At the same time, despite the large number of research papers, guidelines and regulatory documents, this issue has not lost its importance.

In preparing this work, the work of some researchers who conducted research on this issue was considered. In particular, Kotane, I., & Kuzmina-Merlino, I believe that the study and evaluation of the essence of financial indicators, the successful solution of business management problems can be achieved through the development of a unified system for evaluating financial indicators in the context of a comprehensive analysis of business performance [4]. And Wang Dennis, and Tu (2007) [5], Rivenbark, Roenigk, and Allison (2010) [6], and Johnson, Kioko, and Hildreth (2012) [7], in accordance with their concept, applied indicators for analysis, grouping them into six categories of financial indicators. Financial ratios are widely used in local governments, as evidenced by 42 financial ratios proposed by the International City/County Management Association [8]. He believes that financial indicators can serve as a means of increasing the organizational capacity of life support organizations [9].

Improving the methods and methodology of analysis using financial indicators in the resource management system is advisable to solve on the basis of a number of sciences: analysis of economic activity, management, statistics, philosophy, higher mathematics, finance, etc. [10] A structural approach to financial recovery is to prevent crises with the help of flexible technologies aimed at innovative renewal of the organization [11].

При этом, financial policy is the selection of long-term goals and the provision of targeted programs with the necessary financial resources, embodying them in the main directions of economic and social development [12].

Analyses and results. Analysis of the innovatively developing business's state is the most important task of financial management of the business process. The performance of small businesses is the result of many separate financial decisions that are constantly made by its entrepreneurs for implementation in practice. Business analysis is always carried out with a specific purpose. For example, determining the sale price of a product, obtaining a mortgage loan, property insurance, etc. This goal is due to the purpose of the analysis. The same property or business, in particular, may have a different value depending on the purpose of the analysis. Thus, the valuation of property for the purposes of fire insurance will differ from the valuation of property for the purposes of mortgage lending. In the first case, the value of the property will be determined based on the costs of restoring the elements of structures exposed to the relevant financial risks, in the other case, based on the likely price of the property at which it can be sold on the market in the event of a suspension of mortgage lending payments [13].

Evaluation of the effectiveness of the financial activities of a small business enterprise should include an analysis of the cumulative financial and economic effect and its assessment using comparative financial and economic indicators.

At the same time, there are various methods of economic and financial analysis for small business valuation, including the use of financial ratios to achieve various goals.

With all the realism of the various coefficients used for financial analysis, they should be aimed at determining:

first: the point of view according to which the analysis is carried out;

second: goals of analysis;

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third: potential standards and objects of comparison.

There are many individuals who have a vested interest in the success or failure of any single innovative business venture. The most important of them are the following: owners; managers (both hired professionals and own); staff; unions; government agencies; society as a whole.

The views of these groups on the performance of small businesses are different. Closest to small businesses, to their current activities, but also responsible for the long-term prospects for its development, managers, both hired professionals and owners who independently manage the company. Managers are responsible for the efficiency and profitability of small businesses in the short and long term, the efficiency of the use of capital, labor and other resources, the direction and delivery of services.

Then there are the various categories of small business owners who are particularly interested in the current and long-term profitability of both their placements and their investments. They usually expect a rise in returns per dollar invested, which drives up the economic value of their investment. Next comes the turn of "investors of other people's money", i.e. lenders and lenders providing capital to small businesses for various periods. Their biggest concerns are the reliability of their interest payments, the ability of small businesses to repay principal, and asset backing that could protect them from risk.

The table below shows which points are most important for these three groups and also explains which ratios and ratios are of particular interest to them.

Table 1 lists the groups of indicators for assessing the performance of a small business from all three points of view.

Table 1. - Financial performance indicators in various areas from various points of view [14]

ENTREPRENEURS - managers	**small business OWNERS**	**CREDITORS - banks or other business entities**
Relative performance of small businesses	*Small business profitability*	*Small business liquidity indicators*
- Profit ratio (according to book value) - Profitability level - Analysis of current operating costs - Margin Analysis - Operating lever - Comparative analysis	- Rate of return on equity - Rate of return on capital of owners of joint-stock enterprises (or shareholders) - Earnings on capital employed (or per share) - Cash flow per capital employed (or per share) - Increase in the price of invested capital (or share price) - The total profit of each owner (or shareholder) - Analysis of the investment value of the business for each capital owner (or shareholder)	- Current liquidity ratio - Quick liquidity ratio - Liquidation value of enterprises - Characteristics of cash flows
Indicators characterizing enterprise resource management	*Distribution of profits of enterprises such as Joint Stock Company*	*Financial leverage of enterprises*
- Asset turnover	- Dividends on invested capital (or	- Share of debt in assets

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- Working capital management - Inventory turnover - Characteristics of accounts receivable - Labour efficiency	per share) - Current yield - Dividend pay-out ratio - Coverage ratio - Dividend to Asset Ratio	- Share of debt in capitalization - Ratio of own and borrowed capital - Risk-reward ratio to determine the trade-off between them
Profitability of enterprises	*Market indicators of enterprises*	*Corporate Debt Service*
- Rate of return on assets (total or net) - Book profit rate of return - Present value rate of return - Justification of investment projects - Cash flow for investments	- Ratio - price//earnings on capital employed (or per share) - Cash flow multiplier (share price / business earnings - The ratio of market and book value - Relative price changes	- Enterprise Interest Coverage Ratio - Enterprise Debt Coverage Ratio - Analysis of the cash flows of enterprises

There are also the following types of approaches to business valuation, based on the input data used [15]:

1. The market approach is a general way of determining the value of small businesses and / or their equity, which uses one or more methods based on comparing data from small businesses with similar investments already sold.
2. The income approach is a general way of determining the value of small businesses and/or their equity, which uses one or more methods based on recalculation of expected returns.
3. The asset-based approach is a general method of valuing small businesses and/or equity that uses one or more methods based directly on the calculation of the assets value less liabilities.
4. The cost approach is an element-by-element assessment of small businesses. The total cost of an object is obtained by summing the costs of all its elements. The use of the cost method gives a pessimistic assessment of the object, however, in conditions when the stock market has not yet been formed, and there is no market information, this approach often turns out to be the only possible one (see: Table 2).

Table 2. - The structure of approaches and methods for assessing the economic and financial activities of small businesses

Enterprise business valuation	**Enterprise property valuation**
Evaluation of the market approach: - product delivery rules; - company sales comparison; - multiplier (product price / income from the sale of the company's product.	The valuation is based on a comparison of the object being valued with analogues, the price of which is known, and has the following sequence: - market research; - collection of information on transactions; - control and analysis of the reliability of the use of the information received; - comparison of the object being evaluated in order to identify differences with analogues; - adjustment of prices of analogues in order to calculate the value of the property being valued.
Valuation under income approach:	Calculation of future receipts from the operation of the

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- multiplier income (net income); - dividend income; - excess income; - discounted cash flow.	facility in order to evaluate and determine their present value and profitability. In this assessment, the operated facility is considered as a project, the effectiveness of which is determined using the net present value indicator.
Income method of asset-based valuation: - net book value; - net market value of tangible assets; - replacement cost; - liquidation value; - the cost of restoration.	The cost approach, or element-wise valuation method, consists of four steps: - objects for which the assessment will be made, i.e. evaluation and selection of their constituent parts; - selection for each element of the structure of the object of the most appropriate method of evaluation and implementation of calculations; - assessment of the wear of the elements of the structure of the object of assessment; - calculation of the residual value of the elements and the total assessment of the cost of the entire object. Accumulated depreciation is defined as the reduction in recoverable value that may result from physical deterioration, obsolescence, extrinsic obsolescence, or a combination of these sources.

Usually, when assessing the business of small businesses, depending on the objectives of the assessment, the desired value, the conditions set, the state of the object itself and the economic environment, a combination of several methods is used that is most appropriate in a particular situation.

Valuation of the business of small businesses and valuation of the market value of property are far from identical concepts, since the valuation of the business of enterprises involves determining their value for the owner, who, for example, decided to sell his enterprise (or a share of the enterprise).

According to experts, there are three main factors in the presence of which the value of a product and a small business definitely increases [16]:

1. Profits must rise, and a small business must earn more per year than the average cost of its product placed on the market. For it makes no sense for investors to invest in a particular product if the profit from them is no more than from the money invested in the product market, since the risk of investing in the product market is much less.
2. It is necessary that the enterprise could choose the most profitable and promising areas of small business and direct its funds there, eliminating less profitable areas of business development.
3. The enterprise must receive and increase investments. And for this you need to fulfill the first and second conditions.

Business value as an indicator of management efficiency has the following advantages:

- abstraction from the specifics of the business, its subject orientation;
- the possibility of comparing both the development of an individual enterprise at the stages of its activity, and comparing enterprises with each other;
- the ability to analyze the sources of growth in the value of a business, highlighting the key areas of an innovative product or success [17].

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The real value of a small business takes into account the ability of enterprises to make a profit, and the goal of modern management is to constantly increase the value of a business. The profit of business entities, as a source of financial resources formation, can be used by them in various directions [18].

In order to increase the value of a business, in particular, it is necessary to:

1. Formulate long-term business goals, be able to prepare and implement a strategy to achieve them.
2. Improve the financial management and control system.
3. Optimize the structure of enterprises and taxation.
4. Improve the procedures for managing and protecting the rights of investors, i.e. enterprises should have an effective decision-making system, and investors (both large and small) should be able to check the work of the tourism business and influence it.
5. Create a favorable image of enterprises and a recognizable tourist brand or brand.
6. Ensure liquidity of enterprise assets and expand access to finance and investment.
7. Use innovation.

It is a mistake to believe that the value of a business is an objective value. The fact is that the value of enterprises depends on what plans are made for them by the parties interested in valuation (in the case of a purchase, the investor and / or the seller). An important role is played by subjective expectations and the willingness of the parties to take risks.

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