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PERSPECTIVES ON MODERN BUSINESS VALUATION

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ABSTRACT
This article will discuss modern business assessment approaches, problems in their application and prospects. As a key trend, the globalization process, digitalization and outsourcing factors are indicated. Specifically, it analyzes how these factors directly and indirectly affect business management and its accounting today. It also looks at new directions and uncertainty in the international financial markets that will determine the production and investment decision-making in the business world in the future. While discussing modern business valuation some traditional models of economics and fundamental financial analysis are referred as a theoretical basis. Based on these models and modern outcomes there are made approach to summarize existing results and make conclusion.

Keywords:
accounting, asset valuation, effective depreciation, expected return, goodwill, market efficiency, uncertainty

INTRODUCTION

The world of modern business has become a necessary part of the economy. The well-being of national economies around the world, the population that is consumers in them, has become dependent on the success of small, medium and large businesses, because in all markets the proposition is made by private enterprises. Indeed, the share of the state in the manufacturing, agricultural and services sectors of the world economy is declining steadily.

It is well-known that in theoretical economic theory, it is enough to give them freedom to succeed in business activities according to market principles. As Adam Smith said, the "invisible hand" ensures the effectiveness of the market through flexible price, and, consequently, optimally satisfies the needs of the population. In practice, however, we will witness that this classic dichotomy is not always perfect. Especially in the short term, businesses will need not only freedom, but also support in the form of subsidies.

One of the most important tasks today on the way to ensuring the success of the business world is the question of the business valuation. In fact, to make decisions about a particular type of business, it is necessary to value it correctly. Depending on the value given to him, a decision will be made on whether to start, continue, support or terminate it. The primary way to evaluate a traditional business is to estimate its value through its balance sheet. As you know, through this form, its nominal value is calculated according to the state of a particular financial period. Official financial statements mainly rely on this method of assessment.

In recent times, especially globalization and digitalization, the ever-expanding processes of the international supply chain also have a direct and indirect impact on

Business Valuation. One of the main problems in such a condition is the coordination of international accounting reports and the ability to assess uncertainty in the prospects. From this point of view, it is relevant to look for an answer to the question of what factors should be taken into account in the perspective when evaluating a business. In this article, the author, analyzing the main factors, puts forward the issue of conducting research on this direction.

METHOD

This article will reflect on the probable modifications of business valuation in perspective, and assume that the principles and basic models of business valuation are already familiar to the reader. Therefore, even if business valuation models are remembered, it is enough to give them a link. The author, relying on the existing facts, analyzes the issues posed based mainly on the principles of microeconomics, accounting and financial reporting and gives his conclusion

RESULT AND DISCUSSION

Business valuation is primarily a microeconomic problem in economics, and profit maximizer is reflected in measuring the firm's economic or accounting income, costs and profits. The difference between economic and accounting profits is that economic profit also entails opportunity costs. This means that the firm will invest its own funds in the manufacturing or financial market. It depends on interest rates. In macroeconomics, however, businesses represent a representative firm and are the primary or only source of gross supply. It is intended that the assets of the business will be depreciated (Mankiw, 2020).

In modern investment theory, businesses are issuers of equity, bonds, and loans. Like this, they will also have an active position. In business valuation, the Markowitz model evaluating risk securities (Markowitz, 1952) and the riskfree asset estimator CAPM model, multi-factor and arbitrage models are used as the main models (Sharpe, 1964). The main problem is to determine the Tobin portfolio (Tobin, 1958). Capitalization method, discounting methods can be specified as the main methods. Litner and other models deserve attention to assess whether businesses make decisions about their dividends (Lintner, 1965).

Business process outsourcing (BPO) provides for contracting out all or some business processes to an external supplier of priority tasks (Аникин et. al., 2009). Businesses first consider outsourcing project and make decisions based on the Make or Buy (MOB) principle. MOB can be shown McKinsey's model as the main models (Gardiner & Blackstone, 1991).

The green economy is becoming an agenda not only of social nonprofits, but also of the business world. In addition to preserving the environment, this direction advances the development of eco-friendly good and improving the well-being of the population (Cato, 2012). The goodwill value of a business can be measured according to the level of its green production. When evaluating a business, the following prospects can be indicated in new directions: 1) Globalization; 2) Special economic zones (SEZ); 3) Digitalization and AI; 4) Outsourcing; 5) New financial technologies; 6) Local indexation; 7) Green economy.

Globalization has improved in the 21st century, encouraging not only large and medium-sized, even small businesses to move beyond the limits of the national economy. Here comes a potential new challenge for businesses: international investing, currency disparity, changes in accounting, international tax practices, financial asset indexing, insurance and so on.

Globalization expands the choice of businesses. It is known that before investing in a project, firms consider it as an alternative to make a profit by saving money on a bank. This project may look attractive if the risk associated with the project is compensated by a higher return than the bank percentage. And the Global financial market complicates this decision-making. That is, not only domestic interest rates, but also alternatives around the world are now under the consideration. Also, banks arise not from domestic demand in the allocation of loans to businesses, but from the need for investment goods in the international business world.

This trend requires a special approach to business valuation. Including how much is its Foreign direct investment (FDI) and Foreign portfolio investment (FPI). In the consolidation or restructuring of assets and liabilities, exactly which Internal rate of return (IRR) is obtained as a unit of measurement, etc. It is known that after the end of the Bretton Woods system, after the Jamaican conference, the practice of a single currency in international trade has declined, with dollar, euro, yen shares moving to many local currencies. To assess a business that communicates at a floating rate, both with an expanded international trade in such conditions, the Net present value (NPV) is accompanied by a risk, along with currency forward, option values. That is, the risk deviation is no longer 1 or 2.5% as had been in the Bretton Woods system, but much wider and nonconstant. That is, the problem of heteroskedasticity arises while estimating the exchange rates.

While International standard of financial reporting is being introduced, there are still different approaches in accounting and financial reporting. Space and time discrepancies in the measurement of assets and liabilities pose a challenge in the assessment of business valuation. After the tax (or net) value is considered to be important when evaluating a business valuation. Despite many agreements, the double calculation of taxes occurs very often. In perspective, an international single business tax may be introduced. Then tax avoidance cases might be reduced. Indeed, in the experience of the countries of South-East Asia, it can be seen that the reforms corresponding to the international standards in taxation of the 2010s increased tax revenues as well as increasing business revenues in the countries.

One of the important factors of the modern international economy is the free economic zones (SEZ). As you know, the development of the business world is hampered by differences in local legislation, tariffs and double taxes. To avoid these inconveniences, SEZs have been established in almost all countries. The SEZs are not only increasing by their amount, but their species are also increasing (Table 1).

Table 1. The dynamics of countries where SEZ are located in the given years

	1975	1986	1995	1997	2002	2006	2014	2018	2019
Number of countries	29	47	73	93	116	130	-	148	-
Number of SEZ worldwide	79	176	500	845	3000	3500	4300	5400	5900

Source: UNCTAD, World Investment Report. SEZ – p.22

The increase in SEZ requires a new approach in business valuation of businesses whose activities are expanding in them. In the first place to practice a single currency like EU countries. The net after the tax status is also. However, the disclosure of assets in offshore is not always convenient for businesses. In this respect, business assessment in the SEZs can be challenging.

The 2nd half of the 20th century was a period of development of ICT and automation. Along with the formation of large IT companies, non-IT companies also began to install computerized devices in production. This has led to several increases in the efficiency of capital and labor in the business world. As you know, in terms of market capitalization, the largest companies today are companies related with IT. Including Apple, Microsoft, IBM, etc. Their products are purchased as an investment commodity not only to consumers, but also to the world of business. Changes in IT networks can cause instability throughout the business world. For example, in 2020, problems the supply in of semiconductors negatively affected the production of machinery and household appliances.

The digitization process also affects the financial activities of the businesses. As early as the 20th century, digitized NASDAQ activities in stock markets accelerated this process in all financial markets and rating agencies. Today, any index can be tracked and forecast in online mode at any time and space.

The process of digitization is giving impetus to the modification of existing traditional models of the valuation of financial assets of businesses. In particular, it became possible to evaluate parameters in Markowitz, CAPM and other models of business valuation in high level of accuracy. For example, measurements such as expected return and standard error, covariance and correlation, t-distribution and F-distribution, betta coefficient can be calculated inadvertently through Excel and other electron tools. Also, now it is possible to instantly and inadvertently evaluate the relations between them, no matter how much the securities are.

Such facilities allow to find the exact parameters in the models, not their estimated alternatives. For example, the normal distribution parameters such as probability and standard deviation could be found instead of average and standard error or even more weighted alternative parameters can be found. It is also possible to use multi-factor methods of asset valuation as desired rather than 1 or 2 in the market method. Finally, while using computers there is no need to linearization of models, but it is possible to develop a non-linear modification of them.

This effectiveness of digitization will allow to find an effective line that includes the desired Tobin portfolio or the market portfolio. Today, riskfree interest rates worldwide vary widely, and businesses are faced with a choice whether to take out loans or invest. Accordingly, they diversify their portfolios. Through digital technologies, they can revise the refinancing rate at any time interval, even in a continuous unit of time. And when evaluating their portfolios, it will be possible not only to target the S&P 500, Dow, NASDAQ and other rating indices, but also to target the market portfolio directly.

One of the main factors in determining the Goodwill of the traditional business was its location, in particular, the criterion for the location of production in the central regions. Digitization, on the other hand, is reducing the relevance of this approach. For example, whether any business is large or small – it is enough for information about it to be known, and its geogeraphic location will not be important in many cases. Because digitization is applied not only in the media, but also in the logistic performance. Thus, goodwill can also be formed according to the number of observers on social networks and their attitude to business. Today almost no enterprise has the opportunity to produce the goods completely independently. In the automotive industry and heavy industry, outsourcing was already popular as early as the 20th century. In the 21st century, however, light industries such as textile from electronics are also outsourced.

Business process Outsourcing (BPO) requires business owners to make an important decision as it involves delegating business processes to a provider. This decision - making is done through outsourcing project. The priority criterion in traditional outsourcing projects was to compare outsourcing costs with production costs. And in modern outsourcing markets, it is aimed at gaining intangible values, such as increasing the competitiveness of the company, further improving its image – to increase Goodwill in the word of accounting. It turns out that outsourcing services providers have become counterparties of customer firms. It is natural that stability or unexpected changes in the outsourcing market will affect the world of business as a whole. This trend assumes that outsourcing is taken into the account in substances related to unforeseen circumstances in accounting.

Table 2. Top 15 world companies specialized in outsourcing

Company name	Listing	Market capitalization	Number of employees	Location
IBM	NYSE: IBM	105,66	383800	New York
Deloitte	-	47,6	330000	London
Accenture	NYSE: CAN	159,85	492000	Dublin
Synnex	NYSE: SNX	4,6	225000	Fremont
Tata Consultancy	NSE: TCS	100,7	446,675	Mumbai
Cognizant	NASDAQ: CTSH	42,79	292500	Teaneck, NJ
Capgemini	Euronext: CAP	15,9	218314	Paris
NTT Data	TYO: 9613	20,27	123884	Japan
Infosys	NYSE: INFY	40,6	204107	Bangalore
Telus Corp	NYSE: TU	20,7	65600	Canada
CGI	NYSE: GIB	5,78	77500	Canada
HCL Technologies	NSE: HCLTECH	19,6	137000	Noida, India
Wipro Limited	NTSE: WIP	14,4	175690	Bangalore
Teleperfomance	Euronext: RCF	13,2	331065	Paris
Genpact	NYSE: G	7,75	96500	New York

source: Yahoo finance. https://finance.yahoo.com/amphtml/news/15-biggest-outsourcing-companies-world/

It is known that outsourcing originally began with the transfer of accounting departments to external firms in order to reduce the operating costs of large enterprises. Today, IT services, HR Manager Services, call center, generic drug manufacturing, packaging, logistics, and many other business processes have become outsourcing facilities. Looking at the capitalization of companies specializing in outsourcing, it is possible to understand how deep the impact scale of outsourcing is in the world of business. For this reason, it is advisable to consider individual companies as its main participants. According to Yahoo Finance, the following are recognized as the largest outsourcing specialized companies in the world (Table 2).

Of course, the list of these companies is different in different research centers and periods, but the above companies in many cases are indicated as the leading provider of services in the international outsourcing market. The "Outsourcing Accelerate" regularly lists outsourcing-specialized companies by country and provides information about them.

It is known that according to the economics, businesses are faced with a choice in deciding whether to produce or make savings on the money market. However, in contrast to the basic model in theory, in the modern financial market there are many investment areas in addition to the bank. There is also an increasing share of new type of financial assets with complicated provisions to the supply of conventional securities, backed with material assets and derivatives such as options, futures. For example, mortgages, transactions of leasing loans collected in various indexes, as well as swaps under their provision have been developed. In general, they can be called synthetic security. Despite the fact that such assets caused the global financial crisis, their circulation has not decreased, but crypto assets, which are more volatile, are coming out into the field.

Modern businesses, directly or indirectly, are almost all involved in complex financial processes, at least through leasing operations. This means that when valuing them, it will also be necessary to take into account the risks in the derivative market. In the modern world financial market, the number of local indices is increasing. An American resident, for instance, operating at the international level must refer to a wide range of indexes, not only S&P 500, NASDAQ, NYSE but also NIKKEI in Japan, BSE SENSEX, NSE in India, and so on. In addition to stock markets and rating agencies, large investment banks such as JP Morgan Chase, Morgan Stanley, Goldman Sachs also have their own indexes, and in many cases they will also have to be taken into account. Only then can their assets and liabilities, FDI and FPI in their composition, be properly evaluated. In general terms, businesses must use very multi-factor models to evaluate their assets and regularly reflect the results on the balance sheet. The problem of being able to distinguish between stocks and flows measurements during clearing and adjusting may arise. Therefore, it is advisable to improve accounting reports.

The factors listed above were relatively directly related to the income and expenses of the business. And the next one is related to the social sophistication and costs of the business. As you know, in microeconomics, both positive and negative externalities of enterprises are considered. Each serve to the gain or losses of consumers. In practice, however, while industrialization increases the well-being of the population with the offer of new products, green house, in particular, has a negative impact on the environment through Carbon dioxide emissions. With this in mind, the green economy agenda has been growing lately. It is also clear how this process affects business valuation. The answer is – affect directly and indirectly. Firstly, businesses pay green taxes or receive green subsidies depending on their impact on ecology. Further, their degree of greenery affects their Goodwill value. In many accounting and financial statements, such measurements are already reflected and can be further improved in perspective.

CONCLUSION

The factors considered in this article are practically impossible to include in accounting and financial statements, at least at the same time impossible. That's because it requires costs beyond many agreements and may even may cause some businesses to suffer. Nevertheless, one can consider the prospects for introducing businesses indirectly, especially for "internal reports" widely used in practice. In fact, if we look at the history of business valuation methodologies, one can periodically observe the state of adjustment to the period requirement in accounting and financial reporting standards. That is, they were continuously improved until they reached the current state. If we extrapolate the trend, it can be believed that even in the future it is highly likely that this process will continue.

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