

## Management of Expenses of the Commercial Organization for Increase of its Business Activity

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**Abstract:** The article deals with the problems at the confluence of two studied questions-management of expenses of commercial organization and increase of business activity of commercial organization. For disclosure of essence of the designated problems actual statistical and experimental data, the author's methodical practices and the structured conclusions are given.

**Key words:** Business activity • Commercial organization • Management of expenses • Increase of business activity

### INTRODUCTION

Subject of work are problems of management of expenses of commercial organization and increase of its business activity. Subject of work is management of expenses of commercial organization for increase of its business activity. The purpose of work is identification of the most probable causes of problems of low business activity and low effective management of expenses in commercial organizations in the Russian Federation [1].

As a result of work authors established the most probable causes of problems of low business activity and low effective management of expenses in the commercial organizations in Russia, defined a conceptual and methodical component of categories entering into their structure and offered model of management of expenses of commercial organization for increase of its business activity on the basis of budgeting.

Scope of the results received by authors in the course of work is a process of the economic analysis of managing subjects, in particular analysis and forecasting of financial condition of organization.

Conclusions-the problem of management of expenses of commercial organization for increase of its business activity can be solved at the expense of elimination of the reasons causing it connected both with external (imperfection of the legislative base, an insufficient level of development of economic system of the country) and internal (low interest of the top management in studying and development of methodical base) factors.

Relevance of the chosen subject of research both in methodical and practical aspects is proved on the one hand by complexity of effective management of expenses of commercial organization in real time and on the other by insufficiently high level of commercial organizations business activity in the Russian Federation in principle [3, 7].

In confirmation of the declared thesis we will give some excerpts from the researches which have been carried out by the consulting companies Ernst and Young and PricewaterhouseCoopers at the beginning of 2013 among the commercial organizations of the various countries concerning an assessment of level of their business activity and effective management of expenses.

According to these researches the average level of business activity (ALBA) of the commercial organizations in the Russian Federation was estimated only at 11,65 percent from 100 possible and was recognized as low. For comparison the average level of business activity of the commercial organizations in the USA is estimated at 71,28% or is 6,12 times higher, than in the Russian Federation.

Therefore, the domestic commercial organizations use resources available for them, much less actively than the foreign [5].

The average level of expenses management efficiency in the commercial organizations of the various countries in 2012 is given in figure 1. As it is possible to see from drawing, effective management of expenses in the commercial organizations of the Russian Federation on average values also is much lower, than in the foreign.

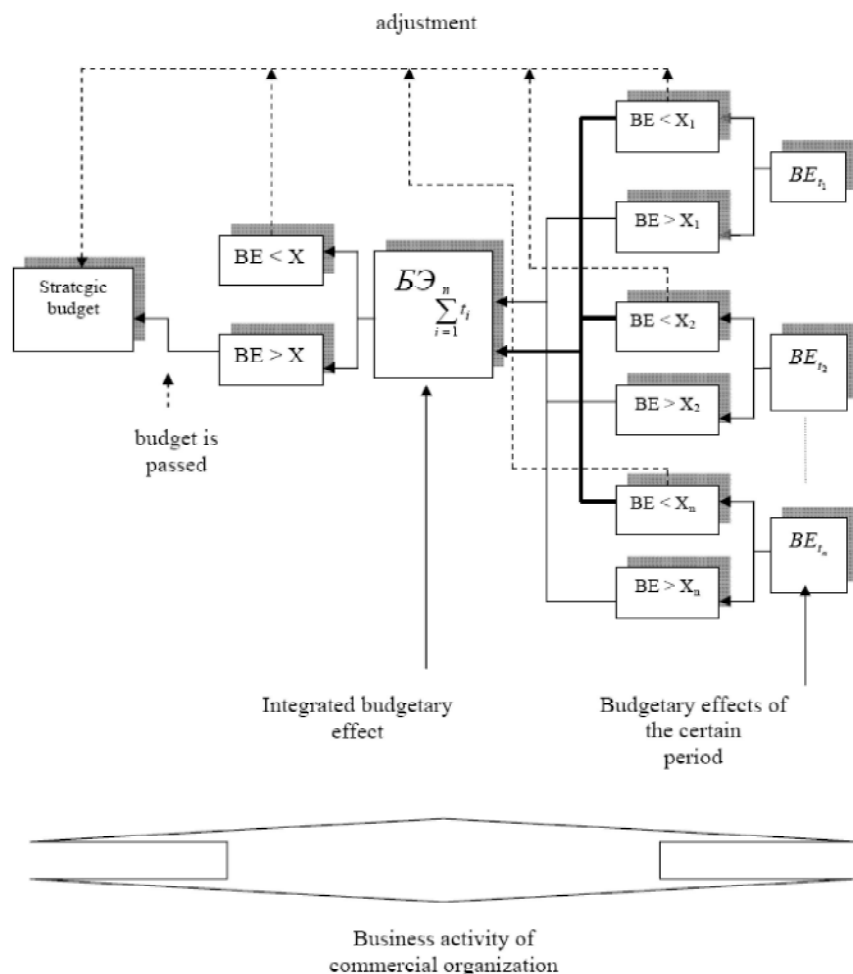


Fig. 1: Model of management of expenses of the commercial organization for increase of its business activity on the basis of budgeting

The main reasons for current situation among the commercial organizations in the Russian Federation, in our opinion, are the following: imperfection of the legislative base regulating studied questions; insufficient level of development of economic system of the country itself; low level of interest of the top management of the commercial organizations in investment of money in studying and development of a methodical component of the chosen areas of research.

In our opinion, it is expedient to begin solving the specified problems with impact on the reasons depending on the commercial organizations (the reasons concerning studying and development of a methodical component of management of expenses in the commercial organizations for increase of their business activity).

Within this research authors adhere to the following definitions of concepts of business activity and management of expenses of the commercial organization:

- Business activity of the commercial organization-is a degree of productivity of application of available financial and material resources by means of the analysis of data of accounting and financial statements [2, page 107];
- Management of expenses of commercial organization-complex dynamic process on impact on values of certain cost items for the purpose of bringing them to required values [4, page 87].

The interrelation between the specified concepts is carried out at the expense of reduction of volumes of expenses in unit time on the basis of increase in their turnover. Reduction of expenses volumes in relative expression thus positively affects the cost of their attraction that in turn increases efficiency of their use as a whole.

Table 1: Some coefficients, possible to use in the course of assessment business activity of commercial organization [2, page 108]

Name	Calculation formula	unit of measure	limits of variation
1. Turnover of advanced capital ratio (TACR)	$K_{OAK} = \frac{(BoP)}{\frac{(B_{H/n}) + (B_{K/n})}{2}},$ <p>SP-sales proceeds BST-an establishment balance sheet total for the beginning and the end of period respectively.</p>	unit	$\geq 0$
2. Turnover ratio of current assets (Trca)	$K_{OOC} = \frac{(BoP)}{\frac{(OA_{H/n}) + (OA_{K/n})}{2}},$ <p>CA-current assets of establishment for the beginning and the end of period respectively</p>	unit	$\geq 0$
3. Turnover ratio of Owned Capital (TROC)	$K_{OCK} = \frac{(BoP)}{\frac{(KuP_{H/n}) + (KuP_{K/n})}{2}},$ <p>KaR-the capital and reserves of establishment for the beginning and the end of period respectively.</p>	unit	$\geq 0$
4. Receivable turnover (RT)	$K_{ODZ} = \frac{(BoP)}{\frac{(DZ_{H/n}) + (KZ_{K/n})}{2}},$ <p>SP-sales proceeds ER-establishment receivables for the beginning and the end of period respectively.</p>	unit	$\geq 0$
5. Payable accounts turnover ratio (PATR)	$K_{OKZ} = \frac{(BoP)}{\frac{(KZ_{H/n}) + (KZ_{K/n})}{2}},$ <p>EAP-establishment accounts payable for the beginning and the end of period respectively.</p>	unit	$\geq 0$

Further we note that the assessment of business activity of the commercial organization establishes goal-calculation and interpretation of levels and dynamics of indicators of turnover of separate assets and liabilities.

For assessment of business activity of the commercial organization a number of the methods can be applied, the greatest distribution from which gained financial coefficients.

Some coefficients, possible to use in the course of assessment of business activity of commercial organization are specified in Table 1.

Turnover of other assets and liabilities of commercial organization is calculated on the basis of corresponding change of a denominator in formulas presented in table 1.

Duration of a turn of current assets of any size (DOT) is calculated on the following formula [2, page 108]:

$$P_{\text{?}} = \frac{1}{\text{?}} \times T, \quad (1)$$

where: TR<sub>v</sub>-turnover ratio of any value; T-number of days in the reporting period (month, quarter, half-year, year, etc.).

One of possible options of management of expenses of the commercial organization for increase of its business activity is budgeting within which we developed the corresponding scheme presented in figure 1.

Basic element of the offered model is the budgetary effect formalizing expenses management process of the commercial organization for increase of its business activity. Recognizing that elements of any budget are values of various articles of expenses, it is possible to assume that optimization of values of articles of expenses of components of a certain budgetary effect leads to optimization of budgetary effect itself. Considering a factor of limitation of resources of the commercial organization it is possible to assume that the considerable share of optimizing actions regarding management of expenses will be made by actions on their minimization leading in turn to increase of their turnover and consequently to increase of business activity of the commercial organization as a whole.

On figure 1 we will explain that indicator of efficiency of the strategic budget of the commercial organization is the integrated budgetary effect which is calculated in two stages.

At the first stage the budgetary effect is defined for each separate period of functioning of the commercial organization. For example, for  $t$  period the budgetary effect is calculated as follows:

$$Be_t = DI_t - DE_t, \quad (2)$$

where:  $BE_t$  - the budgetary effect of the  $t$  period of;  $DI_t$  - the discounted income of the  $t$  period;  $DE_t$  - the discounted expenses of the  $t$  period.

At the second stage the integrated budgetary effect is calculated as the sum of the discounted annual budgetary effects or as excess of the integrated income of the commercial organization over its expenses.

At first budgetary effects of the commercial organization for a certain period during which the enterprise carries out process of planning of the activity are estimated. As criterion of assessment of each of the budgetary effects it is possible to develop certain parameters ( $X_i$ ) ( $i$  - serial number of the given budgetary effect of a certain " $t$ " period). These parameters represent set in advance values of the given budgetary effects which can change upon transition from budgets of certain periods to the integrated budget of the commercial organization.

Level of each separately taken budgetary effect is set by specialists of planning economic section on the basis of mathematical calculations by forecasting of the main indicators of activity of the commercial organization (profit before taxation, average annual expenses, etc.) for the chosen period of time. If the value of the budgetary

effect of the commercial organization exceeds the value of this parameter, value of effect is considered satisfactory and is accepted for further calculation of integrated budgetary effect without any reservations [6].

If value of budgetary effect of the commercial organization is less than value of given parameter (for example the budgetary effect made 2 million rubles and minimum admissible parameter of efficiency makes 3 million rubles), then value of effect is considered unsatisfactory, but also is accepted for further calculation of integrated budgetary effect (in drawing such actions are designated by heavy lines). Thus we will note that within each unsatisfactory budgetary effect it is necessary to make additional inspection and at the same time correct parameters of the budget of the commercial organization (on graphics such actions are designated by dashed lines).

From figure 1 it is also possible to see that adjustments can be carried out both at stage of formation of the budgetary effects of the commercial organization of a certain period and at stage of formation of integrated budgetary effect [8, 11]. Further, by summation of the budgetary effects of certain periods, the total amount of integrated budgetary effect of the commercial organization is formed, for which it is also possible to establish a certain optimality criterion. Respectively if the value of integrated budgetary effect of the commercial organization exceeds value of the set criterion (for example integrated budgetary effect made 26 million rubles and the optimality criterion for this budget was set at the level of 25 million rubles), the strategic budget of the commercial organization is considered optimum and is accepted for further realization. If its value doesn't correspond to the set optimality criterion, the strategic budget of the commercial organization is completely revised, due to insufficient efficiency of its application.

## CONCLUSIONS

The main advantage of the scheme considered by us is that it allows to reveal deviations in the strategic budget even before consideration of integrated budgetary effect of the commercial organization by the analysis of signals, arriving to administrative board at unsatisfactory performance of one of effects of a certain period. When it becomes clear to the management of the commercial organization that the integrated budgetary effect doesn't reach necessary value of optimality, managers take necessary measures for updating of the strategic budget being

guided on deviations in budgets of certain periods. Thus, commercial organization will be able to use available resources effectively and plan activity successfully.

Thus, it is possible to draw a conclusion that the problem of management of expenses of commercial organization for increase of its business activity can be solved at the expense of elimination of the reasons causing it connected both with external (imperfection of the legislative base, an insufficient level of development of economic system of the country) and internal (low interest of the top management in studying and development of methodical base) factors.

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