

THEORETICAL AND METHODOLOGICAL ISSUES OF ASSESSING THE RATING OF COMPANIES

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Abstract: The article is devoted to consideration of theoretical and methodological issues of assessing the financial position of economic entities, as well as types, peculiarities and requirements of the rating assessment.

Key words: financial position, rating, financial reporting, rating agencies, financial stability, liquidity, solvency, profit, net profit, profitability, efficiency, business activity, financial ratios, comparative analysis.

Introduction

The Decree of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev №4947 issued on February 7, 2017 and aimed at approval of the “Action Strategy for Further Development of the Republic of Uzbekistan” states that “...formation of the database related to the financial and economic activities of the enterprises assessment of risks carried out through automated information system” [1] as well as achieving high rating indicators and enhancing the status of the country on the international arena which can be gained through elimination of restrictions and barriers to publish required statistical data in the international reporting nowadays is considered to be high-priority issue.

A particular attention is paid to the outcomes of the strategy of macroeconomic stability and identification of specific development strategies in the determination of precise development prospects in the future by studying the capacities of the enterprises and industries in the region. Currently it is rather difficult to find areas and facilities where the rating practice is being

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implemented. In addition, ratings are being determined in economic, social, environmental and other areas and in this process enterprises and organizations, firms and companies play a particular role as business entities.

In the 90's of the last century, analysts and financial advisors have been using a completely new procedure for comprehensive analysis and business evaluation. This procedure represents a rating assessment.

The word "rating" is of English origin which means "evaluation, assessment". In a general sense, rating can be used in terms of popularity and leadership in two different contents. Popularity, leadership is not just about subjects but is also used for businesses, regions, and countries.

For example, annually a group of experts from various international organizations, foundations, and institutions publishes a rating of some entities, enterprises and states for by over 100 indicators. They include such kind of internationally-recognized institutions as the United Nations, the World Bank, various public organizations, well-known rating agencies.

International rating agency "Moody's", international rating agencies "Fitch Ratings", "Standard & Poor's", "Forbes" and other rating agencies are considered to be the most popular rating agencies.

In particular, each of "Moody's" and "Standard & Poor's" rating agencies supervises 40% of the global market.

Moreover, estimates of macroeconomic rating of the countries are carried out annually in compliance and on the basis of the system of various indicators and their results are publicly announced. This system comprises of the following factors:

- reflecting the level of social development; (happy life index, human development index, average life expectancy, population growth rate, human welfare level, social development level, literacy rate, level of health services, ecological efficiency, optimal accessibility for living);

- reflecting the level of economic development (GDP per capita, GNP per capita, creation of favorable conditions for doing business, level of attracting foreign investments, level of food security);
- reflecting the political development level (reflecting the level of peaceful disposition, the law priority, the absence of the terrorism threat);
- reflects the level of scientific and technical development (scientific and research activities, obtaining patents, reflecting innovation development);
- reflecting the level of information communication development (development of e-government, introduction and speed of the Internet, the use of mobile communication systems).

Literature review.

Berdnikova T.B. in her book “Analysis and diagnostics of financial and economic activity of the enterprise” has studied theoretical, methodological and practical aspects of carrying out financial analysis of international financial reporting standards based on international experience reflected in foreign literary sources. The most particular consideration is given to the financial condition and financial results, and the analysis of cash flow factors. In addition, this book represents views on the algorithm for key indicators of the firm and company evaluation and their analytical calculations. Moreover, this book reflects historical development of balance, and economic and financial analysis [2].

In scientific papers of Kovalev V.V. the main attention is focused on the theoretical bases of technical and economic analysis and its methodological aspects in enterprises and organizations of various forms of ownership. Assessment of the financial position has been considered as a separate paragraph in the chapter “Diagnostics of enterprise capacity”. Theoretical aspects have been prioritized in diagnosing the financial status of enterprises by rating assessment [3].

Uzbekistan, along with the world states, undertakes necessary measures to create favorable conditions for doing business, ensuring law priority, food security, the level of patents as well as

attracting foreign direct investments (FDI).

In particular, according to the results of the World Bank and its division International Finance Corporation published in “Doing Business” report (Doing Business 2016-2017), Uzbekistan is among TOP-10 countries in terms of achieving the highest growth rates in Uzbekistan. This testifies the fact that both enterprises and economy are rapidly developing in the country.

10 important indicators have been selected as the basis to assess creating favorable conditions for “Doing Business”. These indicators include the following: company registration; issuance of permits for construction; level of connecting energy supply; registration of property right; getting a loan; protection of investors; taxation rate; international trade; fulfillment of contractual obligations; rate of incentive payment.

Currently rating practices are widely used in higher education institutions in assessing students’ knowledge, rating of banks, joint-stock companies, audit companies, insurance agencies.

The most frequently monitored aspects in enterprises and companies are financial position, investment attractiveness, innovation activity and credit rating.

“Rating assessment” is defined with the account of its classification. Thus rating assessment is:

- an alternative method of evaluating financial, economic and commercial activities of business entities through the system of key economic and financial indicators based on the information system;
- as a non-traditional source of market information, an assessment method used in marketing research, partner selection and lending practice;
- a means of economic monitoring of various business entities, companies and institutions;
- a comprehensive assessment of the economic, financial potential of business entities, their efficiency and effectiveness, their financial position in absolute and relative terms through the system of integrated and aggregated indicators;
- a method of comparative assessment of several enterprises;
- an evaluation method enabling accurate positioning in the exact sequence, incremental or declining sequence based on the key characteristics.

Assessment points (criteria) fully cover certain aspects of the business (profitability, liquidity, etc.) or performance of the overall business.

The following indicators are used for the rating of enterprises and organizations, firms and companies. Their number is usually over 100. In addition, each subgroup includes a number of indicators:

- ownership status indicators (volume of assets, equity and liabilities, fixed assets, operating capital, net assets, etc.);
- indicators of solvency and financial stability of the enterprise (current, swift and absolute solvency, cover coefficient);
- assets liquidity indicators (permanently active assets, readily available assets, slow-moving assets);
- profitability indicators (profit amount and profitability indicators);
- indicators of business activity (turnover of assets, equity and liabilities);
- market activity indicators (potential profitability, stock price change, dividend coefficient).

The following structural methods can be grouped as the methods for rating development:

- expert method;
- analytical method.

An expert method is a method based on the appraisal and expertise of experts.

An analytical method is based on financial reporting and quantitative analysis.

Comprehensive technique for assessing financial position of the company includes the following stages:

- collection and analytical processing of information related to the evaluation period;
- selection of the rating system to assess financial position of the company;
- calculation of indicators to determine final rating;
- assigning of the rating of companies according to rating results.

Rating assessment procedure is carried out in the following algorithmic order:

1. The data matrix is created. Thus, through (a_{ij}) matrix a number of indicators by the horizontal rows $(i = 1, 2, 3, \dots, n)$, and a number of companies by horizontal columns $(j = 1, 2, 3, \dots, m)$ are reflected
2. The maximum and conditional standards are determined by each indicator $(m+1)$
3. Matrix indicators are compared with the indicator of ij sample unit.

$$X_{ij} = a_{ij} / \max a_{ij}, [4]$$

Where: $X_{ij} - j$ - the status of standardization indicators of the company.

4. The following formula is used to determine the rating of each analyzed company:

$$R_j = \sqrt{(1-x_{1j})^2 + (1-x_{2j})^2 + (1-x_{3j})^2 + \dots + (1-x_{nj})^2} [4]$$

Where: R_j - j rating assessment of the company;

x_{1j}, x_{2j}, x_{nj} –standartization indicator of the analyzed j company.

5. The following formula is used to determine the rating of each of the analyzed company. All companies are rearranged in compliance with increasing or decreasing order.

The rating assessment can be implemented among companies by different criteria. For example: according to the volume of assets, revenue, profit volume, volume of exports and number of employees, etc. However, due to the fact that the companies cover economic and financial capacities of all these indicators, the evaluation practice of their financial condition is widely used.

There are many methodological developments of rating assessment of financial position of companies. Of course, this is a normal phenomenon because all spheres and units and subdivision have specific features, it is not appropriate to define a single rule for all of them. In assessing financial condition of companies it is rather complicated to distinguish value, quantity and other units because of the coefficients that can be classified on the basis of relative expression which can be subdivided.

What can be achieved through determination of the rating assessment of financial position on the basis of financial indicators and studing comparative analysis of the obtained results?

This process is primarily required to know the outcome of any type of analysis and to use it for tactical and strategic management of the company. Meanwhile, its results are very important not only for the internal management staff, but also for a wide range of foreign visitors.

The rating is a ranking that determines the priority of enterprises over rating criteria and indicates their position in the growing or declining framework.

The rating assessment determines the priority of the companies over rating criteria and indicates their position in the increasing or decreasing framework. This assessment can also be carried out

among the departments of a single system as well as among separate enterprises. In this regard, the rating sample units should be selected as the basis of the rating criteria.

The most important source for assessing financial position is its information support. Financial information such as financial reports, statistical reports, tax and customs reports and other reporting data can be obtained as such sources of information.

Rating assessments can also be determined by summing up their absolute indicators.

Absolute indicators are often used to measure the volume of goods (sales, jobs, services), volumes of sales, net profit, asset size and cost expense. Compilation, sorting, sequencing of these indicators is implemented on the basis of the general principles for rating of companies.

These cases do not enable comparing companies with different types of business. Therefore, rating procedures are often used to determine the financial sources based on relative positions, using the coefficients of the financial position, which are composed of the same principle.

Therefore, rating procedures are often used to determine financial sources based on relative positions with the application of indicators of the financial position which are developed on the same principle.

Such financial indicators include solvency, business activity, market activity, turnover of funds, capital structure of the company.

It is rather complicated to determine the status of the company as well as its leadership and popularity only on the basis of a single indicator or sign because impacting units of one indicator are not considered to be impacting units of the second indicator. That is, a good result in one indicator leads to the fact that the second indicator does not take into account the overall assessment of the negative result. Wherein, the performance of several indicators is a challenge.

Usually mathematical methods are used to account for all these impacting units. Among them the most famous and popular are taxometric modeling, summation of sums of collections, method of approach, width definition, determination of a successful competitor and other methods.

The purpose of rating assessment of financial position is to set absolute and relative positions in

the system of complex indicators of financial position of enterprises, on a network, sphere and territory by periodic study based on the published database.

Evaluating the financial position through rating assessment enables various companies and businesses carry out mutual evaluation of the performance[5]. This process can be considered as a macro - scale study of a single issue regardless of network entities.

This issue is characterized by two aspects. The first one involves the comparison of the complex assessment of the performance of several companies based on the system of indicators and by their degrees determination of the sequence is carried out.

The second aspect is the process of comparison of several indicators which are taken as a comparison benchmark among companies.

The first aspect implies that the system of indicators for rating assessment will be selected on a variety of bases, however, the second one is based on the system of formal indicators.

Establishing a separate financial reporting form by evaluating the performance of economic entities acting as a business entity (unit of entrepreneurship) is an important tool for determining the competitiveness of an enterprise with the level of capitalization in the market economy [6].

The rating assessment objective is to evaluate financial sustainability of companies by determining their position in comparison with their rivals and other entities.

The following peculiarities of the rating assessment should be taken into consideration:

- financial indicators used in the assessment should be reflected in the official published financial statements;

- the system for rating assessment consists of indicators of profitability, performance indicators, business performance indicators, liquidity and sustainability indicators. Each of them can include from three to seven indicators;

- when assessing rating, the highest indicator of the sample company is accepted as the basis by structural indicators;
- the outcome of the rating assessment widely varies depending on the findings of the analysis of the financial condition, and pays a particular attention to the company's economic development trends.

The participation ratio in the rating assessment shall meet the following requirements:

- availability of maximum information;
- possessing single-side feature (e.g. the indicator of the growth should characterize improved financial position);
- all indicators must have quantitative minimum standards;
- rating assessment should be calculated on the published official financial statements.

Types of rating. Rating of the financial position of the company is based on theoretical and methodological basis of complex assessment of the financial and economic activity of this company.

The final rating assessment results are based on key performance indicators of the financial and economic activity of the company; economic and financial capacity, efficiency and product profitability, efficiency of production and financial resources, availability of funds and their sources.

Rating assessments can be classified as it follows [7]:

1. Rating of branches and departments incorporated into companies;
2. Rating by the industry and branch;
3. Rating of companies by regions;
4. Rating of all companies throughout the country;
5. Worldwide rating of companies.

Rating assessment can be carried out by the overall rating of financial position and separately by structural indicators.

By the activity types financial condition can be classified according to the following criteria:

- rating of enterprises;
- rating of banks;
- rating of insurance companies;
- rating of audit companies;

- rating of joint-stock companies and so on.

Conclusion

Thus, the essence of the rating assessment of the company's financial position is formation of the final rating and formation of their exact sequence by formulating, analyzing and managing information on the system of indicators selected for rating.

The top-priority objective is to radically change the assessment system in order to further deepen the economic reforms and ensure stability, introduce internationally accepted principles and standards. To achieve this aim, the following measures must be undertaken:

- establishing alternative rating system of companies based on norms, criteria and standards used by leading international rating companies;
- further acceleration of working out, accepting and implementing in practice of legal standards related to the national legislation;
- establishing rating assessment practice in enterprises by such criteria as investment attractiveness, innovative development, economic vulnerability and credit rating;
- raising the role of financial institutions, credit unions, leasing, insurance and audit companies in support, financing, protection of enterprises, expanding the range and scope of services provided, strengthening the financial market infrastructure;
- it is required to introduce the procedure for rating assessment in the development of small business and private entrepreneurship, form and size of funding, the population's employment and welfare improvement, introduction of new technologies and innovative products. For example, such nominations for a rating assessment as employing young people to encourage employment, a rating of a young businessmen's business to support youth entrepreneurship and etc. should be selected;
- it is necessary to develop new approaches to accounting and reporting of enterprises and to introduce modern technologies and methods, raising the level of information and quality, and widely apply them in accordance with the requirements of leading international rating agencies;
- particular attention should be paid to the training of highly qualified professionals who can professionally work in the system of internationally accepted standards, methods and evaluation indicators of companies.

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