

# Integration of diverse planning and control means

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## Abstract

An approach on assessment of an enterprise activity's functioning that is based on means of fundamental diagnostics is investigated. As main means of management parameters that define goals of an organization, four groups of parameters are used that in their turn provide ranges of coefficients required for N-parameterisation of assessment of management's effectiveness, identified relationship of which subsequently reflects a balance of these parameters and indicates three zones of perspective stability.

*Keywords:* stability, liquidity, viability, maneuverability

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## 1 Important prerequisites for change

A scale of growth of a modern enterprise should be commensurate with capabilities of its business model [1-3]. In case this was not achieved, then an enterprise loses a direction and is not aware what to do.

In this regard, it is required to provide a special strategic vision that is currently seen as a new phenomenon. This phenomenon is characterised by a short-term perspective of planning and a significant aspiration [4].

As a result, it is necessary in a timely manner to move the focus from internal policies to an external impact [5]. Thus, an organisation's ability to timely identify rapidly emerging threats, covering all aspects of activities and parts of an organisation. This is a special ability to adapt in a rapidly changing environment. In addition, it is necessary to study, since a "half-decay" period of the acquired knowledge and skills has been reduced to five years or less.

## 2 Challenges

Every enterprise in a strategic aspect is developing in accordance with its individual plan. Corporate management hinders a development of an enterprise. Therefore, it is required to carry out a thorough revision of management mechanisms used, including assessment tools.

The five-year strategic plan in its traditional execution becomes an obsolete tool [6]. Its place should be taken by new dynamic elements that contribute to understanding a nature of organisation and provide a viability of an organisation in a competent market. Thus, an advantage is given to the one-year plan and means of monitoring a development of events taking place, adjustments of direction in a real time. Besides that, owners of enterprises have been gradually shifting an emphasis from the balance sheet in favour of the profit and loss report, realizing the priority of profits over assets.

Thus, at a disposal of effective organisations there should be means of fundamental diagnostics, on the basis of which objective conclusions on a sustainable functioning of an enterprise would be issued [7, 8]. Problem solving requires a large-scale assessment of a financial condition. In addition, it needs to be done using diverse business information extracted from various data sets and documents, such as: business plans, accounting records, as well as assessment reports developed on the basis of cost management approaches.

In other words, it is considered about parameters of assessment system that are separated in time, the binding of which ensured during integration procedures and synchronisation of various goals [9]. Such challenge requires to receive an answer that will be obtained on the basis of algorithms of linking short-term and long-term elements of planning and control, for example, profitability and liquidity indicators [10].

At the same time, it should be taken into account that a flexibility of an organisation and maneuverability of resources used outweigh a size of an enterprise and its scale, and in the coming years such tendency will only becoming stronger.

## 3 Provided approach

Carrying out an assessment of enterprise's activity is carried out based on a developed system of diagnostics of financial condition. As the main management parameters that determine organisation's goals, four groups of indicators are being used. The first group of indicators is formed by liquidity indicators, the second group consists of indicators of short-term sustainability, the third group includes indicators of performance and maneuverability of activity, the fourth group consists of profitability indicators. In fact 10 indicators are being used (see Table 1), based on values of which the problem of N-parameterisation of management effectiveness assessment.

TABLE 1 Parameters of management effectiveness assessment

Indicator	Title	Group belonging	Lower limit	Upper limit
$LQ_C$	Current liquidity ratio	Liquidity	>2	-
$LQ_Q$	Quick liquidity ratio	Liquidity	>1	-
$LQ_A$	Absolute liquidity ratio	Liquidity	0.5	1
$WCap/Inv$	Crisis state	Short-term sustainability	-	<1
$JSC/Inv$			-	<1
$WCap/Inv$	Normal short-term sustainability	Short-term sustainability	-	<1
$JSC/Inv$			>1	-
$WCap/Inv$	Absolute short-term sustainability	Short-term sustainability	>1	-
$K_{WC}$	Current activity ratio	Current activity provision	>0.1	-
$M_{WC}$	Cash to Working Capital ratio	Current activity provision	0.50	1
$M_E$	Net Working Capital to Equity ratio	Current activity provision	-	-
$ROI$	Return on Investment	Profitability	-	-

It should be noted that out of 10 parameters only for two have defined ranges, for 8 ones statistical data are collected on boundary values, such as "greater than or equal to 1" or "greater than 2". Moreover, such recommendations are of a general nature and do not take into account specifics of the organisation. Therefore, it was necessary to find ranges of change for all indicators. Further, it was necessary to determine boundary values for successful, loss-making and crisis activities. For this, connections between different groups of indicators were found. As a link, the security of current activity ratio and the return on investment ratio from investor's position were used. Besides that, two complex indicators have been derived: the financial security factor [11] and the ratio of current sustained growth:

$$CSGR = \frac{C}{WCap} \frac{WCap}{CA} \frac{CA}{CL} \frac{CL}{(AR + Inv)}$$

For all indicators ranges were found, which made it possible not only to obtain their balance, but also determine three zones of short-term sustainability: absolute, normal sustainability and crisis state.

Thus, the basis for conducting a fundamental diagnostics

of financial condition has been formed. The produced diagnosis are being formed during the analysis of business information that was collected and processed based on various means of assessment, such as business planning, factor analysis and value pentagram.

Even though the present approach is still in its infancy phase, the first signs of its usage indicate the fact that its diagnostic mechanisms can eventually be turned into a platform.

#### 4 Results

Disclosing the content of the set objectives, a number of the considered approach has been approved within the framework of an assessment of a financial condition of a Latvian transport enterprise.

Activity of the enterprises is analysed during all three types of activity in general, based on four chosen groups of indicators and 13 selected indicators. In each of four groups it was necessary to establish ranges of indicators that are separated in time in order to determine boundaries of enterprise's viability: absolute, normal, abnormal sustainability and crisis state (see Table 2).

TABLE 2 Parameters of management effectiveness diagnostics

Indicator	Title	Group belonging	Lower limit	Upper limit
$LQ_C$	Current liquidity ratio	Liquidity	2,00	3,33
$LQ_A$	Quick liquidity ratio	Liquidity	0,50	0,83
$LQ_Q$	Absolute liquidity ratio	Liquidity	1,12	1,87
$WCap/Inv$	Crisis state	Short-term sustainability	0	0,68
$JSC/Inv$			0,47	1
$WCap/Inv$	Normal short-term	Short-term sustainability	0,68	1
$JSC/Inv$			1,04	1,26
$Cap/Inv$	Absolute short-term sustainability	Short-term sustainability	1	1,75
$K_{WC}$	Current activity ratio	Current activity provision	0,5	0,75
$M_{WC}$	Cash to Working Capital ratio	Current activity provision	0,5	0,33
$M_E$	Net Working Capital to Equity ratio	Current activity provision	0,43	0,43
$K_{CA}$	Current Assets Structure ratio	Current activity provision	0,33	0,33

Therefore, the base for conducting fundamental diagnostics if financial condition on the basis of diverse documents was formed:

- business plan developed in a ten-year perspective;
- assessment of current activity for any period of time;
- value-based management schemes developed for a five-year period.

Falling outside the set limits signal an unstable condition. The usage of complex CSGR coefficient makes it possible to reproduce a property of sustainability based on separate

features of unsustainability. This is achieved through interconnected diverse means of liquidity, short-term sustainability and current activity provision:

$$CSGR = M_{WC} \times K_{WC} \times LQ_C \times K_{TCA}$$

The presence of boundaries, unsustainability for each separate coefficient that is included in the compound CSGR ratio, allows not only to respond to challenges of changeability of environment, but also ensures timely

updating of various assumptions. Such assumptions require addressing to various documents and data that are being collected for different periods of time.

As a result, the mechanisms are being developed through which management system is capable of being continuously

updating, benefiting from unpredictable events.

Thus, the developed diagnostic system is orientated towards setting rapidly evolving adaptation trends by creating new business models based on existing data flows and adding new data flows to existing models.

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