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ECONOMIC NATURE OF COMPANIES' CAPITALIZATION

The article reveals the economic nature of companies' capitalization based on the manifestation of its forms: internal (actual and intangible capitalization) and external (market) capitalization. The viability of application of business model as an effective tool of management implications on the company capitalization processes is argued.

Keywords: capitalization; fundamental value; market value; business model; internal and external capitalization.

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ЕКОНОМІЧНА ПРИРОДА КАПІТАЛІЗАЦІЇ ПІДПРИЄМСТВА

У статті розкрито економічну сутність капіталізації підприємства на основі форм її прояву: внутрішньої (реальної, нематеріальної) та зовнішньої (ринкової) капіталізації. Аргументовано доцільність використання бізнес-моделі як дієвого інструменту управлінського впливу на процеси капіталізації підприємства.

Ключові слова: капіталізація, фундаментальна вартість, ринкова вартість, бізнес-модель, внутрішня та зовнішня капіталізація.

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ЭКОНОМИЧЕСКАЯ ПРИРОДА КАПИТАЛИЗАЦИИ ПРЕДПРИЯТИЯ

В статье раскрыта экономическая сущность капитализации на основе форм её проявления: внутренней (реальной, нематериальной) и внешней (рыночной) капитализации. Аргументирована целесообразность использования бизнес-модели как инструмента управленческого влияния на процессы внутренней капитализации предприятия.

Ключевые слова: капитализация, фундаментальная стоимость, рыночная стоимость, бизнес-модель, внутренняя и внешняя капитализация.

Problem setting. Transformational economic climate, the effects of the global financial crisis, business internationalisation, the need for quick adaptation to the dynamic competitive environment reinforced the issues of companies' capitalisation growth. A capitalised enterprise is characterised by positive value dynamics, which in turn is the indicator of its financial status and the source of economic growth. The contemporary international scientific publications traditionally use the notion of capitalisation as a generalised economic status index at the stock market. Contemporary Russian and domestic economic literature impose more meaningful implications to the concept of capitalisation as compared to foreign viewpoints.

Latest research and publications' analysis. The academic research of the national economy capitalisation processes is represented by the works of the following Ukrainian scientists: A. Amosha (2011), A. Grytsenko (2007, 2009), V. Geyets (2007), M. Kozoriz (2007, 2008), M. Kyzym (2011) and their Russian colleagues

T. Malova (2009), M. Dedkova (2007), L. Syrota (2011), G. Khotynska (2006), B. Kallay (2012a; 2012b). The fundamental research outcomes of Ukrainian scientists N. Briukhovetska (2007; 2011), I. Buleiev (2011) have formed the background for numerous publications that explore diverse issues of companies' capitalisation.

Research objective. Summarising the conceptual research findings with regard to companies' capitalisation and the basic resource, cost and capital theories we argue for our own vision of the enterprise capitalisation process that reveals its dual nature. This duality on the one hand demonstrates the source of value creation and on the other – an object of investment. And if in the first case, the key source of value is company's competitiveness and investment activity, in the second one – its investment attractiveness for other parties of economic relations.

Key research findings. A great variety of approaches to understanding the "company capitalisation" concept might be interpreted by the marginal nature of the "capital" term which is multidimensional. In modern economic literature the meaningful contents of the company capitalisation theory lies within the theories of value, capital, resources, value-oriented management and assumes the following definitions: it is a system of relationships that arise in the process of capital accumulation (Briukhovetska, 2007; Briukhovetska et al., 2011); a process of converting income (or its part) into capital (Dedkova, 2007; Briukhovetska et al., 2011; Hotynska, 2006); a process of attracting resources into circulation and creating value added (Grytsenko, 2009); formation of fictitious capital (Briukhovetska et al., 2011; Mendrul, 2002); an enterprise value appraisal (Dedkova, 2007; Briukhovetska et al., 2011). Hence, capitalisation covers almost all the processes occurring in the contemporary economy – "capitalisation encompasses the entire economy and is being modified subject to the level, area and the mechanisms by which it takes place" (Briukhovetska et al., 2011: 30). The given approach is acceptable if we consider the capitalisation nature on the one hand as a process of converting different resources types into capital, i.e. the value that creates added value, and on the other – as an outcome leading to business value increment. Despite the complexity of essential characteristics, the ultimate outcome of capitalisation is the value increment through which a company enhances its resistance to external threats and builds up a reserve for future growth.

Holding to the definition of capitalisation as the process of converting different resources types into capital, i.e. the value that generates added value, further development of the company capitalisation theory brings about the need to combine the basic frameworks of the cost (VBM – Value Based Management) and the resource (RBV – Resource Based View) concepts of enterprise management. The logic of genesis and the experience of integrated implementation of management value-based instruments specified the time frame of the first stage in the development of VBM being the beginning of the 21st cent. – the first half of 2008. Apparently, the process of strategy development and implementation has to tie together everything: not only the analysis of alternatives and resource allocation, control system and performance appraisal but also the principles to encourage managers, compensation package etc. Thus, the VBM arsenal attains the attributes of economic psychology and cost management approach becomes systemic. In this context, VBM is interpreted as a system of enterprise management aimed at value increase through businesses activity, where performance appraisal and reward system are based on the value added indices.

Meanwhile, the next (second) stage of understanding the value-based management agenda starts and the key research areas are directed at combating the destructive forces of the stock market to gain fundamental value. Hence, the basic principles of VBM are beyond doubts and the given concept attains particular significance in the theory and practice of strategic management. However, academic literature holds controversial debates as to the choice of management tools for the above concept realisation. These issues may include resource management aspects of ensuring enterprise value growth.

The classical resource triad "labour, land, capital" and entrepreneurship represented by the classical economic theory have become more complicated in the current context, which claim for the need to develop a methodological approach to explain the process of transformation of resources into enterprise value. Contemporary economic theory of strategic management considers such transformational processes subject to the research on building company's competitive advantages based on dynamic capabilities. In the context of market uncertainty and increased competition an objective to seek new combinations of sustainable competitive advantages sources arises, which is the key thesis of the resource theory (Katkalo, 2002; Barney, 1991; Wernerfelt, 1984). Integration of basic provisions and practical outcomes of the value- and resource-based concepts enables the following generalisations and conclusions:

- in the current context of economic crisis, company's cost management becomes crucially important, since managers' efforts to increase stock value failed. Thus, a question arises of whether it is necessary to focus on the shares value in decision making in the first place. As an illustration to this, one of the elements of the current economic crisis is a decline in market capitalisation of companies at a constant resource base. At present, we are not going into details to explain the situation but it must be observed that company capital management as part of its resource management, and cost management as an outcome turned to have different objectives. This requires understanding of the causes of costs – benefits disparity, and from the scientific perspective, responding to the question of how balanced resource management ("one blade of scissors" by G. Keynes) and enterprises utility (the other blade) should be handled under current conditions;

- the analysis of the theoretical insights of VBM suggests that value management methodology in its genesis has undergone two steps. The first stage – a starting-up period (the 90s of the last century) – has challenged the reconsideration of the enterprise financial performance concept. The second stage – (the beginning of the 21st cent. – mid 2008) restored managerial levers, primarily strategic, to achieve new financial performance outcomes – value. The third stage – currently – could be marked as the crisis of the VBM concept;

- an important factor in resolving the crisis of the VBM concept is implementation of the resource management theory into value-oriented management that might mitigate the contradictions between the creation of enterprise value at stock market (market capitalisation) and value creation based on efficient use of enterprise resources (actual and intangible capitalisation) (Figure 1);

- in its development, the resource management concept has contributed greatly to economic science by a number of important provisions related to the sources of

competitive advantage, company economic identity profiles, general and strategic management, impact of stochastic factors on business activity arrangements, diversification of organisational competences portfolio, dynamic capabilities etc;

- despite the diversity of the resource management concept, none of its trends denies the need to achieve high financial performance. However, the basis for greater gains is not market behaviour but effective resource management. We share this opinion of the RVB concept and believe the resource management to be paramount for VBM, although the integration of concepts could also be implemented using the capitalisation logic subject to its different forms.

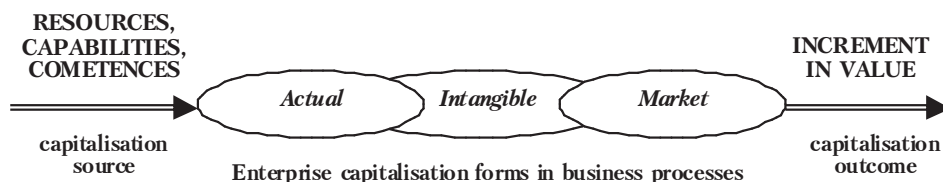


Figure 1. **Nature of enterprise capitalisation in the context of integration of value (VBM) and resource (RBV) theories, author's elaboration**

Combining the capitalisation theory with establishing a relationship between the value- and resource-based approaches to management the following paradigm as to the logic of contemporary enterprises capitalisation process could be suggested (Figure 2).

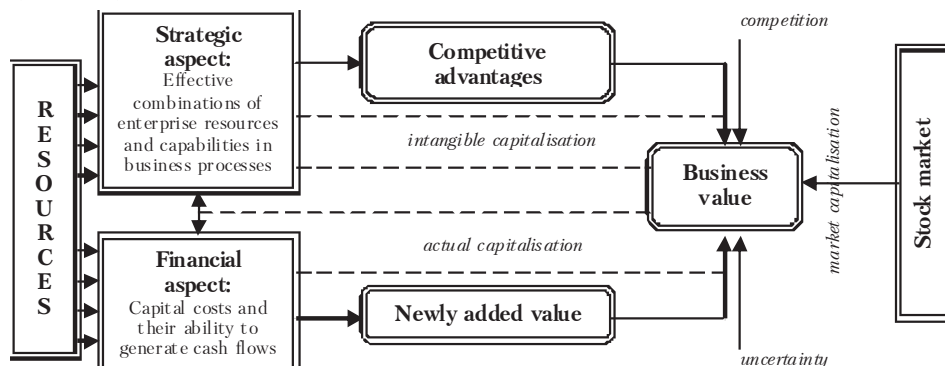


Figure 2. **Enterprise capitalisation logic subject to its forms, author's elaboration**

The given logic can be substantially extended against the ultimate research objective. The outcome of resource transformations and business capital circulation is actual and intangible capitalisation. Actual capitalisation is an objective process of effective business arrangement, since it is always based on reliable financial sources and is embodied in capital assets (Dedkova, 2007; Briukhovetska et al., 2011). The key attributes of actual capitalisation are the intensity and scale of processes targeted at reinvesting profits into capital assets raising, which in turn reflects the company's capability to generate cash flows, make effective use of available resources and ensure further development. In the process of actual and intangible capitalisation a company, as a capital organizational form in the market economy, meets owners' needs in revenues, which have to exceed the investment costs and the returns on alternative

investments of the similar risk level. Market capitalisation relies on the processes that occur both inside company and in external environment and affects the degree of enterprise's investment attractiveness. Market capitalisation becomes apparent primarily at stock market. In this case capitalisation is initiated not by internal management but by external stock companies that carry out quoting. Owners and top managers have limited resources in terms of their impact on market capitalisation. Thus, their activity should be directed at informing the market about ensuring effective corporate management and efficient financial performance of the company. All other factors of supply and demand are not under their control. However, this conclusion does not challenge the update of the companies market value management, hence its efficiency will result in higher performance under favourable independent supply and demand factors and current market shares, and will obviously lead to market capitalisation growth, although not directly (Mendrul, 2002).

The benefits of capitalisation management subject to its forms are the following: the possibility of managerial impact on a number of factors affecting company's external and internal environment that determine the effectiveness of capitalisation processes; a high level of stakeholders' awareness regarding the ability of company's resource potential to create value and opportunities to identify problem areas of business; the possibility of targeted impact on the resources to enhance the relevant business processes that directly affect company's capitalisation growth.

A key problem in company capitalisation is providing a rationale to ensure the implementation of management impact. In this context it is worthwhile addressing the theory of company business model development (Briukhovetska et al., 2011; Revutska, 2002, 2005, 2012), lying within the scope of strategic management theory. Summarising the basic conceptual approaches to interpreting the enterprise business model (Revutska, 2005) we offer the following definition: a business model is in the first place an effective tool for business systems studies. It describes key business elements, their relationships and the system of communication with external environment that allows an integrated view on business and reflects its most significant characteristics: of what value it is and how it is created for a consumer, how it is delivered and to whom, how resources and opportunities are used to create sustainable competitive advantages, gain revenues and profits (Briukhovetska et al., 2011; Revutska, 2002). If to implement the given characteristics of a business model into the logic of capitalisation process, followed by the author in this study, we can draw the following conclusion about their relationship. Any company makes use of tangible and intangible resources affecting its capabilities; their realisation depends on the enterprise overall competencies, as well as the skills of its staff. Innovations in this context is the tool focused on building an effective and competitive business model. Based on effective business model a mechanism to convert resources, capabilities, competences and innovations into economic value is being implemented. In financial terms, by revealing the value of the given process elements, we could observe the capitalisation content as a process and an outcome (Figure 3).

Conclusion. The economic character of company capitalisation could be recognised through various aspects of business (strategy, economics, finance, marketing, business processes) and thus, might assume different manifestation forms. The outcome of internal processes of capital raising is a positive dynamics of fundamental

value creation, and the result of external capitalisation is the enterprise market value. Internal (actual and intangible) capitalisation is associated with the processes occurring within enterprise, as well as in the external environment. Company's management thereby may impose a targeted impact on value flows creation and business value added, which in turn facilitates an increase in actual and intangible capitalisation. External company capitalisation in the first place shows up at the stock market. Company owners and top managers need better understanding of market capitalisation at least to identify which factors of enterprise value they are able to affect, and which are not.

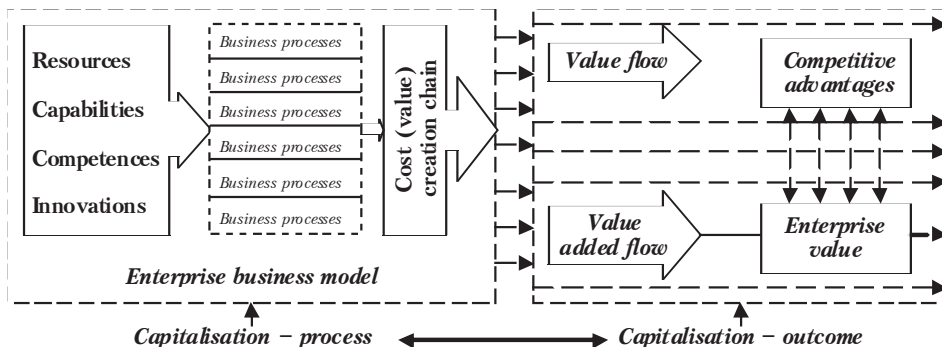


Figure 3. Business model as an enterprise capitalisation realisation mechanism, author's elaboration

The established logical framework with regard to capital theory, resource and value management concepts has identified a business model as an effective instrument of management impact on company capitalisation. However, business model formalises entirely the logic of company value creation and reveals the strategic aspects of business capitalisation. The financial component requires a deeper research of specific features of fundamental and market value creation and their correlation in the overall process of enterprise management.

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КНИЖКОВИЙ СВІТ

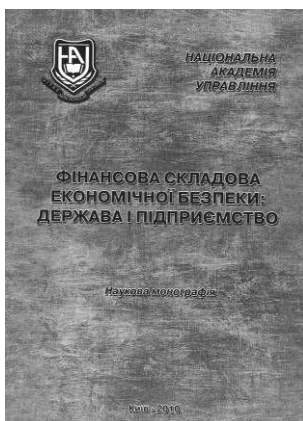


СУЧАСНА ЕКОНОМІЧНА ТА ЮРИДИЧНА ОСВІТА ПРЕСТИЖНИЙ ВИЩИЙ НАВЧАЛЬНИЙ ЗАКЛАД **НАЦІОНАЛЬНА АКАДЕМІЯ УПРАВЛІННЯ**

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Фінансова складова економічної безпеки: держава і підприємство: Наук. монографія. — К.: Національна академія управління, 2010. — 232 с. Ціна без доставки — 40 грн.

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У монографії розкрито місце і засади фінансової безпеки в системі економічної безпеки на двох рівнях управління економікою країни: держави і підприємства. Розкрито роль економічної безпеки в розвитку економіки України, визначено і обґрунтовано шляхи забезпечення фінансової безпеки на рівні держави.

Викладено методологічні основи фінансової безпеки підприємства та управління нею. Визначено форми і методи удосконалення механізму управління фінансовою безпекою на рівні підприємства.