An Evaluation Model of Enterprise Operation and Its Application

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Abstract This paper put forward an evaluation model with which one can make a comprehensive calculation of enterprise operation status concerning profit ability, repaying capability, economic efficiency and developing potential; and meanwhile the method of maximal distinction is employed to conduct the data synthesis of several targets and draw the conclusion of evaluation. Finally, a practical illustration is given in this paper.

1 Introduction

Facing the intensive competition, managers or directors of enterprises are much concerned with their operations. On the one hand, they are supposed to exactly know the actual operating outcomes in various periods; and on the other hand, they are required to know the status of their enterprises in this field. However, a comprehensive evaluation on the enterprise management often cannot be made with the individual accounting report and financial data. In this paper, the authors aim to establish a new evaluation model and make an analysis of profit ability, repaying capability, economic efficiency, and developing potential. Besides, in the way of evaluation method, this paper adopts the method of maximal distinction synthesizing the data of many targets to acquire the evaluation results in order to reduce the subjective factors influence as much as possible.

2 Founding the Evaluation Model

2.1 Structure of evaluation model

The evaluation model of enterprise operation is composed of four modules: profit ability, repaying capability, economic efficiency, and developing potential. Profit ability and repaying capability are two fundamental portions of the enterprise financial evaluation. First of all, one enterprise must make profit provided it survives; at the same time it has to own the capability to pay back its debt with a view to ensuring the enterprise stable development. Furthermore, the economic efficiency of enterprises can directly affect the management standards. The minor change of economic efficiency may constantly result in the remarkable difference. Much attention shall be paid to the development potential of developing companies. When calculating the specific targets, one should take into account the total targets to supplement each other but not overlap one another, and make our best endeavours to entirely reflect the enterprise operation status. To be convenient and practical, we take two most typical targets out of each module. The targets amount to eight. The structure of evaluation model is shown in Fig. 1.

2.2 Demonstration of evaluation targets

2.2.1 Profit ability

Making profit is the ultimate purpose of enterprises and their development premise, which has something to do with the benefits of creditors and managers as well as ones of investors. The profit height can not directly indicate this sort of capability in which the profit size does not only depend on the product marketing achievements, but also rely on the production scale, occupying quantity of economic resources, and so forth. The size of this ability is mainly based on the ratio of capital and profit. We are capable of making an analysis of the two aspects, profit ability of assets and profit ability of manufacture.

(1) Total assets reward ratio = profit prior to tax/average sum.

This target illustrates profit level of each yuan capital and shows the profit level of employing assets. The fewer assets are occupied, the higher profit is made and the better efficiency is obtained. Nevertheless, the less occupation of funds does not mean the less consumption of

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assets. Only when one makes the higher profit consuming the fewer funds, can making great profits be sheer embodied. Therefore the profit ratio of cost is once again imported.

(2) Profit ratio of cost = business profit/cost sum.

This target reflects reward standard of each yuan consumed. Similarly, the higher the profit ratio of cost is, the stronger profit power is.

2.2.2 Repaying capability

Repaying capability means that of the enterprise repaying all kinds of debts. Supposing one enterprise has no adequate ability to pay off its debt, the enterprise like this is extremely unstable for it owns poor competence to tackle the emergency. As long as one enterprise possesses the excellent repaying ability, it is in possession of conditions and bases to quickly and steadily develop. In general, the circulating ratio and assets to liabilities ratio are both utilized to respectively judge the short-term repaying capability and long-term repaying capability.

(3) Circulating ratio = liquid assets/liquid liabilities.

The ratio chiefly shows how many liquid liabilities for each yuan. The higher this ratio is, the higher the creditor safety is and the less the enterprise hazard is. But as far as the enterprise is concerned, the excessive circulating ratio will cause an amount of liquid fund to lose the re-investment value in vain. It is universally acknowledged that the lowest circulating ratio of manufacture is 2 or so. Because the poorest goods in stock of the liquid flexible capability account for one half, and the remaining liquid assets are at least equivalent to liquid liabilities.

(4) Ratio of assets and liabilities = liabilities/total assets.

The long-term debt is the enterprise principal debt. The assets-liabilities ratio demonstrates how many of the total assets is borrowed, and indicates the long-term repaying ability of enterprises. On the ground that the reward ratio of investment is bigger than the loan interest, the more loan is, the more profit is, and simultaneously the greater the financial risk is. On the contrary, if the loan ratio is too small, it is disadvantageous for enterprises to enlarge their production. In the light of the current standard, the assets-liabilities ratio is 40 - 60%, and too high or low ratio is disadvantageous to enterprises development.

2.2.3 Management efficiency

Judging the operation status of one enterprise is dependent on whether the management effect of its assets is sufficiently taken. Since the distinct implications emerge varying from the enterprise different profits, the targets to reflect enterprise operation are different as well. Two targets may be adopted to make an analysis below.

(5) Turnover ratio of bookkeeping account receivable = sales income/average bookkeeping account receivable.

The quicker the turnover ratio of bookkeeping account receivable is, the less the liquid fund needed in the operation is. We are capable of saving a great deal of liquid fund, and the target can adequately represents management level of enterprises fund.

(6) Coordination ratio of production and marketing = product sales value/industrial total value.

This target reflects how the products of enterprises are accepted by the public, and objectively shows the production efficiency of enterprises. Provided the coordination ratio of production and marketing is too low, it implies that goods sell badly. The manager is supposed to duly find out the reason to adjust production structure. The ratio of production and marketing will directly influence the profit of enterprises.

2.2.4 Development potential

One of the firm targets is to make the maximal prof-