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Financial Efficiency - the Basis of the Financial Performance Driven by Growth Financial Resources

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Abstract: *The article deals with the issues of science about the analysis of financial and economic activity and productivity, due to the increase in financial resources. Noting the features of the manifestation of the concepts of "efficiency", "effectiveness", classical approaches to understanding efficiency are given, the author's definition of the concept of "efficiency" in the context of financial analysis is given.*

Key words: *efficiency, effectiveness, effect, costs, profit, income, financial production, financial instability, returns on invested capital.*

In economics, especially in the science of the analysis of financial and economic activities, there is the concept of "Efficiency of the financial activities of enterprises". It is used in connection with the assessment of their financial and economic activities, with special attention being paid to factor analysis of the impact of such production indicators as capital productivity, resource productivity , material productivity . The concept of "efficiency" is also considered in the context of financial analysis: the determining indicators here are profitability and turnover. In the classical sense, efficiency is a relative indicator that measures the effect with the costs or resources used to achieve it. In foreign practice, the effectiveness of financial activity is assessed through such indicators as the value of total assets, the return on net assets, the return on invested capital, return on investment and the value added of enterprises.

We propose to understand the efficiency of financial production as the ratio of its results to the costs (resources) associated with them. As for the choice of the financial performance indicator, following many domestic and foreign theorists and practitioners, it is possible to offer the return on equity indicator as a complex indicator. However, it should be noted that, depending on the interests of the subject conducting the financial performance assessment, other indicators can be used.

The next concept, close to productivity and efficiency, is the definition of "effectiveness", which characterizes the degree of achievement of the set goal, the degree of compliance of the organization's activities with the needs of its customers. Therefore, in a general sense, efficiency is a relative indicator that measures the effect obtained with the costs or resources used to achieve this effect.[1]

So, efficiency covers all stages of social production, is the basis for constructing quantitative and qualitative criteria for the activities of economic entities and is used to form their financial performance, commensurate with the effect obtained with the costs or resources used to achieve this effect.

[1] Kovalev V.V. Financial analysis: methods and procedures. - M.: Finance and statistics, 2003. - P. 544.

Efficiency contributes to the knowledge of objective reality, provides an opportunity for thinking in order to determine economic efficiency. It is with the help of the indicator of economic efficiency that it will be possible to identify essential generalizations of common problems within the framework of the financial condition of economic entities. Despite this, in relation to financial activities, this term is used extremely rarely (especially in works on the analysis of financial and economic activities) and is mainly associated with the use of management systems by objectives, quality management and a balanced scorecard in the organization. P. Drucker in the book "Management Challenges in the 21st Century" points out the difference between the concepts of effectiveness and efficiency. The term “effectiveness” (eng. - “effectiveness”), found in a large number of management works, means “do the right things”, and “efficiency” (eng. “ efficiency " - do things right. [2]This raises the question of the need to establish criteria underlying the definition of effectiveness.

The main task of enterprises is aimed at making a profit. Of course, the latter provides for the satisfaction of the socio-economic interests of employees and the interests of the owner of the property of the enterprise. Therefore, improving the efficiency of enterprises, first of all, provides for the impact on performance in order to rationally use the financial resources available to enterprises. The financial result may have a theoretical or practical focus, so the concept of "performance" or impact applies equally to theory and practice. Economic effect (from lat. effectus - result, impact) - an absolute indicator that characterizes the result of activity in monetary terms.[3]

Here it is appropriate, for the sake of analogy, to agree with the opinion of economists who believe that the economic effect is the result of the implementation of an economic activity, expressed in valuation. Of course, as a useful result is profit, or savings in costs and resources. Yes, efficiency is performance. It is the effectiveness that characterizes the price at which it was achieved, what resources were used for this (material, financial, labor, etc.). Although, in a general sense, efficiency is a relative indicator that measures the effect obtained with the costs or resources used to achieve this effect.[4]

An expense cannot be considered effective if the benefit from its use does not appreciably exceed the cost of its creation.[5]

Similarly, the definition is given by A.I. Shcherbakov . He believes that economic efficiency is the ratio of the useful result and the costs of the factors of the production process.[6]

However, within the range of problems we are analyzing, we can say that financial performance characterizes the achievement of the goals of financial production, while financial efficiency indicates the value of the result of financial production per unit of costs (resources). And both of these parameters are constituent elements of financial performance, but the first is designed to assess its qualitative side, and the second - quantitative. Thus , in order to be financially productive, an enterprise must not only increase the amount of available financial resources and increase the value of enterprises, but also do this with the greatest effect (profit) per unit of resources expended. The financial productivity of enterprises depends not only on the productivity of its financial resources, but also on the entrepreneurial and managerial abilities of their managers, the state of the financial market, and other factors.

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[2] Drucker P. Tasks of management in the XXI century.- M.: Williams, 2007.- 276 p.
[3] Kovalev V.V. Financial analysis: methods and procedures. - M.: Finance and statistics, 2003. - P. 544.
[4] There.
[5] Meskon M.Kh, Albert M., Hedouri F. Fundamentals of management: Per. from English - M .: Delo, 1992. - S. 421.
[6] Shcherbakov A.I. Aggregate labor productivity and the basis of its state regulation. Monograph.- M.: Publishing House of the RAGS, 2004.- P. 15.

The approach we propose allows us to expand the scope of the concept of "financial production" not only to industrial enterprises, but also to enterprises in other sectors of the economy. This is especially relevant in the context of the growing participation of real sector enterprises in the functioning of financial markets and stock exchanges and the entry of domestic enterprises into world stock markets in order to attract the necessary financial resources.

In order to solve the definition of financial efficiency that we have formulated, it is necessary to implement changes in almost all areas of enterprise activity. As practice shows, there are reserves for increasing financial performance in almost all of its subsystems. Financial instability can act as a good incentive to mobilize such reserves, since those capital attractors that can quickly adapt to new conditions will receive new competitive advantages for their development, both during instability and during a period of economic stability.

The proposed approach to the terms "efficiency", "efficiency", "effect" makes it possible to expand the scope of the concept of "financial production" not only to industrial enterprises, but also to enterprises in other sectors of the economy. It is noted that this is relevant, especially in the context of the growing participation of real sector enterprises in the functioning of financial markets and stock exchanges and the entry of domestic enterprises into world stock markets in order to attract financial resources.

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