

## ASSESSMENT OF COMPANY'S BUSINESS REPUTATION

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### Annotation

Today among top-level managers, there is an increasing need to take into account and evaluate assets that do not have a tangible form, but can bring benefits to the company like material assets do. That's why it is obvious that non-property assets can also significantly affect the company's value, the growth of the value of securities and the level of investor confidence. The goodwill of the company is its intangible asset, it can have a significant impact on sustainability and favorable development of the company if it is properly managed. In the article we use comprehensive analysis tools, namely, compilation, system, statistical, critical and analytical approaches. Integrated approach to assessing business reputation is the result of the study. The value of the article in practical application is the use of the approach to assessing business reputation in order to increase the value of the enterprise as a whole in a number of individual cases.

**Keywords:** business reputation, goodwill, company value, assessment.

### Introduction

Until the mid-twentieth century, the price of a transaction for the purchase of an enterprise, as a rule, was several percent higher than the value of its assets; this fact served as the starting point for the development of business reputation as an opportunity to receive more for an enterprise than what is actually reflected on the balance sheet. The acquirer, of his own free will, paid more than the amount of the assets, and this difference was entered on the balance sheet as a special asset - goodwill.

The relevance of this study is due to the growth of enterprises whose property value is proportional to non-property value. In this regard, there is a need to study this category of assets to improve the efficiency of management and evaluation. The purpose of the study is to consider the theoretical aspects of business reputation, to identify the main shortcomings of existing methods for assessing the business reputation of an enterprise, as well as to develop an integrated approach to assessing business reputation.

### Literature Review

The works of I. F. Sher, E. Schmalenbach, L. R. Dixie, and Y. V. Sokolov are devoted to the study of the category of goodwill. The methodology for assessing goodwill is presented in the scientific works of A. Aaker, G. G. Azgaldov, I. A. Blank, R. Braley, R. Grant, E. A. Eliseev, B. B. Leontyev, F. Pixley, S. Stern, R. Holt and others. Theoretical issues related to business valuation and enterprise value management are discussed in the works of S. V. Valdaitsev,

A. G. Gryaznova, A. Damodaran, V. A. Esipov, Yu. V. Kozyr, T. Koller, T. Copeland, P. Shannon and others.

Research methodology. Analysis, induction, deduction, correlation, systematic and complex approaches were used to cover this topic.

## Analysis and Results

Goodwill is a set of intangible advantages of a company in the form of a won positive reputation, a formed team of employees, an effective management structure, an established product sales system, etc.

Some authors believe that goodwill can be defined as “the sum of those elements of business or personal qualities that encourage customers to continue to use the services of a given enterprise or a given person, capable of bringing the company a profit in excess of that required to earn a reasonable return on all other assets of the enterprise, including all those intangible assets that can be isolated and separately valued. From an enterprise value perspective, goodwill is those elements of a business that create value over and above the value of the company's tangible and identifiable intangible assets”. V.I. Kolosova and T.Yu. Vavilycheva believe that companies create a “name” for themselves through their own efforts, therefore it is a means of their individualization. However, it is worth noting that a company's reputation is formed in the market throughout the entire life cycle of the enterprise; it is dynamic in nature with trends of both growth and decline. Moreover, a positive reputation purposefully formed over the years can be destroyed at once, which is also its specific feature. Business reputation is not a static value; it is subject to changes with both positive and negative dynamics. In the wider literature, business reputation is defined primarily as an assessment of society acquired in the process of professional or entrepreneurial activity of an organization. Many researchers characterize the term “business reputation” as a deterministic “set of qualities and assessments with which their bearer is associated with counterparties, clients, consumers, work colleagues, and is personified among other professionals in this field of activity.”

Thus, a single definition of the term “business reputation” is legislated only in relation to an individual, therefore the relevance of the topic of assessing a company's business reputation is due to both the lack of unity in the terminology of the concept and the need for an objective approach to assessment.

Currently, there are several main approaches to determining the value of goodwill:

- ✚ accounting method;
- ✚ analytical method of assessment;
- ✚ assessment of business reputation using an indicator of business activity;
- ✚ goodwill assessment using the excess earnings method;
- ✚ current discounted estimate of future excess profits based on the methodology of Brand

Finance;

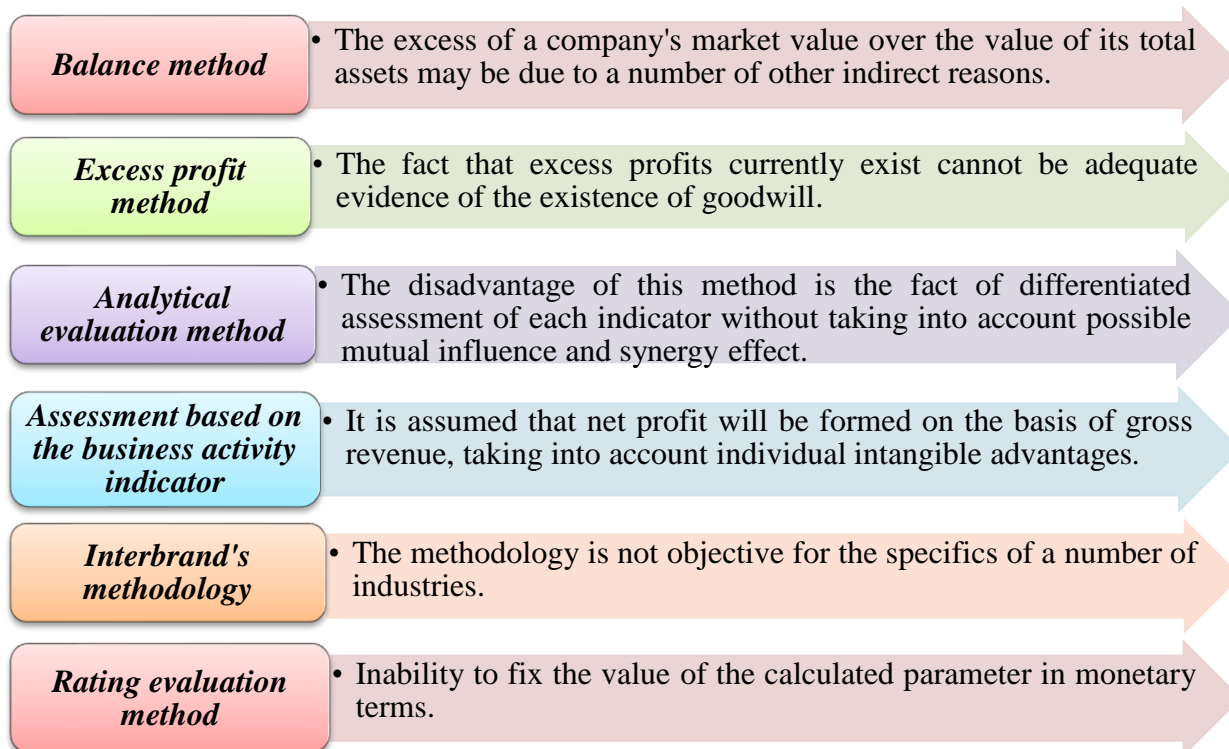
✚ use by animators;

✚ using the options method;

✚ indirect methods.

The need for methodological approaches to assessing a company's business reputation is due to its growing importance in the value of the enterprise as a whole. As already mentioned, until the mid-twentieth century, goodwill accounted for only a few percent of the value of the acquired enterprise, in contrast to the present day. It is obvious that existing methods for assessing business reputation were formed under the influence of the current market situation and each of them has both advantages and disadvantages.

Let's look at the main shortcomings in the diagram (Fig.1).



**Figure 1. The main disadvantages of existing methods for assessing the business reputation of an enterprise**

Today, the market is ready to pay a premium to the price for a product that has reliability, guarantee and quality, while this premium is an increase in the average cost of the product in the industry. Exceeding the industry average cost for a product is often referred to by experts as the value of business reputation or brand.

The methodology proposed by the authors for assessing the business reputation of an enterprise is based on an integrated approach to assessment, consisting of rating analysis, analysis of the level of excess profit for the analyzed period and identification of opportunities and threats to the company's business reputation based on established factors.

The methodology is as follows: Based on the analysis of factors that significantly influence the business reputation of the company, indicators are selected that most fully characterize the business reputation of the organization. It is advisable to expand the set of indicators reflecting certain qualities of the enterprise as much as possible, which will reflect the picture of the most realistic situation; The retrospective analysis period is determined; Indicator data by year are presented in the form of a matrix  $A_{ij}$ ; The maximum value of each indicator by year  $MAX_i$  is determined;

We get the matrix:

$$X_{ij} = A_{ij} / MAX_i$$

The weighting coefficients of the indicators ( $V_k$ ) are determined;

The rating assessment of business reputation for the period is determined:

$$R_1 = 1 - \sqrt{V_1(1 - X_{1i})^2 + V_2(1 - X_{2i})^2 + \dots + V_m(1 - X_{ni})^2}$$

The higher the rating, the higher the level of business reputation. Based on the analysis of relevant literature, in the calculation we will use those indicators that have a significant impact on the value of the organization's business reputation: quality of services, degree of customer loyalty, personnel policy of the manager, business ethics, financial condition, as well as the reputation of the first person and the level of success companies, and each indicator depends on a certain number of factors influencing it.

An increase in the quantity and quality of indicators can help improve the objectivity and accuracy of the analysis; an increase in the number of experts participating in the assessment, both in the field of intangible asset management and representatives of the media.

The next stage of a comprehensive assessment of business reputation is to determine the share that exceeds the industry average, which allows us to determine the value of intangible assets in the form of positive business reputation, not reflected in the balance sheet, but providing a return on equity. The indicator is calculated as follows:

$$IP = (PE - CA * C_{atr}) / K_{kap.},$$

Where IP is the amount of excess profit generated by business reputation; CA is the market value of all assets of the enterprise; PE - normalized net profit of the enterprise;  $K_{kap}$  - capitalization ratio;  $K_{atr}$  is the industry average income level coefficient.

If actual data on industry average profitability is not available, then excess profit can be determined based on data about the enterprise and profit on average investments in tangible assets for the industry. It is advisable to analyze the dynamics of changes in the share of excess profit in the structure of the enterprise's net profit on a regular basis, comparing the indicators of the base and current periods; carrying out the analysis in a chain way will allow one to analyze the trend of changes in two adjacent periods. Thus, based on establishing the fact that an enterprise has above-industry profits, a cause-and-effect relationship is identified between this fact and the value of business reputation, based on the rating assessment for a specific period of time. It is advisable to consider the value of each rating analysis indicator in the dynamics of its change.

In the case of observing the growth dynamics of both considered quantities over a specific period of time, it is possible to establish their relationship and identify the degree of influence of each factor on the growth of profit.

At the final stage of a comprehensive assessment, we use the SWOT analysis technique to identify strengths and weaknesses, opportunities and threats to business reputation, both from the external environment and within the enterprise. SWOT analysis is a necessary element in drawing up any level of strategic and marketing development programs and forming management policies.

The strength of a company in the field of building a business reputation can be such indicators as: the presence of a permanent customer base over many years of practice, a positive image of the company, expansion of the product range, etc. Weaknesses include the focus of products on a narrow circle of consumers, the lack of motivating factors for increasing sales volume among staff, the non-competitive location of the company, and so on. Based on the identification of mutually influencing groups, it is advisable to identify probable opportunities and possible threats for each category of indicators.

The SWOT analysis technique allows you to accurately structure the problems and tasks facing the company and find ways to solve them, taking into account available and expected resources. It is this fact of analysis that forms the basis for the formation of a company's business reputation management policy.

The main advantages of the method of comprehensive assessment of a company's business reputation can be identified:

- ✚ the methodology is based on a multidimensional approach to assessing such a complex company indicator as business reputation;
- ✚ the technique allows you to establish the dependence, the degree of influence of each indicator on the level of reputation as a whole;
- ✚ the technique facilitates the ability to observe the dynamics of changes in indicators in timing;
- ✚ The technique allows you to compare business reputation indicators of different companies with each other (spatial analysis).

### **Conclusions and offers**

The complexity and versatility of the concept of "business reputation of an enterprise" determines and creates an assessment system that would reflect all the specifics of this concept. It is important to note that the methodology proposed by the authors is applicable both to enterprises that place their shares on the securities market (public) and to enterprises that have a different organizational and legal form of conducting business (non-public).

Firstly, regardless of the form of ownership, size and status, any company has a number of certain qualitative and quantitative characteristics, such as an objective assessment of the quality of products or services, business ethics and the external image of the company,



indicators of financial condition and performance of the management team, which are appropriate evaluate, record and manage them.

Secondly, the comprehensive assessment methodology involves calculating the share of excess profit in the structure of the enterprise's net profit, and if we consider the given volume of profit of a public and non-public company in the same industry, then there will be no discrepancies in terms of differentiation of taxation, distinctive features in the cost structure and other significant changes observed, which ensures the universality of this approach. However, it is obvious that the level of profit of companies that place their securities on the market will be higher than non-public ones, and this also creates a level of consumer confidence and increases the business status of the company.

Thirdly, a feature of the methodology is the absence of restrictions on companies based on industry, as well as form, scale of production or service sector, level of profitability, duration of stay on the market, etc. Both a small enterprise and a large industrial concern are interested in creating a positive image of the enterprise in the eyes of consumers, partners, and customers. Competent management of creating a positive perception of the company's products, professionalism of employees, negotiation ethics and sales ethics, and a host of other factors that influence the degree of the company's reputation should be under the constant control of the company's first person. And on how accurately and completely the contribution of each component to creating a positive image of the company is established, not only the value of the business reputation of the business entity will depend, but also, this will make it possible to formulate an effective business reputation management policy within the framework of the assigned tasks to achieve the goal of further favorable financial development.

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