

INDICATORS OF CHANGES AND THEIR APPLICATION IN THE INTEREST OF BETTER COMPANY ECONOMICS

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This article deals with the economy analysis of a selected aircraft company and proposal of measures for the economy improvement. This article consists of three main chapters. The second chapter describes theoretical aspects of company management, in particular company characteristics, company goals and indicators of economic efficiency. The third chapter comprises the analysis of the chosen company ABS Jets, a. s., product sale, profit and costs structure and economic results of the company. The fourth chapter offers solution proposals for the improvement of management in several fields.

K e y w o r d s: Economy, aviation company, company economics, financial indicators, economic effectiveness

1 INTRODUCTION

Company management represents efficient handling with its assets and use of provided sources. An important part in management is its measurement, i.e. awareness of indicators which show unfavourable development of company management, because these can point out the future development. Therefore it is important to do and draw attention to detailed analyses of management regularly, professionally, and in case of unfavourable development tendency of at least one indicator apply measures which would divert from the incorrect, even dangerous direction.

2 THEORETICAL ASPECTS OF BUSINESS MANAGEMENT

Economy represents an aggregate of management of a specific subject e. g. state, organization or an individual. Science that explores financial behavior of above mentioned subjects demonstrating economically is called economics. Economy is implemented on international, national, company or individual level.

Economy represents tireless effort of a company to handle or manage one's assets and resources as economically as possible by means of [1]:

- a) **Outputs maximization**—reach maximum outputs with given inputs
- b) **Inputs minimization**—implement the given output through transformation process with minimum inputs
- c) **Optimization of input - output relation** —there should be such a balance between inputs and outputs that it can be solved economically according to criteria determined in advance.

It is important to notice that there is need and effort to naturally minimize inputs and reach maximum outputs. Nevertheless, it is not possible to perform this tendency forever without any change in the transformation process of the company. It is so because one cannot produce maximum out of minimum.

2.1 Company characteristics

A company is an economically and legally independent business unit with the purpose to do the business and carry out economic work. [1]

It consists of the following parts:

- **Matters** – land, buildings, machines...
- **Property rights** – patents, licences...
- **Intangible rights** – business name, position on the market, brand, image...
- **Personal constituents**— employees, qualification structure and level.

Further the terms economic independence and legal independence must be defined for a company to perform its activity freely, independently and without any intervention of persons who are not part of partial or strategic plans of the businessman or a company.

2.2 Company's goals

Business success depends on correct determination of mainly strategic but also partial goals, which are important for fulfillment of strategic goals. Such a determination requires a thorough knowledge of the actual situation of the so-called "market analysis".

Goals determination is limited by the following factor:

- **Internal factors** – express characteristics of business subject mainly from its economic power and stability.
- **External factors** – express factors which work outside of the business subject. Formulation of business goals requires maximum of knowledge and creativity of all decision-making participants.

The primary goal or priority of each system is to *survive and grow*. It is similar in case of business subject, where the primary company goal is the *provision of company existence – growth of company's market value*.

In practice it means that the provision of company's existence can occur, only if the company is economically strong and stable and well equipped as far as capital is concerned.

2.3 Indicators of economic efficiency of business activity (economy)

Economic efficiency represents an important role when implementing economic and financial activity of the business (Fig. 1). In practice we rarely find a process where economic efficiency would not be used due to constant optimisation of costs according to the production conditions.

Efficient business activity takes place on high technical and technological level, whereby production factors are invested as economically as possible and the output implementation secures adequate profit. **Chyba! Nenašiel sa žiaden zdroj odkazov..**

$$\text{Efficiency} = \frac{\text{Output}}{\text{Input}}$$

Basic aspects of economic efficiency of the production are:[4]

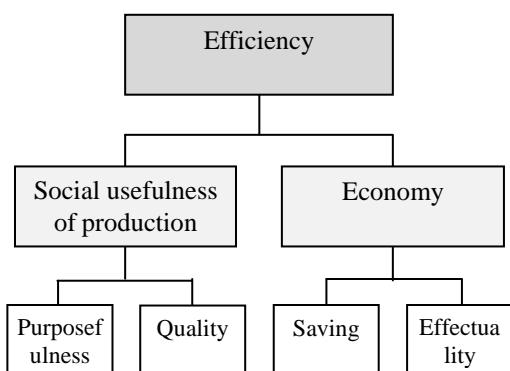


Fig. 1 Aspects of economic efficiency of production
Chyba! Nenašiel sa žiaden zdroj odkazov..

Social usefulness of production – this terms specifies that products, i.e. performance of the production must in a certain way satisfy certain social needs.

Economy can be reached by two complementing ways – saving and effectuality.

Neither social usefulness nor economy can be separated or considered different aspects. Any preference or underestimation of one or the other can lead to efficiency decrease.

3. THE ANALYSIS OF AVIATION COMPANY ABS JETS, A. S.

The company ABS Jets, a. s. is an internationally awarded, world-class private aircraft operator of the

Business Jets category with bases at Prague Airport and Bratislava Airport. The company ABS Jets, a. s. is one of the few companies in Central Europe which has financial and human resources to support and implement the system required for the operation of aircrafts on the highest level of safety and security. The crew of this company consists of the most experienced and best trained experts in the industry. **Chyba! Nenašiel sa žiaden zdroj odkazov.**

In 2009 ABS Jets, a. s. received the “Best company in the field of business aviation” award from the prestigious magazine Overseas Living. In addition to the quality of the company services, the jury also appreciated the comprehensive variety of services that ABS Jets offers to its clients.

Established in 2004, ABS Jets, a. s. is proud to be a professional partner in the following organisations: EBAA (member), NBAA (member) a RUBAA (member).

3.1 Product sales of the company ABS Jets, a. s.

The product sales represent a decisive indicator, level of social need, quality as well as profit (Fig. 2). Constant increasing tendency of revenue during global economic crisis with significant impact on aviation which fully manifested itself in 2009 says that clients of this company are solvent and at the same time there is a need for such services.

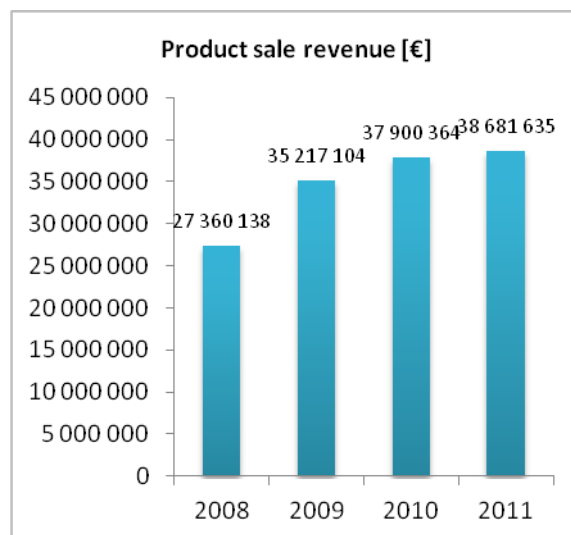


Fig. 2 Product sale revenue

The biggest slump of year-on-year revenue increase from product sale can be seen between the years 2009 and 2010 how you can see in Figure 3. It is caused mainly by the global economic crisis which burst out at the end of 2008 and culminated in the first half of 2009.

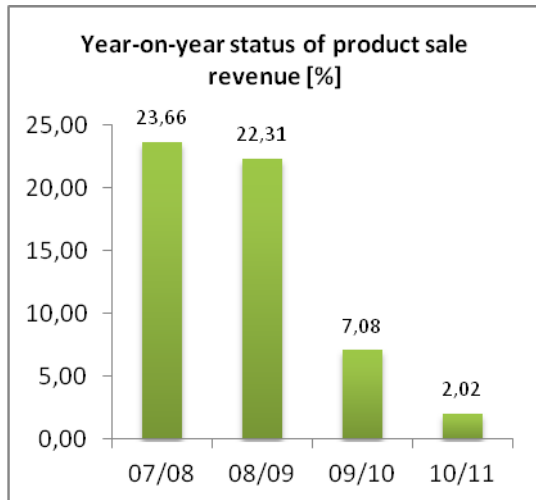


Fig. 3 Year-on-year status of product sale revenue

The reasons for the decrease of revenue increase are many, however, insufficient customer orientation or insufficient programs for obtaining new clients are most probable.

3.2 Structure of profits and costs

In case of *total profits* one can see a relatively acceptable growth which represents an average year-on-year increase by 1 200 000 €. However, we cannot forget about costs growth which is not striking but deserves attention.

The biggest growth of *total costs* is between the years 2008 and 2009, in particular by 7 891 197 €, also due to introduction of the handling service at the Bratislava airport and due to introduction of maintenance for the new type of aircraft Phenom 100.

Company costs climbed up to high values due to high share of foreign capital. Profits as well as are growing due to higher operation and scope of provided services. However, the economic results has a downward tendency, mainly as a result of high share of foreign capital.

3.3 Economic results of ABS Jets, a. s.

Economic results and year-on-year state for accounting periods can be seen in figure 4 and figure 5.

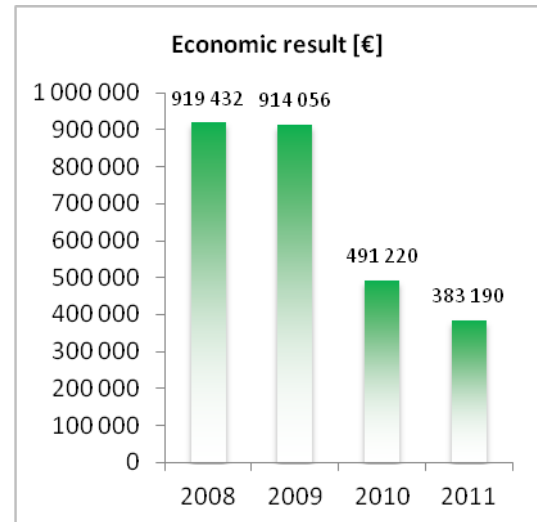


Fig. 4 Economic result

Economic result of the company has downward tendency and in case of year-on-year increase we can see the intensity of descent. The company maintained similar profit like in 2010 in comparison with 2011, but the descending tendency can be seen here (Fig. 4).

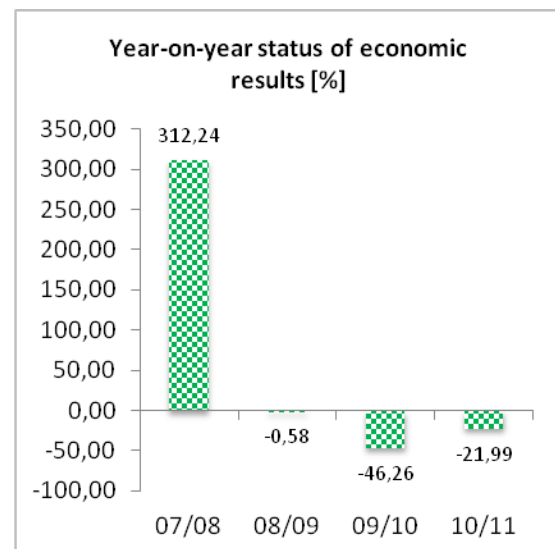


Fig. 5 Year-on-year status of economic results

The most considerable year-on-year descent or slump can be seen between the years 2008 and 2009, where the economic result had been kept on the same value but in figure 5 in the year-on-year comparison there is a loss amounting to 0,58.

4. POSSIBILITIES TO IMPROVE ECONOMY IN ABS JETS, A. S.

Improvement of economy activities of ABS Jets, a. s. represents a substantial influence on the management

of this company, because in the financial indicators or analysis change indicators occurred and below I point out several fields of management improvement. The following proposal changes are in the blue cells written in orange for year 2012, which belongs to the past but follows after the period from which we have available data.

4.1 Proposal in the field of profits

I have increased *the operational profit* of the company from 39 047 923 € to 39 100 000 € within the profit increase (Chart 1). I would increase the profits by means of more effective production on all levels, in particular revenues from product sale.

Chart 1: View of proposal in the field of profits

Profits	2011	%	2012	%
Operational	39 047 923	99,10	39 100 000	99,24
Financial	354 607	0,90	300 000	0,76
Other				
Total	39 402 530	100,00	39 400 000	100,00

Within *financial profits* I decreased their share from 354 607 € to 300 000 € due to proposal to decrease emission of bonds, whereby the share of financial profit will decrease.

4.2 Proposal in the field of costs

I decreased *operational costs* from 37 302 313 € to 36 940 000 € due to high operation costs which decrease the profit share (Chart 2). I decreased *financial costs* from 1 717 026 € to 1 510 000 € how you can see in chart 2.

Chart 2: View of proposal in the field of costs

Costs	2011	%	2012	%
Operational	37 302 313	95,60	36 940 000	96,07
Financial	1 717 026	4,40	1 510 000	3,93
Other				
Total	39 019 339	100,00	38 450 000	100,00

Reason is costs interests which the company is obliged to pay due to high share of foreign capital, but we should not forget about the bond emission which the company began to emit in September 2011. Profit from these bonds for one owner represents 6,50 %. Decrease in share of foreign capital results from this.

4.3 Proposal in the field of capital structure indicators

Here I will emphasize selected indicators such as *Degree of coverage of fixed assets by own capital* (Chart 3) which rose from original 27,4 % to 37,01 %. It is

caused by the increase of own capital share such as my proposal.

Chart 3: View of proposal in the field of capital structure indicators

Capital structure [%]	2011	2012
Degree of coverage of fixed assets	109,30	103,58
Degree of coverage of fixed assets by own capital	27,40	37,01
Degree of financial independence	25,61	38,99
Share of foreign capital	390,49	256,50
Share of own capital	20,17	27,74
Total indebtedness	78,75	71,16
Degree of long-term indebtedness	298,88	179,86

The most serious financial problem of ABS Jets, a. s. is the *share of foreign capital*, which after adjustment has been decreased from 390,5 to 256,5. However, it still presents a huge risk for the future of the company. *Total indebtedness* slightly decreased but the most important indicator is the *degree of long-term indebtedness* which changed from original 298,88 % to more acceptable 179,86 % year-on-year. Individual indicators of capital structure after the implementation of proposal lead to better management (Chart 3).

5 CONCLUSION

Efficient management of business is preceded by a detailed analysis of business finances and adequate financial indicators as important part of prevention of unfavourable development of the business economy and provision of its stability and growth also during economic crisis which in a significant way influences financial indicators of business.

Main change indicators include mainly financial indicators whose decrease or stagnation represents a warning for the management and reason for change and implementation of measures before it is possible or less radical for the company. I think that the field of foreign capital share and resulting profit interest load which reached record values in this company influencing its activity and function significantly are the most substantial change indicators. It is necessary to carry out the proposed changes in a comprehensive way through the organisational structure, property structure of the company, management through individual items of company assets whose benefit is to secure efficient improvement of management.

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