

# Problems and Countermeasures on Enterprise Value Assessment in China

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## Abstract

New economic and enterprise forms are appearing from time to time with the development of market economy as well as globalization of world economy. Accordingly, it is of particular importance and of great potential to assess enterprise value objectively, fairly, effectively and timely. Beginning with some problems on current enterprise value assessment in China, this paper then comes up with relevant countermeasures.

**Keywords:** China, Enterprise value assessment, Problems, Countermeasures

## 1. Introduction

With the trend of economic globalization, capital falls into wider flow, so do some other activities including privatization, joint venture, merger and acquisition, reconstruction, all of which involve enterprise value assessment. Since enterprises' financial target has been converted from profit maximization to that of enterprise value, enterprise value has attracted increasing attention from enterprise management authority. Named value assessment for short, enterprise value assessment is a method for economic assessment which is intended to analyze and measure enterprises' (or an operation unit or branch inside an enterprise) fair market value and provide relevant information in order to assist investors and management authority to improve their decisions. During the development of China's enterprise value assessment, theory lags behind practice. Therefore, it is an urgent issue in assessment theory how to assess enterprise value objectively and fairly and gradually integrate with international enterprise value assessment theory in current conditions with poor capital market and incomplete economic technical conditions.

## 2. Problems in China's Current Enterprise Value Assessment

### 2.1 Imperfect Legal System

Up to now, China has issued over 300 laws on asset management, exerting a positive role in enhancing the control on state-owned assets. However, since most of them are department laws, hence declined quality and insufficient legal authority, especially conflicts among laws leading to disorder, asset assessment suffers from disorder and lacks in universal standards as well.

### 2.2 Poor Quality of Asset Assessment Executives and Institutions

As is well known, asset assessment involves not only the evaluation and estimation on equipments, techniques, patented technologies and brands but prediction and analysis on enterprise potential, market outlook, promotion channels which go beyond the capacity of general accounting and audit personnel. Therefore, current assessment personnel have poor quality and low efficiency generally. What's even worse is that some assessment personnel neglect relevant laws and regulations and violate vocational morality impelled by economic interest by simplifying assessment procedures in order to reduce cost or giving false reports to please their clients, hence disturbing the sound development of the whole assessment industry and arousing relevant credit crisis.

### 2.3 Unscientific Methods

Here assessment methods cover a wide variety including the market-oriented method, the profit-oriented method and the cost-oriented method. Although all of them are universal to the whole world, China has no scientific method for its enterprise value assessment. Since it is not stipulated which method should be chosen, relevant personnel just make their choices quite randomly, even take advantage of this choice to control the result of value assessment.

### 2.4 Emphasizing Visible Asset Value while Neglecting Invisible Asset Value

With production internationalization constantly deepened, invisible assets have achieved increasingly elevated roles in modern enterprises. Therefore, it is quite essential to the merger and acquisition of modern enterprises

and to the development of property rights market to emphasize the assessment of invisible assets. Nevertheless, with focus on real assets, invisible assets such as human resources, brand, reputation, sale network, intellectual property right get neglected, hence leading to the loss of a large amount of national assets.

### **3. Countermeasures to Strengthen Enterprise Value Assessment**

#### *3.1 Establishing Universal Legal System on Asset Assessment*

It is incomplete and divided laws and regulations on asset assessment, China's asset assessment has to suffer from broken pattern and multi-polar administration. Therefore, a universal legal system should be established as soon as possible to guarantee the sound and orderly development of the whole asset assessment industry. Currently, the following laws and regulations should be established:

- (1) Administration on state-owned property Assessment is expected to be amended and Asset Assessment Administration Law should be established at the proper time to straighten out the administrative system for capital assessment, to clarify the principal status of state-owned asset administrative management departments and the administrative governing role of asset assessment unions.
- (2) China Certified Public Asset Estimator Law should be issued to implement management over certified public asset estimators in a legal form and to better exert their agent service role in maintaining owners' rights.
- (3) Basic principles, vocational moral standards, quality control standards and continuous education standards should be laid down to constitute the framework of China's asset assessment standards, based on which specific standards can be established.

#### *3.2 Actively Improving Assessment Personnel's Overall Quality and Level*

(1) Since assessment personnel are those directly participating in asset assessment, their quality plays a critical role in asset assessment. As a result, staff construction should be attached great importance to in order to improve their quality. First, they should receive more education in legal regulations and vocational morality to form an internal operation mechanism with a combination between control and self-discipline in order to have standardization construction through which those unqualified people will be dismissed and those violating laws should commit corresponding legal responsibilities. Second, current personnel should be trained in vocational qualities, such as vocational training in a planned and organized way, annual assessor evaluation system to select the superior and eliminate the inferior; relevant personnel should be more enthusiastic about grasping latest development in the world, summing up scientific and reasonable assessment methods and technical standards in order to improve efficiency.

(2) Special Certification on Enterprise Value Assessors' Qualification should be established. Actually, the wide range of fields a certified asset estimator covers determines his poor quality. It could be better to have respective qualification certification in different estimators and for those highly trained personnel working on enterprise value assessment, special examination and certification should be held to improve corresponding skills.

#### *3.3 Clarifying How to Choose Assessment Methods for Invisible Assets to Reduce Control Space for Asset Assessment Personnel*

Since cost laws are generally lacking in complete measurement system, estimators are suggested to use the invisible asset assessment method quite cautiously. In addition, the effectiveness of market laws relies on the completeness of capital market. If Chinese capital market fails to truly reflect an enterprise's market value, this method may result in big errors. Restricted by the precision of assessment index prediction, the profit-oriented method may also lead to artificial control in assessment.

Therefore, government should lay down the market-oriented method and the profit-oriented method as the basics for enterprise value assessment and ask for corresponding adjustments with changes in conditions. Meanwhile, the process of enterprise value assessment should be recorded or audited to deter assessment personnel to reduce their motivation for control and cheating during the course.

#### *3.4 Emphasizing the Assessment on Invisible Assets*

First of all, the importance of invisible assets should be made clear. For example, a famous brand will help to expand market, occupy market and promote sales by gaining consumers' trust; patented technologies and products can lower cost, improve product quality, earn advantages in market competition and therefore earn huge profits; by adopting advanced management methods, enterprises with high reputation can bring about vitality for their survival and development. Accordingly, relevant information should be publicized to improve the public's knowledge about invisible assets.

Second, legislative and executive efforts related on invisible assets should be enhanced. In spite of the large amount of laws and regulations on invisible asset protection, most of them are related to principles instead of practical operation. Corresponding standards with strong operability should be laid down in standards and methods for invisible asset assessment, in which the cost created from invisible assets of all sorts (cost for R&D, cost for design, cost for utility right, cost for advertising) and the added value brought about by invisible assets ( the added value of famous-brand products, reputation value in accounting system) should be included in the value of invisible assets in order to solve the shortage of laws and regulations in this aspect.

### *3.5 Strengthening Management on Enterprise Value Assessment*

In order to effectively assess enterprise value, government should establish special functional departments for assessment management, in which special personnel should be held to have examination on the result of enterprise value assessment.

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