

EDITORIAL: Introduction on Special Issue on Modern Corporate Finance: New Approaches and Decisions

Tatiana Filatova*

Financial University under the Government of the Russian Federation, Moscow, Russia

Modern economy is characterized by economic and financial growing. In these conditions, in the field of corporate finance and corporate management, problems arise that require new approaches and decisions. The quality of these decisions and approaches will largely determine financial stability both at the level of individual companies as well as the economy as a whole. In the world, the process of globalization is intensifying, and thus economic instability in one country affects the stability of other countries.

Last decade some modern theories, approaches and innovative technologies have been developed in **corporate finance**: among them Brusov–Filatova–Orekhova (BFO) theory of capital cost and capital structure (see monograph *Modern Corporate Finance, Investments, Taxation and Ratings* Brusov Peter, Filatova Tatiana, Orekhova Natali, Eskindarov Mukhadin, Springer Publishing, 2018), new approach to ratings methodologies (see Special Issue of *Journal of Reviews on Global Economics* "Recent development of capital structure theory and its application" by Peter Brusov, volume 7, 2018), Financial technologies (**FinTech**) in corporate finance etc. Results of modern BFO theory turn out to be quite different from ones of classical Modigliani–Miller theory. They show, that later, via its perpetuity, underestimates the assessment of weighted average cost of capital, the equity cost of the company and substantially overestimates the assessment of the capitalization of the company. Such an incorrect assessment of key performance indicators of financial activities of companies has led to an underestimation of risks involved, and impossibility, or serious difficulties in adequate managerial decision-making, that was one of the implicit reasons of global financial crisis of 2008 year. BFO theory has destroyed some main existing principles of corporate finance: among them trade off theory, which was considered as

keystone of formation of optimal capital structure of the company during many decades, as well as some others.

The monograph by Brusov Peter, Filatova Tatiana, Orekhova Natali, Eskindarov Mukhadin "Modern Corporate Finance, Investments, Taxation and Ratings", Springer Publishing, 2018, describes three modifications of BFO theory:

BFO–1, which is applicable to describe the companies of arbitrary age;

BFO–2, which is applicable to describe companies of arbitrary lifetime, when company ceased to exist at the arbitrary time moment n ;

BFO–3, which is applicable for rating needs.

The most important areas in the field of corporate finance are as following:

- valuation of capital and growth strategies (cash flow and capital structure management, financial risks, risks of capital raising, financial instruments of the capital market, methods of valuation of business, financial forecasting and growth strategy of the corporation, dividend policy of companies etc);
- investment and financial policy;
- the recent developments of innovative technologies (**FinTech**) in corporate finance;
- green finance and green economy.

One aspect of the investment study is as following: according to the World Economic Forum's Global Risk Report, the risks of sustainable development or environmental, social, and governance (ESG) risks are among the top five major global risks in terms of their significance. But it turns out that the factors and risks of ESG are not adequately reflected in the companies' reports. There is an obvious information gap that

*Address correspondence to this author at the Financial University under the Government of the Russian Federation, Moscow, Russia; Tel: +79060907715; Fax: +79060907715; E-mail: TVFilatova@fa.ru

makes it difficult to integrate the key ESG aspects and associated risks and opportunities with a mechanism for evaluating the effectiveness of investment and financial decisions. It is necessary to study the level of the problem development, to analyze the compliance of information disclosed in corporate reporting with the requirements of the investment community, to provide a comprehensive assessment and the feasibility of applying methods for the integration of financial and non-financial information.

Let us mention a couple more problems, which will be discussed. Now the largest institutional investors and exchange-traded funds invest a great part of their portfolio in the assets connected with environmental-friendly activities. "Green" financial instruments can accumulate resources for climate change adaptation and infrastructure project in areas such as renewable energy generation, energy effectiveness, clean water, low-carbon transport, etc. Thus, the concept of sustainable development not only pay attention to the climate risks but also creates new factor of investment attractiveness and makes the investment process more conscious and less speculative. Governments are also interested in the development of "green" instruments as their can play a significant role in the adaptation to the climate change and movement of the capital flows from the financial sector into the ecological industrial projects.

At the present time it is customary to consider the financial stability in the macroeconomic aspect. The existing methodology of its assessment covers mainly the financial market. At the same time, due attention is not paid to companies operating in the real sector of the economy. In this regard, the development of indicators of financial stability at the micro level is an urgent task, the solution of which will greatly contribute to improving the efficiency of the economy as a whole and the stability of its individual sectors.

It is important to discuss the main directions in improvement of methodology and methods in external and internal quality control considering the audit boundaries expansion, change of targets, which have to be solved in auditor's report, of recent trends in audit service structure.

The development of global economy is nowadays directly linked with the development, implementation and use of high technologies. Rapid changes in the market and globalization of the economy result in the innovation ability becoming a major competitive

advantage for both commercial organizations and for states as a whole. Big attention in this Special issue is given to new innovate financial technologies (Fintech).

The objective of this special issue is to provide a platform for the discussions of researchers and academicians on this important issue. This special issue focuses on advanced topics in Modern corporate finance, on new approaches and decisions in this area.

ABOUT THIS SPECIAL ISSUE

In existing rating methodologies, despite their breadth and detail, there are a lot of shortcomings. The first paper of the current Special Issue **Ratings of the long-term projects: new approach** by T.V.Filatova, P.N.Brusov, N.P.Orekhova, V.L.Kulik continues create a new approach to rating methodology: in addition to two papers, which have considered the creditworthiness of the non-finance issuers (see Special Issue of Journal of Reviews on Global Economics "Recent development of capital structure theory and its application" by Peter Brusov, volume 7, 2018), the authors develop here a new approach to project rating. They work within investment models. created by the authors. The important features of current consideration as well as in previous studies are: 1) The adequate use of discounting of financial flows virtually not used in existing rating methodologies, 2) The incorporation of rating parameters (financial "ratios"), used in project rating, into considered modern investment models. This paper along with two previous ones creates a new basis for rating methodologies.

The impact of the collateral value on the assessment of credit risk in the framework of the Advanced IRB approach is analyzed in the paper **Problems of determining the cost of collateral in the conditions of implementation Basel II, III standards in Russia** by Marina A. Fedotova, Tatiana V. Tazikhina, V. Nadezhdina, Inna V. Raeva. Paper proves its impact on the LGD parameter and also provides a statistical analysis of the linear and multifactor models of the LGD score in order to detect a positive correlation. Based on the analysis, factors that influence the cost of collateral and the valuation of LGD are determined. It is shown, that the valuation of collateral provides a significant influence on the measurement and management of the LGD indicator in conditions of building an Advanced IRB approach.

Olga V. Efimova in the paper **Integrating sustainability issues into investment decision**

evaluation investigated the issues of integrating ESG factors into investment decision-making process. Based on the available investor surveys, academic research, the analysis of the Russian companies' non-financial reports, Bloomberg ESG data, Corporate Sustainability and Responsibility indexes and their sectoral aspects, as well as Russian ecological-stock index ERAX and stock exchange index MICEX dynamics the paper concluded that ESG factors have a material impact on corporate financial performance.

The relationship between the book and market value and the price (level of capitalization) of the business, and study of the nature of the relationship of these indicators with the traditional financial ratios are analyzed in the paper **Value and price of Russian business: the entity, the relationship and impact of financial indicators** by Kosorukova Irina, Plyasova Svetlana, Prokimnov Nikolay, Rodin Alexander. This gives the possibility of forecasting of development and decision-making within management of business' value, and also more effective investment of means in securities.

Many fintech start-ups participant companies and cryptocurrencies have experienced phenomenal growth in value during the past several years. Many specialists would like to know the reasons for such success. In the paper by Andrey A. Gusev **Public opinions impacts on cryptocurrency valuation: a view from behavioral finance perspective** author investigates the predictive power of public opinions. This is one of the few works that using quantitative analysis connects social media and internet users' activities with cryptocurrency valuations.

At the present time it is customary to consider the financial stability in the macroeconomic aspect. The existing methodology of its assessment covers mainly the financial market. At the same time, due attention is not paid to companies operating in the real sector of the economy. The paper **Creation of Corporate Financial Stability Index: Integrated Approach** by Lukasevich I.Y., Lvova N.A., Sukhorukova D.V. proposes a methodology for developing indices of financial stability of companies, which allows to take into account both qualitative and quantitative assessment of relevant factors.

As we mentioned above now the largest institutional investors and exchange-traded funds actively invest into so called "Green" finance - the assets connected with environmental-friendly activities. The paper

Investment attractiveness of "green" financial instruments by Alina Shaydurova, Svetlana Panova, Raisa Fedosova, Galina Zlotnikova is devoted to investment attractiveness of "green" financial instruments. Nowadays this problem becomes very important.

Peculiarities of business activities of printing companies under current conditions, the necessity of assessing financial stability of printing companies have been discussed in the paper **Assessment of the financial stability of russian printing companies: business services sector** by Raisa Fedosova, Alexander Lisovsky, Anastasia Yussuf, Svetlana Panova and Galina Zlotnikova. To analyze the status of printing companies Altman's methodology that is based on a five-factor model for predicting the insolvency risk of companies was applied. The results of this study may lay the foundation for further studies of urgent issues related to the analysis and evaluation of the financial sustainability level of printing companies.

The modern conditions of construction companies' activities in Russia are influenced by various processes: developing globalization, limitation of free trade due to economic sanctions, man-made disasters growth, worldwide digitalization, constantly evolving technologies. The purpose of the paper **External Risk Factors Influence on the Financial Stability of Construction Companies** by N.V. Kapustina, A.N. Rjachovskaya, D.I. Rjachovskij, L.V. Gantseva is to develop a model for assessing risk factors' impact on the financial stability of construction companies using regression analysis based on dependencies between risk factors and financial stability of construction companies on the basis of statistical data over the past 10 years.

The empirical implementation of the prospect theory is discussed in the paper **Testing the value function of the prospect theory on Russian M&A market** by Semen Y. Bogatyrev. The subject is a value function graph. The graph itself has never been plotted on a real empirical data but in this paper a real market situation is considered. Logical indicators which describe and measure the market's actor's status and their intensives in different behavioral strategies are proposed.

Marketing activities of companies and their influence on the companies' investment attractiveness are studied in the paper **Evaluation of the marketing influence on the investment attractiveness of the**

company by Elena Tyutyukina, Inna Lukashenko, Tatyana Sedash, Kristina Ivanushkina, Anatoly Danilov. Based on the role and content of marketing in modern conditions, the authors evaluate investment attractiveness by indicators characterizing cash flows and efficiency of the company's activities.

The audit activity quality control established in Russia is analyzed in the paper **New approaches to the estimation of the auditor organization activity quality** by Amerslanova Aynara and Melnik Margarita. The principal directions in methodology and methods improvement in external and internal quality control considering the audit boundaries expansion, change of targets, which have to be solved in auditor's report, of recent trends in audit service structure, are outlined. On the base of the principal propositions made according to audit examination performed on different levels suggestions for correcting standard and methodic documents regulating the audit activity are substantiated.

The efficiency of cash flow management determines the efficiency of company management in whole. And his management should use the integrated indicator of the effectiveness of cash flow management in making management decisions. The novelty of the paper **Improving the calculation of the efficiency assessment of cash flow management in high-tech industries** by Alexey. V. Kemenov, Tatyana. V. Abalakina, Olga. I. Zhukova is in the development of the advanced method of calculation of the integral indicator of the efficiency of cash flows management at the high-tech enterprises.

The outsourcing efficiency evaluation mechanism accounting for the interests of all participants of a corporation restructuring and for the risks of company transformation are investigated in the paper **Corporate outsourcing evaluation financial mechanisms** by Yury M. Tsygalov, Ekaterina E. Dorozhkina, Alexey V. Dorozhkin, Igor I. Ordinartsev. Research methodology is based on the application of systemic and institutional approaches, induction and analysis, comparison and generalization. The outsourcing efficiency evaluation methods have been analyzed.

Most small business organizations are constantly lacking financial resources. This situation is associated with a small amount of own funds and the difficulty of raising borrowed funds. In the prevailing conditions, the need for well-founded financing management, this ensures the stable financial condition of a small

organization, increases. Modeling the process of financing an organization, done in the paper **Modeling the process of financing small organizations** by Natalia Morozko, Nina Morozko, Valentina Didenko allows to consider different financing options, to influence the most significant factors in a particular situation. It is proposed to use the cognitive approach for dynamic management of the financing process and the choice of a rational variant based on the logit model.

The future economic development of the country depends on the development and implementation of new technological researches that can make a certain breakthrough in providing technological and economic growth. Paper **Prospects for the use of private sector capital in the development of high-tech industry** by Alexey. V. Kemenov, Nikolay A. Okatyev, Vladimir K. Proskurin, Boris V. Proskurin discusses the prospects for the use of private sector capital in the development of high-tech industry.

The dividend policy of information technology companies with the highest growth rates and a comparison of cash dividends and stock buy backs in terms of cost of capital optimization and increase of enterprise value are investigated in the paper **Dividend policy and its influence on the cost of capital** by Svetlana V. Shchurina, Elvira F. Mustafina. Besides the paper presents a comparison between the dividend policy of US and Russian technology companies and concludes that Russian policy is less complicated due to relatively low country market capitalization and short dividend policy background.

The relevance of small business development as one of the important categories of taxpayers plays an essential role in the formation of the revenue side of the budget, as well as in the solution of social issues in society. The novelty of the paper **The development of taxation of small business in Russia in the conditions of the digital economy** by Zhuravleva I.A. lies in the fact that the problems of investing and taxing small business are based on the prospects of digitalization of the economy. The purpose of this paper is to address the identified problems of small business taxation in the rapidly changing information and communication technologies, Internet sites, the emergence of new paradigms and business models.

Modernization of the company's fixed assets is a necessary condition for its development and competitiveness. The problems of such modernization

are studied in the paper **Modernization of the company's fixed assets: critical factors that affect the capital budgeting decisions** by Svetlana V. Shchurina, Marina A. Prunenکو. Assessing projects and efficient allocation of the capital depend on the project requirements. The identification of the critical factors makes it possible to compile a realistic investment budget of the company. It also contributes to the optimal solution of the problem of modernization of fixed assets. The capital investment decision of project ranking plays a crucial role in capital investment decisions.

The extensive world practice and its invaluable experience in the field of formation of effective investment and dividend policy can help to solve a number of problems to the Russian public joint-stock companies. The analysis, systematization and generalization of the theory and practice of payment of dividends by Russian joint-stock companies, forecasts are made in the paper **Investment and dividend policy of oil and gas and other Russian companies: financial aspect** by V.F. Gaponenko, O. I. Zhukova, R. R. Alaberdeev, Kh. Sh. Kilyskhanov, E. A. Teterina.

The factors weakening the ability to achieve success in mergers at stages of their implementation are determined and the necessity of measures, preventing failure of transaction is evaluated in the paper **Problems of the Russian market of merger and absorption transactions** by Ermolovskaya O.Yu. It is considered that mergers and acquisitions, despite their attractiveness for increasing business value even in times of deteriorating financial situation, carry many risks. In order to achieve desired effects, the parties involved in transaction must anticipate internal and external factors that can destroy the success of transaction on stages of preparation, closing the deal and in integration period, which determines the necessity of developing measures, minimizing negative effects of unsuccessful outcome of transactions.

The concept of a system of common valuation standards in the countries of the Eurasian Economic Union is discussed in the paper **Nature of the system of common standards for valuation in the countries of the Eurasian Economic Union** by Grigoriev Vladimir. Much attention is given to the necessity of creating a system of unified standards, its composition and structure. It is spoken in detail elements of the codification of evaluation standards. The paper gives a detailed analysis of the results of implementing a system of common standards in the practice of

assessing the countries of the Eurasian Economic Union.

The perspectives for the Russian venture capital development as an integral part of its global sector are studied in the paper **Venture capital in Russia and the global evolution of venture capital** by Eugenia L. Moreva. Paper provides the analysis of the Russian venturing development in the lens of the Global Venturing evolution. The analysis results with the determination of the content transformation of the global venturing, the Russian included, and provides the basics for its further efficient governance.

Unique challenge for regulators is in developing comprehensive regulatory instruments tailored towards complexity and considerable segmentation of banking real estate portfolios as well as factoring in potential impact of real estate markets volatility on banking sector stability. Paper **Impact of banking real estate as an asset class on financial system stability: monitoring, forecasting, management** by Sternik S.G., Teleshev G.V. considers impact of banking real estate as an asset class on financial system stability: monitoring, forecasting, management. Authors believe that financial regulators may, in setting their overall policy, greatly benefit from solution of the very important practical and scientific problem – namely, determination of the level of influence and corresponding mechanisms of the real estate markets values dynamics on financial system stability.

A question, whether the price volatility and financial risks are the main factors influencing required return on capital, is studied in the paper **The impact of financial risk and volatility to the cost of debt, and the average cost of capital** by Pavel Zhukov. The author gives a negative answer and the outcome is – traditional WACC, based on volatility and capital structure badly describes required return on capital. Then it is poor approximation for discount rate applicable for company cash flows. So, preferable way for practical assessment may be the use of projected cash flows and implied stochastic discount rate, calculated by empirical data.

High level wide discussions of recent development of the corporate finance have been provided in the current Special Issue. Many important problems that are relevant in recent times are touched upon. The results obtained undoubtedly advance our better understanding of the problems of corporate finance and indicate ways of solving these problems. These results

will be required and used by the management of companies and corporations, in particular by management of investment companies and insurance ones, rating agencies and others.

I thank all contributors for participating in this special issue, for useful discussions and obtained solutions of the discussed problems on modern corporate finance, investments, taxation and ratings. As well I thank referees from different countries for their reading of papers and given recommendations, which help very much to improve the papers.

REFERENCES

- Brusov Peter, Filatova Tatiana, Orekhova Natali, Eskindarov Mukhadin. Modern Corporate Finance, Investments, Taxation and Ratings, Springer Publishing, 2018, 698 p.
- Special Issue of Journal of Reviews on Global Economics "Recent development of capital structure theory and its application" by Peter Brusov, volume 7, 2018