CURRENT CHALLENGES IN THE FINANCIAL MANAGEMENT IN THE PRIVATE SECURITY COMPANY

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Abstract*: The value added in the private security company is a concept for the newly created customer satisfaction and advantages for the business. It's tactical management and assessment are based on information for the costs and benefits of current security operations. It's stategic decisions and dimensions integrate also data on financing, cash flows, investment risk, the market.*

Keywords*: private security, company, management, finance, value added*

Introduction

The dynamic processes in the economy and society require adequate improvement of financial management in the private security industry. It is increased the diversity of the supplied and demanded non-public security, it is accelerated the uprading of the performed security services, it is increased the importance of quality, customer satisfaction and incentives for preference. It is growing the role of digital technologies in the process of counteracting threats to human life and health as well as against property risks of individuals and legal entities. The informed and active consumer appears on the market. There are conditions for the success of untraditional competitors.

The financial management of the private security company is focused on developing suitable goals and measurable criteria for success.Traditional accounting indicators which are concentrated on operative processes and allow control and analysis of real costs and revenues present limited opportunities to forecast long-term growth. More crucial is the need of strategic evaluation of the costs and benefits of research, innovations and sustainable relations with customers. It is necessary to formulate unambiguous, universal and long-term indicators for the increase/decrease of the entrepreneur's wealth in the private security company.

The present research is dedicated to the approaches for evaluation the effectiveness of value added management in the private security company.

The aim is to propose indicators for measurement of the contribution of current operations and strategic initiatives to increase wealth in the short and term perspective of the investor in the private security company.

In the development is consistently clarified the transformation in the content of value added in the context of the digitalizing economy and society; it is characterized tactical management and assessment of value added; represented are long-term deicisions and performance indicators which concern the growth of the invested capital.

1. Value added in the private security company

„Value added" is a definition for the effectiveness of private security company (PSC). It shows the success in creating non-public security for the protected objects – individuals, possessions, events, valuable deliveries. It estimates the size of security services that are performed for a period of time but reduced by the value of intermediate consumption (of consumables, external services, rent on technical equipment and others) [8, 10]. In the PSC is measured the result of transformation of business strategy in specific goals and practical realizations. The quantitative and qualitative parameters of value added characterize the rationality of the senior management decisions as well as the work productivity of employees. It's management combines the stability of long-term intentions and dynamic of tactical implementation.

According to the conditions of industrial economy, the value added in the PSC represents the financial result in the creation of standardized security in a large volume at relatively low prices. The value added is formed in the course of cyclically repetitive operational processes for protection of the bodily integrity of individuals, protection of real and movable assets, video surveillance and notification, provision of access regime and others. It measures the rationality of the use of personnel, technical equipment and vehicles. It is also a function of the quality and usefulness for the customers of the created non-public good security. The value added is generated mainly within the short wave of the value chain [3]. In order to gain high value added, the PSC focus on the performance of the already popular services to already existent (real) clients. In the financial management coming to the fore are the planning and control of the exact and rhythmic implementation of current security processes, the prevention of loss working hours, the rational use of material resources. Special attention is paid to the decrease of costs for the created services as well as achieving economies of scale and optimizing the risks in the relationships with external suppliers and customers. Virtually, financial solutions reflect the gained popularity since the middle of the XX century understanding that „the management of operations is the most essential element of an organization's strategy“ [4, p. 69].

The digital transformation in the economy changes the sources of value added in the PSC. The newly created value is starting to take shape in the context of dynamically changing needs from non-public security and safety, individualization of supply and demand, intensification of market influences; it appears the informed, competent and active consumer. [1, 2] The PSC becomes limited able to offer services independently of customers. In a source of competitive advantages – together with operational perfection, they become detailed knowledge on the market, mutual cooperation with suppliers of technical equipment and external services, loyalty of personnel and consumers. Management is aggregated with the thinking of individuals and the security policies of legal entities. In the financial management firstly appears the exact assessment and analysis of threats and respectively protection needs, the accelerated upgrade of security algorithms and methods, the introduction of innovative solutions for signal security activity, monitoring and response. More and more crucial competitive advantages are the awareness and knowledge of the personnel directly involved in security, organizational culture and information infrastructure. Financial decisions are binded with design, supply, and the implementation of both already existent services and new proposals to acquaintances and potential customers. The activity of PSC overall becomes orientated towards the individual jointly creation of values.

The value added in the PSC is an improving conception of newly created customer satisfaction and financial income during a certain period of time. It's content is formed both in the course of cyclically repeating security operations and as a result of investing staff training, technical and product renewal, improving the image and building sustainable relations with customers. It reflects the effectiveness of the sum of activities that start with the identification of threats to the security of the protected object and the development of an individual security solution, they go through the actual performance of the security service and complete with maintaining the cooperation after the end of security services [3]. In this sense, the value added focuses the skills to effectively detect threats for the protected sites, development of individual security solutions and building strategic cooperations with consumers [3]. At the same time, it guarantees the right of the owners and personnel to participate in the distribution of „that part of the income that remains after paymets of third parties for services, materials, equipment“ [8, p. 266].

The financial managements of the value added in the company of the private security industry consists of solutions that concern the assembly and investment of capital in technical equipment, communications, vehicles, qualification of personnel, organizational culture. They assist in the performance of the current security operations as well as for the accomplishment of strategic research on the market, development of new services, attracting and retaining customers. They determine the growth of customer safety and entrepreneurial profit in the short and long term.

In the financial managements of the value added in the PSC, two groups of decisions can be differentiated with a dose of conditionality – tactical and strategic.

2. Tactical decisions for value added

The tactical management of gathering and investment of capital in the PSC is based on the understanding that non-public security is created in economically and organizationally separate structures. They are complexes of technical systems, buildings, immaterial rights, vehicles and other resources with long and short term use. In the process of their function, they create defense of the protected objects for which they receive financial revenues in the form of cash. The latter are used to pay expenditures for labour, materials, depreciation, rents and others. In case of excess of revenues over costs, a profit is made and vice versa – in case of higher expenses than revenues – a loss.

The tactical decisions for the value added in the PSC are collected from the accounting information for business results, regardless of the ownership of the used resources in the operational activity. It's object is the daily operation isolated from the parameters of the financial structure and corporate income taxation. It finds final expression in the revenues from sales of security services but without reflecting the price of the capital and the price of own financing. Therefore, the tactical management of the value added has a short-term perspective. It is very suitable for control and analysis of financial costs and benefits of already implemented security operations. It may cover the company as a whole or only organizationally and/or functionally separate part of it.

The tactical management of the value added in the company of the private security industry covers a variety of processes that may be summarized in three groups – Incoming logistics, Production and distribution and Risk management.

a) **Incoming logistics**. These are many processes for acquiring external services and materials that are used in daily security activity. It may also include designing accurate specifications, ordering, receiving, inspecting, storage and payment.

b) **Production and distribution.** It is a combination of repetitive operational processes in which is created the non-public good security. In accordance to the value of the used labour, materials, depreciation and costs are formed financial parameters of the performed security services. In modern economy, increasingly important is becoming the availability and ouse of electronic systems for registering consumer wishes, purchases and payments of customers [4].

c) **Risk management.** It consists of minimizing the effects due to the unpleasant external and internal influences in the creation of the value added. Common practices are the improvement of the organization and technological equipment, the restructuring of the financing, the temporary hiring of staff, the compliance with the conditions on the market.

The tactical decisions about the value added in the PSC have a direct impact on the effectiveness of the personnel, technological equipment, vehicles and other material resources. They have a key role to play in the cost structure realization, organization and range of offered services. The results allow them to perform a larger volume of security activities with the same amount of available resources and that means accomplishing higher productivity per unit business capacity. Even though they do not guarantee a long-term stability, they take an important place in every management and control strategy.

For assessment and analysis of the tactical management of the value added in the private security industry, the following indicators can be suggested [8, 9, 10].

- **Value added.** Presents the absolute difference between Net sales revenues and the so-called Intermediate consumption (costs for external services, materials, rents and others):

$$\text{Value added} = \text{Net sales revenue} - \text{Intermediate consumption} \quad (1)$$

- **Value added per unit of sales revenue.** This is an assessment of the Value added contained in every unit Net sales revenues:

$$\text{Value added per unit of sales revenue} = \frac{\text{Net sales revenues} - \text{Intermediate consumption}}{\text{Intermediate consumption}} \quad (2)$$

- **Value added per unit of invested capital.** It represents the sum of the value added obtained of every unit of Invested capital:

$$\text{Value added per unit of capital} = \frac{\text{Net sales revenues - Intermediate consumption}}{\text{Invested capital}} \quad (3)$$

- **Value added per unit employee.** It measures the newly created value by Average number of staff:

$$\text{Value added per unit employee} = \frac{\text{Net sales revenues - Intermediate consuption}}{\text{Average number of staff}} \quad (4)$$

- **Value added per unit of labor costs.** It shows the newly created value with a unit of Labour costs:

$$\text{Value added per unit of labor costs} = \frac{\text{Net sales revenue - Intermediate consumption}}{\text{Labour costs}} \quad (5)$$

The indicators for evaluation of the tactical management of the value added in the PSC offer a methodical framework for making decisions regarding the effectiveness of the investments in technical security, vehicles and personnel. They are an easy to apply calculating tool and are provided with accounting information. They are suitable for control and analysis of the actual operational activity as well as for short-term planning of the business activity and business results. It’s content is characterized by a short time horizon but the lack of reflection of the time value of money, the alternative costs of maintaining capital, investment risks and uncertainty gives it a conditionally static character. At the same time, the outlined indicators above are an effective tool – they imply low cost of computing resources and can be used in small and medium sized security companies in conditions of regulated inflation at low rates.

The importance of tactical decisions fot the value added in the PSC decreases during the last decades of the XX century when starts the active use of information and communication technologies for security, fast renewal of services, diversification of the models of operational functioning and expanding customer relations. Increasing the benefits of the entrepreneur becomes a leading aim and the newly created value becomes a key indicator for the effectiveness of the company. Stakeholders are becoming increasingly interested in the structure and origin of the added value. Together with the profitability of the current security operations, they seek information on the impact of innovations, relations with customers, investment risks and surrounding environment. It is necessary to integrate the tactical solutions for the value added with the goals and parameters of the strategic management of the investment in the company.

3. Strategic decisions of the value added

The strategic decisions of the value added in the PSC are developed in the context of the notion that non-public security industry is an achievement of the individual competitive opportunities in the creation of a personalized security. In this way, it is increased the safety and protection of the protected individuals, property, real estate and other objects. For companies that offer security services, there are financial revenue and profit. The amount of the invested capital is increased in the security business. The short-term management goal – gaining a large spread between revenues and costs, gives way to the strategic aspiration in order to increase the wealth of the entrepreneur. Raising and investing financial funds becomes a function of both operational effectiveness and market tends, innovations, employee loyalty, long-term alliances with customers. Financial management focuses on making „decisions that help not so much for increasing current profit as much as raising the value of the company in the long-term“ [7, p. 34].

The strategic management of the value added in the PSC is a composition of solutions that concern the operational effectiveness but also the structure of financing, the tax optimization, the protection of the long-term risks. Their ideological basis is the theory of free enterprise and maximizing the wealth of the owners [7, p. 33]. They reflect the view „new value is created only then when the company receives a return of the invested capital exceeding the cost of it's raising" [6, p. 109]. The strategic management of the value added links the dimensions of the operational tasks and the parameters of the long-term goals. It concetrates on the sustainable dimensions of business investment and the effectiveness of the company through the prism of the required income from investors. It is distinguished by a clear focus on perspective.

The strategic decisions of the value added in the PSC cover a variety of processes. They can be divided in the groups Innovations and Customers.

a) **Innovations.** They present „the study of the emerging and latent needs of customers with the subsequent development of products or services to satisfy them" [3, p. 128]. In them initially are identified potential markets of non-public security, new customers and emerging or hidden needs of the already existing customers – individuals and existing entities, development of new services and helping in the conquer of new new markets. They help attract new clients, expand customer base, increase pofit and preserve customer loyalty. Innovation processes greatly affect the value added in the completion of security services, even though they may not directly reduce the cost [3, p. 130].

b) **Customers.** Building relations with customers embodies the change in the balance between the competitive powers on the market and the shift of the accent from the supply side to the demand side. It is becoming a managerial priority in the context of the modern notion that „today consumers rather alone decide the development of the business and not just react to market conditions or sales needs" [4, p. 109]. Customer relations of the value added towards the created products and customer services as innovations and operations. They ensure marketing effectiveness and stability of the company functions, security service executor.

The strategic decisions of the value added in the PSC are building a basis for development in the long-term, sustainable growth of the revenues and accomplishment of strategic profits. In them are created competitive advantages that determine the receipt of either price „premium" or higher sales in comparison to the average levels in the industry. However, observations of actual practice prove a missing strategy in a large part of security executors regarding innovations and customers. Companies perform unsatisfactorily in the preservation of the customer base, they do not deeply segment the market and do not have an adequate price policy.

The strategic management of the value added in the PSC is limitedly distributed in the Bulgarian business practice. The reason for this is the lack of knowledge and popularity of the innovative concept Value-based management (VBM). According to this concept, is a mechanism for creating value and well-being of the owners [7]. This view reflects the started transformation in the management and unites financiers and managers. It requires effective planning, control and analyzing of the overall business activity towards maximizing the value of the company according to the owners interests.

For assessment and analysis of the strategic decisions of the value added in the PSC are developed models based on the Economic Profit, Residual Income or Cash Flow.

3.1. Value added based on economic profit

The strategic management of the value added based on Economic Profit offers compromise between short-term and long-term perspective in the PSC. In it are overcome the limitations of accounting rules in the business through adjustments in the invested capital and operational profit. Making decisions concentrates on important sources of value added such as market brand, personnel competence, organizational culture, technologies, innovations, cooperation with law enforcement and others. The evaluation of the invested capital in the business for non-public security is close to it's cash value. The traditional accounting comparison between revenues and costs is inferior to the economic profit – „added result obtained from owners (stakeholders) over magnitude that they would receive from alternative investment options" [7, p. 53].

Suitable opportunities for evaluation and analysis of the strategic management of the value added in the company of the private security industry on the basis of Economic Profit are the models Economic Value Added and Market Value Added.

- **Economic value added (EVA).** It shows the potential for future growth by combining the assessment of current profitability and the price of the invested (individual and borrowed) capital. It is calculated as absolute difference between the Net operational profit after taxes (NOPAT) and all capital costs, i.e. the Weighted average cost of capital (WACC) multiplied by the sum of the invested capital (IC):

$$EVA = NOPAT - WACC \times IC \qquad (6)$$

The economic value added requires numerous corrections to the standard accounting information [5, 10]. Thus, the strategic management of the value added „links the accounting information of the company effectiveness with the market methods for assessment of the value and measures the scale of superprofit“ [6, p. 119].

If the Economic vale added is positive (EVA > 0) the operational result of the PSC exceeds the costs of all invested capital. Equity is growing and this is causing additional investor interest. And vice versa. At the same time, the Economic value added proposes a tool for making decisions about the individual position of the commodity exchange.

The economic value added is registered by the market brand name of EVA™ by the corporate consulting team of G. Benntt Stewart and Jole Stern and is registered as a market brand of the consulting company "Stern Stewart & Co".

- **Market value added (MVA).** It measures the growth of the equity of the PSC as an expression of the expectations of the investors for the propects in it's development. Presents the absolute difference between the market value of net assets (V) and the book value of equity (E):

$$MVA = V - E \qquad (7)$$

The market value of net assets (V) is an estimated value that is obtained by subtracting the market value of assets of the market value of liabilities.

The market value added (V) shows the increase in the amount of money, according to which the date of assessment the non-public security company could be exchanged between informed and acting seller and buyer. In the case of a perfect market, when the market capitalization fully reflects the investment qualities of the business the Market value added (MVA) is equal to the Economic value added (EVA). [6]

3.2. Value added based on cash flow

The strategic management of the value added based on Cash Flow allows adjustment of the costs and revenues (cash) in the PSC with uncertainty in the investor expectations, the cost of money over time and the risk. The benefits of the invested capital in the creation of non-public security are determined by appropriate discounting of all future net cash flows. The efficiency of entrepreneurship takes into account investor expectations, the cost of money over time and the risk. The strategic management of the value added is supported by representatives of the academic society and management consulting:

For assessment and analysis of the strategic management of the value added based on Cash Flow in the company of the private security industry are the models Return on investment based on the Cash flow and the Cash value added.

- **Return on investment based on cash flow (CFROI).** It shows the real rate of return on investment in the PSC. It is defined as a ratio between the sum of the Gross cash flow (GCF) and the liquidation value of the cash flow (TV) on one hand and the gross cash investment at current prices (GI) on the other hand:

$$CFROI = \frac{GCF + TV}{GI} \qquad (8)$$

Return on investment based on cash flow (CFROI) differs from the traditional profitability of investment by calculation of cash flow and not on the basis of the financial result. It reflects the actual invested cash. After it's calculation, it is subject to comparison with the weighted average cost of capital (WACC) and depending on the difference between them, it can be argued whether the value of the capital of the company increases (CFROI > WACC) or decreases (CFROI < WACC).

- **Cash value added (CVA).** It is an alternative based on cash flow to measure the capital rate. It is defined as a difference between return on investment based on cash flow (CFROI) and the Weighted average cost of capital (WACC) is multiplied with the sum of investment (I):

$$\mathrm{CVA} = (\mathrm{CFROI} - \mathrm{WACC}) \times \mathrm{I} \quad (9)$$

Cash value added (CVA) represents the idea that a company in the private security industry must not cover only the cost of capital but also it's operational costs. In this sense, the mentioned measure above can be considered as an evaluation of the absolute difference between the cash flow of operational activities and the cash flow of strategic activities.

Observations of the management practice outside the private security industry show strongly expressed preference in the model Economic value added. More limited is the interest in the models Cash value added and Return on investment based on cash flow. This fact is explained with very aggressive marketing policy of the creators of the model Economic value added – "Stern Stewart & Co". It's application is relatively simple – there is no need for discounting and a sufficient source of information is the accounting report.

The strategic decisions for the value added in the PSC combine the management of operational processes, innovations and relations with customers. In it are integrated the short-term and strategic dimensions of the business. Together with the accounting information for the technical equipment, vehicles, personnel costs and others present the time value of money, the cost of own financing, investment risks and uncertainty. The strategic decisions for the value added are characterized by a clear long-term perspective and contextual dependence on the surrounding environment. They are suitable for use in both small security companies and complex security structures. Their importance is strongly growing in the modern conditions of dynamically changing and digitalizing economy and social relations.

Conclusion

The evolution and digitalization of the economy and society require the development of compex solutions for the short-term and long-term operation of the PSC. It is compulsory to directly connect the effectiveness of security operations, innovations and customer relations with the assessment of the created security and the growth of the invested capital in the business. The financial management focuses on the quantity and quality dimensions of the value added. In this way, it is created an opportunity for correct determination of the realized profitability by managers as well as of the capital return – from investor's point of view. It is premised that the construction of suitable schemes for formation of the achievements of the security staff. Focusing on the value added overcomes the dominance of the managerial addiction to control and analysis and in it's place establishes strategic planning, taking into account market influences, risk assessment and uncertainty.

The effective financial management of the PSC suggests the development of advanced security concepts, adaptation of the accumulated theory of the value added in the developed countries, training and qualification of the management.

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