

**ANALYSIS OF FACTORS  
AFFECTING A  
BUSINESS VALUATION MODEL  
FOR SOFTWARE COMPANIES IN  
SRI LANKA**

 University of Moratuwa, Sri Lanka.  
**MASTER OF BUSINESS ADMINISTRATION**  
IN  
**INFORMATION TECHNOLOGY**

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By

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This Dissertation was submitted to the Department of Computer Science & Engineering of the University of Moratuwa as partial fulfilment of the requirement for the Degree of Master of Business Administration.

Department of Computer Science & Engineering  
University of Moratuwa  
December 2007

## Declaration

I certify that this thesis does not incorporate without acknowledgement to the material previously submitted for a degree or diploma in any university to the best of my knowledge and I believe it does not contain any material previously submitted for a written or orally communicated by other person except where due reference was made on this.

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To the best of my knowledge, the above particulars are correct

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## Abstract

The software industry is booming in Sri Lanka. Many software development companies are emerging in the market. However most of them failed to grow and become large-scale players in the industry. The software development companies do not properly value their businesses. These companies are facing issues in estimating the value of business to determine offering prices for mergers, joint ventures and alliances. Investors who want to invest in software business ventures look at traditional factors such as book value, past performance. There is a lack of knowledge on which factors needs to be evaluated before investing. There are many valuation methods practiced in the business world. However software development companies in Sri Lanka are facing a problem of lack of information to support for such calculations.

Objectives of this research is to, identify what factors to be considered in determining the value of a software development business venture, identify significance of each factor in valuing value of the business and to develop a model which accurately measures the value of a software business venture.

It was considered the size of revenue, revenue growth, profitability, novelty of technology used, level of process maturity, associated risk level and accessibility to markets, staff attrition rate and quality of engineering and professional service staff are the key factors affecting for business value of a software company. If these factors are favorable for the company, then the worth of company will increase.

The research under this context will consider all the software development companies registered under Software Exporters Association of Sri Lanka and in operations for more than 3 years. It was found that revenue growth, size of the revenue and profitability are key factors affecting the business value of a software company.

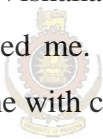
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## List of Abbreviations

ICTA	-	Information and Communication Technology Agency of Sri Lanka
IT	-	Information Technology
BPO	-	Business Process Outsourcing
SEA	-	Software Exporters Association of Sri Lanka
CEO	-	Chief Executive Officer
US	-	United State
IC	-	Intellectual Capital
M&A	-	Mergers and Acquisition
KB	-	Knowledge Based
U.K	-	United Kingdom
KAM	-	Knowledge Asset Map
CMMi	-	Capability Maturity Model Integration
R & D	-	Research and Development
IP	-	Intellectual Property
ROCE	-	Return on Capital Employed
NCF	-	Net Cash Flow
CF	-	Cash Flow
DCF	-	Discounted Cash flow Factor
NPV	-	Net Present Value