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IDENTIFICATION FEATURES OF FINANCIAL ENTERPRISE STABILITY UNDER THE MODERN TERMS

© **O. Miroshnyk, O. Holovanova, N. Postolna, V. Chibisova, A. Zaitseva**

У дослідженні розглянуто підходи різних авторів до визначення фінансової стійкості, узагальнено та систематизовано досвід використання цього поняття. Проаналізовано різні погляди до визначення критеріїв фінансової стійкості, а також щодо ідентифікації рівня фінансової стійкості за абсолютними критеріями. Представлено власне бачення способу оцінки та ідентифікації типу фінансової стійкості підприємства, обґрунтовано вибір показників за якими слід оцінювати фінансову стійкість

Ключові слова: фінансова стійкість, типи фінансової стійкості, фінансово-господарська діяльність організації, абсолютні показники

1. Introduction

In terms of market environment transformation the risks of economic entities are increased. Under these conditions the most relevant issues are these, which are related to ensuring financial stability of economic entities. The financial stability is one of the key characteristics of the financial activities of the organization. If an economic entity is financially stable, it allows it to withstand the risk environment, have advantages in attracting investments and loans and so on. In its turn, the effectiveness of management of financial stability lar-

gely depends on timely and qualitative evaluation of financial stability.

2. Literature review

In modern literature there are sufficiently large number of scientific papers on assessing and determination the financial stability. So the research [1] is devoted to the consideration of qualitative characteristics of the concept of "financial stability", in the research [2] is studied the essential approaches to financial stability, the research [3] is devoted to the practical as-

pects of identifying the financial stability. However the search of most optimal method for the identification of financial stability of enterprise continues.

3. Aim and research problems

Aim – there is an improvement of the existing methods of identification of financial enterprise stability by using the absolute indicators.

Research problems:

- to consider the concept "financial stability" and determine the most relevant in terms of the functioning of enterprises in modern conditions;
- to research the existing methods of level identification of financial enterprise stability and provide suggestions for their improvement.

4. Identification of financial enterprise stability under

Sometimes in the economic literature the concept of "sustainability" is identified with the concepts of "stability", "reliability" and "balance", and its financial component – with the concepts of "financial stability", "financial sustainability", "financial balance", "financial capability" "financial strength", "ability to pay", "liquidity" and "solvency", "market stability", "economic capacity", "economic stability", "industrial and financial stability", "organizational and financial stability," "financial and economic stability" and so on. More detailed analysis of these concepts is given by [1, 4, 5].

There are different views on the definition of "financial stability."

– the financial sustainability is identified with ability to pay. Thus in research [2] argues that the financial stability is "a state of an enterprise, when the amount of its property (assets) is sufficient for obligations repayment, that means the company is solvent," or as in research [6] noted "financial stability is a certain state of enterprise accounts that ensures its continued solvency."

This point of view we believe is incorrect because the solvency is characterized by the ability to pay its obligations and depends on the quality and quantity of liquid assets. In its turn by forming the material and production base the economic entities direct the most its money to the formation of slowly realized illiquid assets and leave a little amount on current accounts and cash office.

– Financial stability is identified with the issue of financial state. Thus in research [7], the financial stability is a characteristic of the stability of financial state of the enterprise, provided a high part of own capital in total amount of used financial resources. This definition does not allow to understand the essence and extensiveness of this concept because it is not clear what proportion of own capital is considered as "high". Besides the financial stability index is an index which is more dynamic than stability.

– Financial stability is considered as the main component of the general stability of the organization because an indicator shows the stable excess of income over expenditure [8]. The disadvantage of this definition is that the excess of income over expenditure may lead to decrease general stability because a significant excess of income over expenditure may be associated with signifi-

cant risk, which in its turn, reduces the general financial stability.

In our opinion, the most successful definition is: "Financial stability is a state of financial resources, due to the company freely maneuvering by cash assets is able by their effective use to ensure continuous process of production and trading activities, as well as the cost of its expansion and renovation." In consideration of the fact that to ensure a normal production and trade activity the company must have in its possession the property for industrial purposes (non-current assets and inventories) and free maneuvering requires a resource that is owned by the organization, the actual level of financial stability will depend on the fact which resources (own or borrowed) are formed the property for production purposes.

The research of financial state of enterprise to determine crisis signs, causing the possibility of deterioration or bankruptcy, is an integral part of the general financial analysis. However, this direction of financial analysis has certain features of both objects and methods for its implementation.

To characterize and assess the financial stability of enterprise a number of absolute and relative indices are used. In modern literature it is used a number of absolute and relative indices. The absolute indices are:

- ratio of maneuver;
- ratio of autonomy;
- ratio of own funds;
- ratio of financial risk;
- ratio of property for production purposes.

One of the absolute criteria for assessing the financial stability of enterprise is an excess or a lack of means for formation supplies and expenses (circulating assets).

During the analysis there are identified three key indices of available means for formation of supplies and expenses.

1. It is determined the circulating capital deficiency ($\pm CC$) for the formation of supplies and expenses (S), in its turn the rate of circulating capital

$$\pm CC = CC - S. \quad (1)$$

If

$$\pm CC \geq 0, \text{ or } CC \geq 3. \quad (2)$$

It indicates the absolute financial stability. Absolute financial stability occurs infrequently and is a special type of financial stability. This type is determined that all production activities are funded only by owners' funds. Such financial state cannot be considered as a perfect one because it could mean that management does not use the external sources of financing that creates limitations to realizing the enterprise potential.

In practice, the ways of calculating working capital are various and thus the further analysis' results will depend on the type of methodical calculating approach. Thus, a number of authors [9] identify the calculation of own circulating capital with working capital indicator (WC), which is identified in English literature under different terms such as "Working Capital" or "Net Working Capital". This indicator is generally calculated as a dif-

ference between current assets (CA) and current liabilities (CL):

$$WC=CA-CL. \quad (3)$$

However, it is difficult to agree with this calculation because here is absent a component of amount of own funds, which are directed to the formation of current assets. Also if we consider the content of this operation in terms of balance equation, besides the own capital in formation of current assets there will be taken a long-term obligations and liabilities associated with non-current assets held for sale, and disposal groups. In the research [9] there are given approaches where circulating capital are considered as the difference between the amount of own funds (OF) and long-term liabilities (LL) and non-current assets (NA); own circulating capital is calculated as the difference between the sum of own funds, long-term liabilities, deferred income (DI) and non-current assets.

$$CC=(OF+LL)-NA. \quad (4)$$

$$CC=(OF+LL+DI)-NA. \quad (5)$$

However, the disadvantage of these approaches is that taking into account the additional indicators (long-term liabilities and deferred income) is difficult to determine what part of own funds is directed to cover the current assets. So the most appropriate method of calculation should be considered as own circulating capital by allocating its own funds that remain after the formation of noncurrent assets (NA) and which are directed to the formation of current assets.

So:

$$CC=OF-NA. \quad (6)$$

2. Excess of own circulating capital and long-term borrowed funds (LBF) formation of supplies and expenses ($\pm OLC$)

$$\pm CC=CC+LBF-S; \quad (7)$$

$$\pm OLC \geq 0, \text{ or } CC+LBF \geq S. \quad (8)$$

Taking into account the fact that long-term resources allow strategic planning the organization activity and use it for a long time, this type of financial stability may be considered as normal one.

3. Excess or lack of general size of main sources of formation of supplies and expenses ($\pm GSC$):

$$\pm GSC=(CC+LL+SL)-S; \quad (9)$$

$$\pm GSC > 0, \text{ or } CC+LL+SL > S. \quad (10)$$

Dependence on short-term liabilities (SL) leads to a significant risk, because it depends on opportunities of foreign investors to invest capital in the organization. This type of financial stability is unstable. If short-term resources due to some events related or not related to company activity cease to come to the enterprise, it leads

to disruption of the organization, crisis and further to bankruptcy.

The calculation of the above indices determines the three-component indicator of financial stability type:

$$Ifs = \begin{cases} 1, & \text{if } CC > 0, \\ 0, & \text{if } CC < 0. \end{cases}$$

But in practice, the approaches for determination of unstable financial state are various. So when considering the test case Kostyrko R. O. [10] in defining the general sources of inventory and expenses to short-term assets include all current liabilities, whereas in the research [11] there are only taken the short-term bank loans in the general sources.

5. Results of the research

Both of these approaches can be used in practice, but it is essential in such circumstances to differentiate types of financial stability by different approaches of calculating. So the situation when the company cover its own needs for production and realization of goods, services, work from their own long-term and short-term (in the form of short-term loans (SL) of the bank) funds can be characterized as unstable financial state [12].

$$(CC+LL+SL)-S \geq 0. \quad (10)$$

So on the one hand, getting bank loans, the company has the confidence in the bank and has some potential for its own stability, and on the other – dependence on short-term bank resources, which at any time can stop to flow. In this situation the company must mobilize all available funds directing them to production and increasing commitment to the workers, budget, suppliers and contractors (all current liabilities (CL)). This state can be described as a crisis one.

$$(CC+LL+CL)-S > 0. \quad (11)$$

At the same time, such state:

$$(CC+LL+CL)-S \leq 0, \quad (12)$$

can be described as a state of technical bankruptcy because the company has not enough money for production and realization of goods, but there is a sufficient number of commitments that require to be repaid.

6. Conclusions

Thus, in this study were resolved the following scientific and practical tasks:

– the approaches of different authors to the definition of financial stability are considered; it is summarized and systematized the use experience of its definition. The most relevant definition on functioning of enterprises in modern conditions is determined;

– the existing methods of identifying the financial stability of enterprises are researched, and it is proposed to use four key components indicator instead of three components.

The proposed method of assessment of financial stability by direct comparison of sources of revenue with sources of their spending allows to reveal a degree of fi-

ancial stability of economic entity, to see the risks and develop further directions of detailed analysis that is the basis for effective management decisions.

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