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FINANCIAL STABILITY: CONCEPT, ESSENCE, INFLUENCE FACTORS

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ABSTRACT

The financial stability of the enterprise today is one of the key criteria for the functioning of the company. The article reveals various approaches to the definition of financial stability, reveals the essence of the concept. The main factors influencing the financial stability of the organization are also considered and described.

KEYWORDS: *Financial Stability, CVP-Analysis, Production Leverage, Safety Margin, Factors Influencing Financial Stability.*

INTRODUCTION

To date, there is no clear definition of the concept of "financial stability of the enterprise". Economists identify various indicators that affect the financial stability of an enterprise and thereby determine it. So, for example, K.N. Mingaliev notes that “financial stability is the ability of an organization to maintain its activities for a certain period of time, including servicing loans received and ensuring the production of quality products” [1]. Based on the definition of financial stability given by K.N. Mingaliyev, the following conclusions can be drawn:

- One of the risk factors for the functioning of the enterprise is the balance of income and expenses or the excess of the former over the latter;
- Another factor is a sufficient degree of independence of the enterprise from external sources of financing, i.e. solvency of the enterprise.

G.V. Savitskaya gives a broader and more comprehensive definition, in her opinion, “the financial stability of an enterprise is the ability of a business entity to function and develop, to maintain a balance of its assets and liabilities in a changing internal and external environment, guaranteeing its constant solvency and investment attractiveness within an acceptable level risk” [4].

In this definition, new factors appear, such as the ratio of assets and liabilities of the enterprise, as well as its investment attractiveness.

An analysis of studies by domestic and foreign economists shows that there are three main approaches to revealing the essence of the financial stability of an enterprise:

•Disclosure using a number of indicators for assessing the financial condition of the enterprise;

•Disclosure through capital structure analysis;•disclosure through the analysis of financial stability as a mechanism for protecting the enterprise from risks.

Adherents of the first approach are such economists as A.G. Gryaznova, E.N. Ishina E.N. Vyborova and others. In their opinion, the financial stability of an enterprise should be disclosed through such indicators as: liquidity, profitability, solvency, business activity and others. From this point of view, financial stability is close to the concept of solvency, i.e. financial stability is largely seen as the ability of an enterprise to accumulate financial resources in order to maintain its creditworthiness.

Do not forget that the long-term development of an enterprise depends not only on internal factors, such as the state of its cash funds, but also on external factors, for example, on the forecast of market dynamics. Also, financial stability provides the enterprise with access to the debt capital market if own funds become insufficient. However, the attraction of borrowed capital may be limited by various factors, for example, the covenants prescribed by the bank in the loan agreement (each bank sets its own values). The most commonly used covenants are:

•The ratio of total debt to EBITDA (earnings before interest, taxes and depreciation);

•Total amount of credit obligations;

•Attracting additional loans from other banks only with the permission of the creditor bank;

•A certain amount of money turnover conducted through settlement and current accounts opened with the creditor bank;

•A certain level of stocks and fixed assets;

•Regular presentation of financial statements;

•Regular submission to the creditor bank of information on litigation, etc.

Thus, the main criteria for assessing the financial stability of an enterprise within the framework of this approach are both absolute indicators (the amount of current assets, the volume of debt obligations, the level of profit, etc.) and relative indicators (return on equity, current liquidity, etc. .).

However, it should be understood that the improvement of liquidity, profitability, solvency and business activity does not always indicate an increase in the level of financial stability of the enterprise. These indicators reflect the state of the enterprise only for a short period, for example, the coefficients of loss and restoration of solvency are most often calculated for a period of 3 and 6 months, respectively. But they cannot reflect the vector of development of the enterprise in the long term. This requires a wider list of indicators that take into account the relationship with the external environment.

Supporters of the second approach are Yu.A. Danilevsky, V.V. Kovalev, O.V. Efimova, G.V. Savitskaya and others. They believe that the equity of the enterprise is a certain margin of financial strength. Within the framework of this approach, the value of net assets comes to the fore. Thus, the main problem is the determination of the total amount of equity and the achievement of an acceptable balance between equity and borrowed capital to maintain the value of net assets at the required level, because. the greater the value of net assets, the more financially stable the enterprise.

The third approach is by far the least disclosed, and therefore is the least used. Economists developing this approach: A.P. Gradova, I. V. Ershova, N. N. Trenev and others. In their

opinion, correlation and regression analysis should be decisive in assessing the financial stability of an enterprise.

According to the author, the first approach is the most developed and applied, since it covers the largest number of factors characterizing the enterprise from various angles. A similar opinion is shared by E. V. Negashev, who believes that “the financial stability of a company should be considered as a characteristic of the degree of equilibrium of its financial condition, to measure which it is necessary to set a criterion function (criterion) that makes it possible to distinguish stable financial conditions from unstable ones” [2].

The financial stability of the enterprise is influenced by many factors, both external and internal. With a certain degree of conditionality, we can say that most of the internal factors are financial, and external - economic.

Among the internal factors, all academic economists noted in the first paragraph of the chapter distinguish: the industry in which the enterprise operates, the ratio of fixed and variable costs, their value, the volume of material and financial resources, the range of products, services provided, the size of the authorized capital of the enterprise, etc. d. Let's consider internal factors in more detail.

The economic activity of any enterprise begins with the choice of products / work performed / services provided, it is also important to decide on the technology, that is, to decide how to produce or perform work, according to which model to provide services. All this has a direct impact on the structure and volume of costs.

The most commonly used method of strategic analysis is CVP-analysis (Cost - Volume - Profit, i.e. Costs - Volume - Profit). This method allows the company's management to determine the optimal ratio of fixed and variable costs, the price level and production volume, ways to minimize entrepreneurial risk. The main elements of CVP analysis are:

- Marginal income;
- Profitability threshold (break-even point);
- Production leverage;
- Marginal safety margin.

Marginal income is the difference between the company's revenue from the sale of products (works, services) and the sum of variable costs [6]. There is another way to calculate marginal income: the sum of fixed costs and profits of the enterprise. If we are talking about the average marginal income, then this is the difference between the price of products (work, services) and average variable costs. The resulting value shows the contribution of one unit to covering fixed costs and making a profit. There is also a marginal income ratio, which is calculated as the ratio of marginal income to sales revenue.

The value of marginal income allows the management of the enterprise to determine the amount of profit for various volumes of output / work performed / services provided. Obviously, the greater the marginal income, the greater the profit of the enterprise. You can achieve an increase in marginal income in various ways:

- Price reduction will lead to an increase in sales volume;

•An increase in sales volume will lead to economies of scale and a decrease in fixed costs, etc.

Profitability threshold (break-even point) is an indicator that characterizes the volume of product sales, at which the company's revenue from the sale of products (works, services) is equal to costs. Thus, the break-even point is such a volume of production / performance of work / provision of services at which the revenue fully covers all costs, but the company does not receive a profit. To calculate the break-even point, you can use three methods: graphical, equations and marginal income.

Production leverage is the ratio of marginal profit (marginal income) to profit from sales (before deduction of interest on the loan and before taxes) [5]. Production leverage is used as a tool for managing the profit of an enterprise by changing the volume of sales of products (works, services).

Marginal margin of safety is the difference between the actual (or estimated, expected) sales volume and the sales volume at the critical point, measured both in natural and cost values [3]. Accordingly, the greater the marginal margin of safety, the more financially stable the enterprise, because. the more management can reduce the volume of sales of products (works, services) until the moment the company ceases to make a profit.

The next important financial factor is the amount of insurance stocks, for example, finished products, as well as the amount of liquid funds, such as cash, short-term financial investments, etc. Reducing the listed volumes leads to an increase in the amount of working capital involved in the production process, but also increases the risk of insolvency, production stoppage (lack of materials) and the resulting risk of underdelivery of finished products (in the case when the insurance reserve is not enough). Management must competently manage the current assets of the enterprise, for example, maintain the minimum required amount of funds on the current and current accounts of the enterprise, which will be sufficient to maintain the current activities of the enterprise.

The availability of the loan capital market also has a significant impact on the financial stability of the enterprise. The more borrowed capital an enterprise is able to attract, the higher its financial capabilities, however, on the other hand, there is a risk of reducing the solvency of the enterprise. The task of management is to find a balance between borrowed and own funds, i.e. appropriate level of financial leverage. So, for example, a low value of financial leverage indicates that management underutilizes the possibilities of the debt capital market to expand production, invest in new projects, etc., a high value of the coefficient indicates that the enterprise is heavily indebted and there is a risk of insolvency.

One way or another, the main internal factor in the financial stability of an enterprise is its management, namely its experience and competence, because only management makes all responsible decisions that have a direct impact on the economic activity of the enterprise, taking into account all changes in the internal and external environment of the enterprise.

External economic factors include the economic conditions of the country where the enterprise is based, the solvency of its consumers, the availability and level of development of the technologies used, the ongoing monetary and fiscal policy, legislative and regulatory acts, as well as control exercised by the state in relation to the enterprise.

The economic cycle in which the country's economy is currently located also has a significant impact. During a crisis, management should be more concerned about maintaining the current position of the enterprise, finding ways to optimize production (performance of work, provision of services), maintaining levels of liquidity and solvency. During a crisis, the volume of effective demand decreases, which leads to a lag in the sale of products (works, services) from production (performance, provision). The income of the enterprise is reduced, which leads to an increase in risks, especially the risk of bankruptcy.

The reduction in the solvency of counterparties and consumers leads not only to an increase in non-payments on the part of the former and a decrease in demand from the latter, but also to an increase in competition in the market, because. the number of enterprises does not decrease (until the most financially unstable enterprises go bankrupt), which cannot be said about solvent counterparties and consumers. Thus, competition is also an important factor in the external environment.

The financial stability of an enterprise is highly dependent on the monetary and fiscal policy pursued by the Central Bank, the level of development of the country's financial market, the availability of insurance instruments and foreign capital, and the level of inflation in the country.

Summing up, it should be noted that environmental factors affect internal factors, manifesting themselves through them, changing their quantitative expression. However, the division of factors into internal and external allows one to correctly assess their influence and ways of interacting with them. So, management can and should influence the financial factors that affect the financial stability of the enterprise. It is in their power to adjust the production volumes of the enterprise, change the pricing policy, credit, etc.

However, the management is unable to influence the decisions of the government of the country, change the tax policy of the state, close the doors to the inspection bodies. Nevertheless, the task of management is to build their own strategy for the development of the enterprise, taking into account all factors, both internal and external, anticipating the behavior of the latter or developing several scenarios for the development of events. All this together should lead to an increase in the financial stability of the enterprise and the readiness of management to maintain it with any change in the internal and external environment of the enterprise.

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