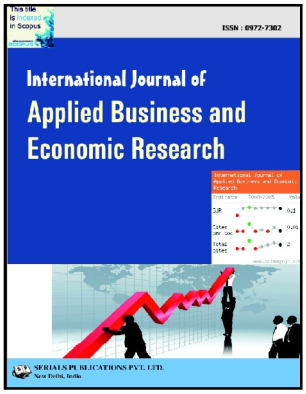

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Financial Sustainability of the Enterprise and the Main Methods of its Assessment

Maria S. Rybyantseva[1*], Elena A. Ivanova[2], Sergey S. Demin[3], Ekaterina V. Dzhamay[4], Vladimir V. Bakharev[5]

[1] *Kuban State Technological University, Krasnodar, Russian Federation*
[2] *Don State Technical University, Rostov-on-Don, Russian Federation*
[3] *Financial University under the Government of the Russian Federation, Moscow, Russian Federation*
[4] *Central Institute of Aviation Motors, Moscow, Russian Federation*
[5] *St. Petersburg Polytechnic University, Saint Petersburg, Russian Federation*
[*] *E-mail: adm@kgtu.kuban.ru*

Abstract: The goal of developing the main methods for analyzing the financial stability of an enterprise is to create an instrument whose practical application will contribute to the growth of its financial stability. In addition to solving current problems, the practical use of the basic methods of analyzing the financial stability of an enterprise should also identify the main ways to mobilize hidden reserves and enable the growth of the value of the validity of decisions taken by management in the field of financial policy and strategic development, both in short- and in long-term. Ensuring a steady growth of the economic policy of the enterprise, the stability of the results of its operations, the achievement of goals that meet the needs of the management and the society will be impossible without the formation and implementation of an independent development plan for the enterprise. The efficiency of the enterprise rests on the state of finances, which necessitates considering the main methods of achieving financial stability. The article reflects the main results of the study of methods for assessing financial sustainability, which find their application in the domestic practice of financial analysis. Negative aspects of each of the methods are discussed, which proves that it is necessary to improve such methods while consolidating the changes at the regulatory and legislative level.

Keywords: enterprise, economics, financial stability, analysis

JEL Classification: Q01, Q56, A11

INTRODUCTION

Today, the study of issues related to the analysis of financial sustainability is a topical issue due to the fact that from 2014 to the present, the development of the Russian economy has been under the influence of crisis trends. Therefore, the management of financial stability becomes critical for maintaining many important indicators: liquidity, solvency, and competitiveness of an enterprise.

The main goal of the Russian economy today is to find a way out of the downturn it has found itself in because of external factors, namely, the continual imposition of sanctions against Russian state, the constant decline in the world oil and other raw materials prices.

The positive dynamics in the development of the Russian economy between 2000 and 2013 forces us to reconsider the already existing goals and instruments, on the basis of which the domestic enterprises achieved a stable financial position and good results of their activity at that period. During the crisis stage of the economic development of the state, of particular significance are the outcomes of measures aimed at achieving financial stability, rather than the declarative nature of the set goals.

The crisis trends lead to a completely different nature of interaction between business entities. The many existing problems can be solved not only by modernizing and reforming the system of interrelations of an enterprise, but also by certain influences of macroeconomic trends.

The theoretical and methodological analysis of financial stability of enterprises was made in the works of the following Russian scientists: Danilevsky Yu.A., Efimova O.V., Kovalev V.V., Negashev E.V., Melnik M.V., Savitskaya G.Â., Saifulin R.S., Chay V.T., Sheremet A.D., Gradova A.P., Ershova I.V., Kleiner G.B., Livshits V.N., Martynyuk I.V., Raitskiy K.A., Trenev N.N., Utkin E.A. and others.

The financial stability of an enterprise is a component of the overall sustainability of the organization and is a certain indicator of the stable prevalence of income over expenditure. Evaluation of the financial stability of an enterprise is one of the most important problems in a market economy, since insufficient financial stability can lead to the insolvency of the enterprise in terms of its obligations, whereas excessive stability, on the contrary, may impede development, burdening the enterprise with costs on excess stocks and reserves (Jain, 2016).

A timely and rational analysis of this indicator, its assessment and forecasting is based on numerous sources of financial, technical, public information that is formed within the enterprise itself and in the external business environment.

An important role in obtaining reliable data belongs to the proportional dependence of the results of analyzing the financial stability, that is, the quality of reasoned conclusions and recommendations developed on its basis. Even the simplest methods of making managerial decisions that rely on accurate initial data provide more reliable predictions than complex discount methods of portfolio analysis, which are based on approximate data (Edgeman & Eskildsen, 2014).

In this article, we will consider the main methods for assessing the financial stability of an enterprise. We also look into the main advantages and disadvantages of these methods and their use in the operations of the enterprise and the economic system of the state as a whole.

DISCUSSION

The understanding of the modern economic space and its main development trends is varied; there are many options and methods for assessing the financial stability of an enterprise. The choice of application of a particular method depends largely on the specifics of the industry in which the enterprise operates, on the tasks that were set by the governing bodies before the implementation of the analysis, on the financial analyst who directly performs the assessment of both the internal and the external environment of the organization.

In addition, in the assessment of financial sustainability the trend to use combinations of several different methods, the main of which is direct analysis, is repeatedly observed.

As reflected in the analysis of the literature, the majority of the methods employed to assess the financial stability of an enterprise are based on the coefficient method. The composition of the coefficients is constantly varying, since the specificity of the industries that are subjected to the analysis is different.

For example, to assess financial sustainability, L.P. Belykh and M.A. Fetodov consider and propose the following coefficients: the ratio of own funds, the debt ratio, the maneuverability coefficient and the interest coverage coefficient.

The researchers V.V. Bocharov and V.E. Leontiev suggest conducting an analysis of financial sustainability by calculating the coefficients of debt, financing, financial independence, the structure of equity capital, and the coefficient of sustainable financial growth (Chibisov, Chibisova, & Kazantseva, 2017).

This method of analysis reflects the most important factors from the point of view of the development of the enterprise in general, namely, the ratio of net profit, which is aimed at maintaining capital investments in fixed assets to the average value of equity in the period under review.

At the same time, G.V. Savitskaya believes that the most complete picture of financial stability can be shown by studying the balance between the items in the balance sheet: assets and liabilities. G.V. Savitskaya proposes to analyze the equilibrium using two mutually complementary approaches.

The specificity of the first approach is to assess the financial equilibrium that comes from the view of the creditor, who assumes that there is a balance between the assets and liabilities of the balance sheet in terms of time, and the ability of the enterprise to pay its liabilities on time (balance liquidity).

The second approach (functional) contains the opinion of the company's management, which relies on the functional balance between the sources of capital and their rational use in the economic activity (Halme & Korpela, 2014).

According to experts, the first approach is the most acceptable in assessing financial sustainability, since it makes it possible to overcome the static nature of the main indicators due to the balance of inflow and outflow of financial assets, with an important condition - the equilibrium between assets and liabilities during the life cycle and cycles.

Wide application of the coefficient method limits the ability to evaluate the financial sustainability from all sides that are present in the enterprise's operations.

The next method of assessing the financial stability of an enterprise is the most well-known and acceptable in the case when the financial analyst has no desire to limit himself or herself to only one method - the calculation of the basic coefficients. This method aims to produce recommendations that will contribute to the growth of financial stability and includes the following work plan:

1. Carrying out a structural analysis of the assets and liabilities of the company's balance sheet;
2. Thorough analysis of financial sustainability;
3. Analysis of liquidity of the enterprise;
4. Factor analysis of liquidity, and management of financial stability of the organization (Sharma & Gupta, 2015).

The main objective of such structural analysis is to study the structure and the flow rate of the funds, as well as the main sources of the funds for a closer acquaintance with the overall picture of the financial situation of the organization. This analysis is of preliminary nature, since it is impossible to give a final assessment of the overall financial situation of the enterprise.

This method of analysis is preceded by an overall assessment of the flow of balance sheet assets, which is obtained by comparing the dynamics of asset growth with the dynamics of growth in financial performance. To assess the structure of the asset, it is necessary to use the ratio of mobile and immobile assets, as well as the coefficient of production property. In order to analyze the structure of the liabilities of the balance, it is necessary to apply and calculate the coefficients of independence, as well as the ratio of own and borrowed funds.

The next stage in this method is (1) to conduct an analysis of the presence, availability and sufficiency of equity capital, which is formed by calculating the difference between the equity and the statutory capital, thereby reflecting the increase and retirement of equity after the formation of the enterprise, and (2) to analyze the supportability of resources by the sources of their foundation (Silnov, 2016). This stage includes the interpretation of the balance equation, the absolute liquidity indicator, and the presence of the required volume of certain types of sources to support the resources. So the total amount of available resources is gradually compared with the availability of own working capital, long-term sources of financial support, and the total amount of main sources of resources.

The method of evaluation and general analysis of financial stability, described above, is quite acceptable, but it also has its drawbacks - low objectivity and identification of only external factors that affect the overall picture of a company's financial stability (Kunelbayev, Auyelbekov, Katayev & Silnov, 2016; Kobersy, Shkurkin, Zatonskiy, Volodina & Safyanova, 2016).

The focus on the liquidity indicator in this method is the main primary condition that completely reduces the management of financial stability to the continuous monitoring of liquidity and solvency of the organization.

In addition, one of the drawbacks of this method is the re-evaluation of these indicators in strengthening the financial stability of the enterprise. Of course, an analysis of the liquidity of the assets and the balance of the enterprise is important, since they have an impact on the formation of financial stability, but this characterizes only one side, neglecting the role of the liabilities. This method contains very strict criteria, according to which the state of many organizations can be mistakenly determined as unstable or in the state of crisis. Therefore, the application of this method does lead to the accurate assessment of certain factors of financial stability.

A.A. Grigoryan is of the opinion that on the part of the tax authority, the financial condition and stability of an enterprise are reflected in the following indicators: balance profit, return on assets, and production and sale of goods (Boshkov, 2017; Velichko *et al.,* 2017).

In order for the organization to pursue its policy successfully and profitably, it is necessary to fulfill the following condition: after making all payments and repaying the obligations, the enterprise must have a portion of the profit at its disposal that will allow its management to modernize the production process and the material and technical base, improve personnel policy etc.

In a market economy, the constant growth rate of the organization's profitability and cash resources enables it to form a financial base for an independent policy of self-financing its core activities and expanding its productive capacity. Due to the available profit and cash on the account, the enterprise is not only solvent for its obligations to outside organizations, but also has an opportunity to act as an investor of free funds in capital assets.

However, in order to obtain the desired results and control over financial stability, it is not only the absolute amount of income (profit) that is important, but also its level relative to the invested capital or the costs of the organization, i.e., its profitability. The basic indicators of profitability are defined as the ratio of balance (net) profit to the value of the enterprise's property, to the volume of proceeds from the sale of the goods, to the value of own or borrowed capital. This method of evaluation deserves considerable attention from analysts, but also it has its drawbacks.

In addition to the methods considered, M.S. Abryutin and A.V. Grachev propose to assess the financial stability of an enterprise using the method of analyzing the ratio of financial and non-financial assets (Clark & Brennan, 2016).

The essence of this technique is that the financial equilibrium and the stability of the financial situation are obtained if non-financial assets (except investments and resources) are replenished with capital from own funds, while financial assets (except for resources and long-term financial investments) are replenished with borrowed funds.

In this situation, the financial stability grows with the growth of equity capital over non-financial assets or as financial assets increase over the borrowed (debt) capital. If there is a tendency of growth of non-financial assets over own funds, it means that the financial stability of the enterprise is lost. According to this method of assessment, the boundary between a possible option and the risk of attracting third-party funds occurs at a critical point, that is, own funds become equivalent to the sum of long-term non-financial assets. In the norm field, the difference between the enterprise's capital and long-term non-financial assets is positive. In the risk field, this difference will have a negative value. Therefore, this method of assessing financial stability is the most original; it draws the attention of financial analysts to factors that remain invisible when using the other methods discussed above (Chakabva & Thurner, 2015).

RESULTS

The methods of estimating and forecasting the financial stability of an enterprise considered and presented above have both advantages and disadvantages under certain operating conditions. So far, there is no single definition of financial stability, differentiation of regulatory values of indicators of financial performance, depending on the conditions of activity presented, as well as justification of the application of individual indicators.

As has already been mentioned, in the modern economy, the evaluation aspect of the management category is of major importance, so today special attention in the legislative framework is devoted to the analysis and assessment of financial stability.

When conducting public purchases, as well as providing services relating to the analysis of the effectiveness of asset management, assessing the price of privatization objects and their financial situation, meeting investment policy obligations, we propose a method for analyzing the financial stability of an organization, consisting of three tiers and normative values:

– the ratio of borrowed (debt) capital and equity capital to be at least 70%. If this indicator exceeds the normative value, it means that the enterprise is dependent on external sources and directs its activity policy to the loss of financial autonomy;
– the ratio of own funds, the lower value of this indicator to be 0.1. If the value has growth dynamics and is within 0.5, the financial situation of the enterprise is evaluated positively and as having the potential for implementing an independent financial policy;
– the coefficient of maneuverability of own circulating assets to have a normative value in the range from 0.2 to 0.5; the closer the value to the upper limit, the more possibilities for financial maneuver the organization has (Kunelbayev, 2016; Partanen & Goel, 2017).

The presented stage of 3 levels of calculation of indicators and their values is based on a study of the structure of sources of funds and the necessary volume of own circulating capital and means real boundary values for these coefficients.

Despite this, this algorithm for assessing financial stability has both its positive and negative sides:

– currently, the total amount of equity capital in most organizations is insignificant in the structure of the balance sheet. Many enterprises are not motivated to show actual figures of own capital in the presented reports and to show the growth of this indicator, since the taxation system imposes a burden on the owner. This leads to the fact that many companies show only a part of their real turnover and understate their real profit;
– there is no sorting and adjustment in respect to the industry in question. Different branches of the economic system have their own peculiarities of functioning, which objectively affects the normal indicators of financial analysis. So in many market sectors, the regulatory ratio of own and borrowed capital can be within 70% without jeopardizing the financial stability of the organization (Straková, 2015).

Based on the considered methods for analyzing and assessing the financial stability of an organization, it can be said once again that the methods presented above primarily recreate only one side without revealing the dual picture, either with increased emphasis on the liquidity of the balance (applying the analysis of the support of resources by internal funds) or vice versa, overestimate the importance of the capital structure. It is clear, however, that the most reliable assessment method must take into account jointly the two factors of financial stability for a more accurate forecast.

Today, it is very important to analyze not only the financial situation of the organization, but also provide a forecast of the financial stability of the enterprise, as well as plan a set of activities aimed at improving the financial condition.

Each type of enterprise, in order to have a sound and clear idea of its financial situation, must rely on its specific assessment techniques. Presented and calculated separately, indicators of capital structure and efficiency, cannot provide actual information for assessing financial stability. A large set of coefficients helps examine the different aspects of the state of the assets and liabilities of the company's balance sheet. Along with this, difficult situations may arise while conducting a general analysis of financial sustainability (Yusuf *et al.,* 2017).

Therefore, assigning values to coefficients and assessing their changes and directions should be done with regard to the conditions of a specific enterprise, taking into account the specificity of its operations.

Of course, there is an option of comparing individual enterprises, taking into account their specialization, but even this technique has its limitations. We should not forget that one category of coefficients can provide similar information on financial sustainability, whereas another category is functionally dependent.

The majority of coefficients considered above are designed to assess of the enterprise's capital structure from various angles. However, for a deeper analysis it is necessary to apply a universal method of assessing and analyzing the financial stability of an enterprise.

CONCLUSION

In the process of writing this article, it was noted that the financial stability of an enterprise is directly influenced by various factors: the position of the organization in the market, the degree of attractiveness of the industry it is operating on, its production potential, the degree of financial independence from other organizations, the level of business activity, and the current financial policy.

Therefore, in order to ensure the financial stability of the company, it is necessary to have flexible capital structure and to organize its flow rationally in such a way as to ensure continuous prevalence of income over expenses in order to maintain solvency. It is also necessary to create conditions for stable operation of the enterprise.

Analyzing and assessing the financial stability of the organization, it can be concluded that the head of the enterprise always prefers healthy growth of the share of the borrowed capital, while creditors and lenders of this capital, on the contrary, prefer a reasonable increase in the share of equity capital on the balance sheet of the enterprise.

A step-by-step study of the possibilities and uniqueness of the financial organization makes it possible to determine certain indicators of profitability and turnover, and its capital structure, which can give additional information for the assessment. The systematization of the results of the assessment of financial stability allows to single out a set of particularly significant indicators that are necessary to develop the most unique method for assessing financial stability taking into account the specificity of the enterprise.

Thus, the main methods of analyzing the financial stability of an enterprise - calculating its key indicators and coefficients - make it possible to conduct a correct and timely assessment, and understand to what extent the economic structure is ready to fulfil its obligations, as well as to give a full picture of the company's financial dependency, to trace the dynamics of this dependency, and also to choose the most effective method of assessment.

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