Financial Security of Enterprises

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Abstract

Financial security of enterprises is one of major components of the national security of any country, because the enterprises are taxpayers, which are forming the revenue side of the budget and creating workplaces. Level of wages, purchasing power of the population, unemployment rate and gross domestic product depends on their financial condition. In addition, companies provide the population with goods, including basic necessities. Therefore, we need to control the financial condition of enterprises constantly to avoid the financial crisis and the subsequent bankruptcy. It is necessary to know the methods and metrics of assessment, the factors that affect financial security and the levels of financial security to conduct financial security assessment.

1. The role of financial security in ensuring the enterprise’s and state’s economic security

Financial security of business entities is a part of state’s financial security, because company creates added value which forms the gross domestic product at the level of State. In addition, companies are the major taxpayers, which influence on the formation of the revenue of the state and local budgets. Consequently, the level of the companies' financial security will ensure that State can perform its functions and provide economic development, make improvements to social standards.

Under conditions of economic and political instability, variability of factors of micro and macro environment influencing the enterprise’s activity the financial security assessment becomes particularly relevant question. Assessment of financial security will allow the company to minimize the threats of financial instability and increase the safety of its existence.

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Economic situation in any country depends on the level of its producing sector. Therefore, the stable development of businesses is one of the first prerequisites for ensuring the power of the State economic system. Company’s activity is always accompanied by the emergence of a large number of threats which can cause financial insecurity. One of the main tasks of the company’s financial security ensuring system is to protect its own financial interests from influence of external and internal threats in order to ensure efficiency of the enterprise.

It is clear that the concept of the company’s financial security should correspond with general concept of economic security and at the same time to have its own content that differentiates the problems of financial security from other types of security.

If we analyze the interpretation of the term "security", given by different scholars, we can identify several of its essential characteristics. This concept can be defined as a certain state, as a capacity to protect itself, as a system of measures and actions. It should be noted that most scholars entertain an idea that security is a state of company’s safety from all threats or state when company can survive and expand despite threats that affect it. However, other scientists think that security means companies' ability to create system of self-protection and growth under threats. In addition, there are definitions of "security" that reveal its essence through system of methods which ensure stability and development of the subject (Medvedyeva I., Pohosova M., 2011). Many encyclopedias and dictionaries define "security" as a condition when someone or something is not in danger. So we can conclude that all safety characteristics are not independent and should be considered under complex approach, because secure state can be achieved not only under the absence of threats, but also when capacities will be provided to diagnose and confront them.

Certainly one of the primary needs of the enterprise is its need for security. Maslow says, that need can be identified as a state of a human person, a social group or society in general, which expresses the need for something and depends on the objective conditions of life. Needs are the driving force of people's activity (Maslow A., 2003). When comparing human beings and companies under Maslow's ranking of needs, it can be argued that the need for secure of enterprise is also on the second level of the Maslow's hierarchy of needs and it is a basis for implementation of higher level needs (Fig. 1.) (Medvedyeva I., Pohosova M., 2011).

There are some approaches to understand the nature of enterprise's financial security. Most of scholars tend to identify financial security of State and then extrapolate it on the micro level. They think that the companies' financial security can be identified as a certain mechanism which ensures the stability of financial system of enterprise by using protective financial instruments on the one hand and alternatively provides its efficiency by rational use of financial resources (Yepifanov A., Plastun O., Dombrovs’kyv V., 2009).

There are numerous views on concept of "the company’s financial security", but there is no single approach to identification of its components. The reason is that the process of defining the essence of security is quite complex,
ambiguous and multi-faceted. Exploring the concept of "the company’s financial security" we should emphasize its main aspects:
- company’s financial security is a component of its economic security;
- it is a process that ensures the protection of financial interests of the company;
- it is one of the factors of company’s growth and its stability;
- it can be characterized by a combination of quantitative and qualitative indicators that should have the appropriate threshold to determine the level of security.

As the financial relationships are the part of the economic ones, it's quite objective to consider financial security of enterprise as a part of its economic security. Economic security of enterprise is a complex category and includes certain components. However, in the literature we can see different number of components of economic security, due to the use of different approaches to the selection of its components. Researchers I. Dmytryiev and A. Blyznyuk had summarized the views of scientists and have identified three approaches to determine components of economic security: system, resource and functional. Each of these approaches is characterized by its own quantity of components of economic security (Table 1) (Dmytryiev I., Blyznyuk A., 2011).

<table>
<thead>
<tr>
<th>The approach to define components</th>
<th>Components of economic security</th>
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<tbody>
<tr>
<td>System</td>
<td>technological, resource, financial, social</td>
</tr>
<tr>
<td>Resource</td>
<td>safety of equity, security of personnel, security of information and technology, security of techniques and equipment, security of rights</td>
</tr>
<tr>
<td>Functional</td>
<td>financial, intellectual and human resources, technical and technological, political and legal, informational, environmental, power, corporate</td>
</tr>
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Source: (Dmytryiev I., Blyznyuk A., 2011).

Analysis of literature makes it possible to conclude that most scholars advocate a functional approach. In addition, all mentioned above approaches are distinguishing financial security as a component of economic security (Table 1). Most scientists believe that the financial component is the main, because it has fundamental impact on company's financial potential and ensure its economic development goals. Consequently, the financial security of enterprise is the primary and indispensable element of economic security, which aimed to preserve the stability of domestic economic system, increase competitiveness, attract higher volume of investment capital.

Despite financial security is a part of the economic one, the "the company’s financial security" category can be analyzed like an independent one and it needs additional researches of its essence. Firstly it is due to the fact that financial activity is primarily aimed to supply businesses with the necessary resources; secondly, financial transactions of the enterprise are permanent; thirdly, finances conduct a major role in ensuring stable economic growth of the enterprise; fourth, financial risk's effect on an enterprise are the most dangerous (Yermoshenko M., 2010).

Another essential feature of the company’s financial security is its interpretation as a process that ensures the protection of company's financial interests. Using it L. Matviychuk defines the company’s financial security as an identified system of real and potential external and internal threats which can affect company's financial interests (Matviychuk L., 2009).

It should be noted that the level of company's economic security can be characterized by a degree of time and space harmonization of company's and its contractors’ interests (customers, suppliers, competitors, investors, government and society). Interests of enterprise mean its interaction with the subjects of the environment, which conducted permanently or for a limited period of time, by force or chosen by the company. The profit has to be a result of such relations. Economic interests are the main among all the company's interests. Company’s market position and state of product's competitiveness are primarily reflected by those economic interests. The share of financial interests in economics one is the bigger. Analysis of scientific opinions on this subject allows us to determine the list of financial interests of businesses, which include:
- maximizing a welfare of enterprise owners;
- increase in profitability of equity;
- adequacy of financial resources at all stages of company development;
- financial stability of the company under conditions of its growth;
• high level of investment activity and efficiency of investments;
• effective neutralization of financial risks;
• high level of financial innovation activities;
• quick overcoming of financial crisis (Medvedyeva I., Pohosova M., 2011).

To organize monitoring of enterprise's financial interests and to form the system of priority interests we need to systemize them (Table 2).

Table 2. Classification of financial interests of companies

<table>
<thead>
<tr>
<th>Criteria to systematize the financial interests of an enterprise</th>
<th>Types of financial interests of an enterprise</th>
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<tbody>
<tr>
<td>The focus</td>
<td>Availability of capital investments.</td>
</tr>
<tr>
<td></td>
<td>Profit maximization</td>
</tr>
<tr>
<td></td>
<td>Optimization contributions to the budget</td>
</tr>
<tr>
<td></td>
<td>The growth of the market value of the shares</td>
</tr>
<tr>
<td>Nature</td>
<td>Natural (adequacy of capital and investments, profit maximization)</td>
</tr>
<tr>
<td></td>
<td>Forced (optimization of budget allocations)</td>
</tr>
<tr>
<td>Level of significance</td>
<td>Strategic</td>
</tr>
<tr>
<td></td>
<td>Current (tactical)</td>
</tr>
<tr>
<td>Average time</td>
<td>Priority</td>
</tr>
<tr>
<td></td>
<td>Background</td>
</tr>
<tr>
<td>Isolation level</td>
<td>Corporate</td>
</tr>
<tr>
<td></td>
<td>Enterprises</td>
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<tr>
<td></td>
<td>Structural units</td>
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<td></td>
<td>Individual employee</td>
</tr>
<tr>
<td>Functional criterion</td>
<td>Types of activities</td>
</tr>
<tr>
<td></td>
<td>Management functions</td>
</tr>
</tbody>
</table>

Source: (Kuzenko B., Martyusheva L., Hrachov O., Lytovchenko O., 2010)

We can give some more definition of financial security. For example, scientists A. Zahorodniy and H. Voznyuk define the company’s financial security as protection of financial interests of businesses at all levels of financial relations; supply of households, companies, organizations and institutions, regions, industries and sectors of economy, State with enough volume of financial resources to meet their needs and financial obligations. However, such an interpretation doesn't take into account the possibility of the sustainable development of enterprises, even under the influence of external and internal threats (Zahorodniy A., 2007).

The company’s financial security should ensure its development and stability. Growth of company's market value is an indicator of development; the company's equilibrium in a long term and in a short term is an indicator of sustainability. Financial security contributes to sustainable development by optimizing the costs of enterprise, providing the economic and social benefits, better access to resources. The social role of financial security for the consumer is the ability to emphasize their social status or property status by buying products of famous manufacturers. The economic importance of financial security for the consumer is to provide safe and guaranteed investments in the company, to rise a product price over time, to reduce economic risks through low-quality products or service (Rodionov O., Spivak S., Tertychna N., Bondarenko O., 2011).

Analysis of the company’s financial security shows the status of the company, correspondence of its financial and economic opportunities with prevailing conditions in the markets and in the country, and thus makes it possible to give objective assessment of accuracy and appropriateness of chosen financial strategy. That is why a the company’s financial security can be characterized also as a system aimed in creating (adjustment) and implementing effective financial strategies under dynamic market conditions.

Considering financial security as a stable system, we can note the following key points:

• stability of the enterprise’s financial security system is seen as its dynamic characteristics. This means that, along with the parameters of its static state, it can be characterized by persistent trends and their changes in development;
• stability of the enterprise’s financial security system is not absolute. This means that value of certain parameters in the development of the enterprise’s financial security system can have cyclic or situational nature. However, fluctuations in the individual parameters of the company’s financial security system maintain the necessary level of financial interests protection;
at various stages of development the enterprise’s financial security system can change and get on a new level of stability of its parameters (such periods of transition can be attributed to the new enterprise life cycle, which is experiencing a financial crisis, its reorganization).

Thus, the major task of the company’s financial security system is to create the necessary financial preconditions for sustainable growth of the company in the current and future period ensuring the growth of it's market value.

Taking into account such essential characteristics of the company’s financial security as a complex of qualitative and quantitative indicators, it can be determined as a system of quantitative and qualitative parameters of financial position of the company, combination of which reflect the level of its financial security. This approach of the company’s financial security definition requires identifying the following components:

- the company’s financial security expresses some aspects of its financial position, which reflect a particular level of financial security;
- financial position of enterprise characterizes its financial security and can be defined by use of determined number of indicators;
- qualitative and quantitative indicators of the enterprise’s financial security system have to be clearly determined.
- Analysis of the literature shows that researchers who use this approach consider financial security as qualitative and quantitative level of company's financial position which:
  - ensures financial balance, stability, solvency and liquidity of the company in the long run;
  - meets the demand of enterprise in necessary financial resources for sustainable production growth;
  - provides sufficient financial independence of the company;
  - lets counteract current and emerging threats;
  - provides sufficient flexibility in making financial decisions;
  - provides realization of company's interests by using the complex of financial instruments, technologies, services, which can lead to development of the enterprise's financial system.

Other group of scientists agrees with above mentioned positions and determines enterprise's financial security as such state of financial resources, which provides effective (profitable) activity of enterprise protects its financial interests and maintains its ability to regulate liquidity, solvency and financial capabilities under the influence of various kinds of dangers and threats. The main point of such determination is efficiency of formation and use of financial resources, which makes the company profitable and able to pay its debts (Aref'yeva O., Kuzenko T., 2009).

Without any doubt financial position and financial security of company are the basis for economic well-being of regions or even State where they are situated. At the same time financial security of company is a source of positive impacts or threats to the economic security of regions and State. Therefore, to define the essence of "the company’s financial security" we need to analyze not only the views of the scientists, but also to look through the regulatory acts in this regard. We have to note that nowadays there are no legal drafts that will regulate the company’s financial security in Ukraine. The basis of the legal acts aimed to regulate financial security and bankruptcy is the Constitution of Ukraine. The government of Ukraine forms its public policy using the basic principles of the Constitution. The National Security and Defense Council of Ukraine was created to coordinate actions of executive authorities in the field of national security.

The term of the company’s financial security aren't identified in Ukrainian legislation acts. The company’s financial security indirectly regulated by such Laws of Ukraine as "On the Fundamentals of National Security of Ukraine", "On Protection Against Unfair Competition" and The Commercial Code of Ukraine. The Commercial Code of Ukraine pays considerable attention to monopolies restrictions in the economy, illegal agreements between enterprises, business discrimination, unfair competition, illegal use of company's goodwill, making obstacles in competition, violation of commercial secret. This legislation act also focuses on measures to prevent the bankruptcy of business entities.

Another regulatory instrument, which has an indirect impact on the company’s financial security, is the European convention on certain international aspects of bankruptcy. This document explains the international aspects of bankruptcy procedures, indirect international jurisdiction, partial payment of creditor claims, pays attention to the issue of secondary bankruptcy.

Doing a research of the financial security we also need to take into consideration the Final Act of the Conference on Security and Cooperation in Europe (Helsinki Final Act), section "economic and commercial information". It
indicates that signatory states have a right to use economic data to analyze the relevant markets and to develop medium and long-term projections, which will help in establishing sustainable trade flows and better use of trade opportunities.

The review of the significant characteristics and different definitions of financial security (Table 3) confirms that it's a multifaceted and complex category. In this case all above mentioned characteristics, which reflect the peculiarities of the financial security, are interconnected and require a complex approach to determine its nature. Taking into account the main characteristics of enterprise's financial security we can formulate its essence as follows: "Financial security is a financial position of enterprise that is characterized by the balance of financial interests and the ability to ensure their implementation; resistance to the negative impact of internal and external threats of company's environment; and ability to provide financial equilibrium and sustainable financial stability of the enterprise in the short and long run".

Table 3. The definition of "company’s financial security" category

<table>
<thead>
<tr>
<th>Author</th>
<th>Determination</th>
</tr>
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<tbody>
<tr>
<td>Baranowski A.</td>
<td>Degree of defence of financial interests at all levels of financial relationships or level of financial resources support which enough to meet enterprise's needs and to fulfill existing obligations</td>
</tr>
<tr>
<td>Blank I.</td>
<td>Quantitatively and qualitatively determined level of financial position of the company, which provides a stable security of its strategic and balanced financial interests from identified real and potential, external and internal threats, parameters of which are determined on the basis of its financial philosophy and which are creating the necessary preconditions of financial support of its sustainable growth in the current and future periods</td>
</tr>
<tr>
<td>Vankovych D.</td>
<td>The company’s financial security is an absence of financial danger to the enterprise, successful management of its operating, financial and investment activities</td>
</tr>
<tr>
<td>Goryacheva K.</td>
<td>It is a financial position of the enterprise which can be characterized: firstly, by balance and quality in a set of financial tools, technologies and services used by the enterprise; secondly, resistance to external and internal threats; thirdly, the ability of financial system to ensure the implementation of the company's financial interests, goals and objectives with sufficient financial resources; fourthly, to ensure the development of the entire financial system</td>
</tr>
<tr>
<td>Epifanov A. and others</td>
<td>The company’s financial security is an ability of enterprise to carry out its activity, including financial activity, effectively and permanently for an indefinite period of time by using a set of interrelated financial measures of diagnostic and control, to improve use of financial resources and to reduce the impact of risks of internal and external environment</td>
</tr>
<tr>
<td>Kiritchenko O.</td>
<td>The company’s financial security is a financial position and financial stability, which can provide effective development of enterprise activity</td>
</tr>
<tr>
<td>Melnik L.</td>
<td>Financial security is a component of internal economic security of enterprise which linked with ensuring of its financial stability and financial risk neutralization. It isn't an independent object of management</td>
</tr>
<tr>
<td>Muntiyan V.</td>
<td>It is a state of the most effective use of information, financial indicators, liquidity and solvency, return on equity, which are within its limit values; quality of management, use of fixed and current assets, its capital structure, norms of dividend payments on securities and market value of its securities as a synthetic indicator of the current financial and economic standing of the company and prospects for its technological and financial development</td>
</tr>
<tr>
<td>Papehin R.</td>
<td>The ability of company to design and carry out financial strategy in accordance with the general purposes of corporate strategy in an uncertain and competitive environment.</td>
</tr>
<tr>
<td>Pokropvynnyy S.</td>
<td>Financial component is considered to be a leading and crucial among all other functional components of economic security (financial, intellectual and human resources, technical, technological, political, legal, informational, environmental, power), because finances is an &quot;engine&quot; of any economic system under market conditions</td>
</tr>
<tr>
<td>Poida-Nosik N.</td>
<td>The company’s financial security is a complex multilevel process of ensuring protection of the enterprise from the negative impact of external and internal financial threats and the formation of its financial equilibrium in the current and strategic perspective through effective use of its financial capacity to increase the market value</td>
</tr>
<tr>
<td>Sudakova A.</td>
<td>An important component of economic security, based on the independence, efficiency and competitiveness of enterprise's finance. It is displayed through the system of the criteria and indicators of its standing and characterizes the equilibrium of finances, sufficient liquidity of assets and the necessary cash reserves, financial stability, degree of protection of financial interests in all levels of financial relations</td>
</tr>
<tr>
<td>Shelest V.</td>
<td>Financial security is an universal category, which reflects the security of subjects of social and economic relations at all levels, staring from the state and ending with each citizen, because it manifested through the protection of enterprise's activity from the adverse environmental effects, and the ability to remove quickly various threats or adapt to existing conditions which don't affect negatively on its activity</td>
</tr>
<tr>
<td>Yarochkyn V., Buzanova Ya.</td>
<td>The combination of actions to ensure the highest level of solvency and liquidity of current assets</td>
</tr>
</tbody>
</table>

Considering the definition of the company’s financial security, given by different scientists, we can identify the key features of that category:

1) ensure equilibrium and stable financial position;
2) contributes to the efficient activity of an enterprise;
3) allows to identify problem areas in enterprise’s activity at early stages;
4) neutralizes the crisis and prevent bankruptcy (Yepifanov A., Plastun O., Dombrovs’kyi V., 2009).

Determination of the company’s financial security essence enables us to determine its main goal - to provide the most stable and efficient current existence of the company in present and to ensure a high potential of its development and growth in the future. To achieve the most effective use of enterprise resources and to satisfy company's purposes, its management has to follow such key functional purposes of the company’s financial security as:

- ensuring a high financial efficiency of the company and its financial stability and independence;
- ensuring technological independence of the company and achievement of high competitiveness of its technological capabilities;
- high efficiency of company's management, optimality and efficiency of its organizational structure;
- high qualified personnel of the enterprise and its intellectual capacity, efficiency of corporate Research and Advanced Development;
- high level of environmental performance of the company, minimizing the devastating impact of the results of industrial activity on the environment;
- qualitative legal security of all aspects of company's activity;
- protect enterprise information environment, trade secrets and achieve a high level of information support of all its services;
- ensure security of personnel, its capital, property and commercial interests (Rodionov O., Spivak S., Tertychna N., Bondarenko O., 2011).

The system of financial security of a particular company assumes a differentiated level of quantitative and qualitative parameters of the protection of its financial interests adequate to its financial philosophy. Therefore, the formation of the company’s financial security grounded on financial philosophy of a particular company, which describes the system of basic principles of its financial activities in general. It covers not only economic but also behavioral management positions, which are organized according to the process of company's financial development.

The financial component of company's economic security is the most important one, because the organization of cash flows and income formation affecting most components of the economic system of the enterprise.

Mechanism of providing the enterprise's financial security

To provide companies' financial security we need to develop a mechanism that will allow assessing it and identifying internal and external factors influencing financial security. This is critical because financial security should be determined not only on the basis of data from previous periods of business, but also allow in assessing the current situation and giving predictions for the future considering the influence of micro and macro factors on the enterprise activity. Creation of financial security assessment system will help to develop tactics and strategy of companies' activity.

In developing the financial mechanism the following characteristics of financial security should be taken into account (Blank I., 2013):

1. Financial security is a major component of economic security, along with financial, intellectual and human resources, technical, technological, political, legal, informational, social, environmental, and corporate power (Dmitriev I., Bliznyuk A., 2011). It is the foundation for implementing the financial capacity of the enterprise.
2. Prediction of financial security should be based on the priority of financial interests which have to be achieved in the process of financial activity of company's management.
3. To measure financial security we should use system of qualitative and quantitative financial indicators, which will allows us to determine the level of protection against external and internal threats.
4. Assessment of financial security is impossible without considering micro and macro environmental factors that may affect the company. It can be real and potential opportunities and threats.
5. While determining the level of financial security the normative values of financial indicators should be taken into account. Normative values have to be adequate for the investigated enterprise and determined considering its financial interests, current and strategic goals.
6. System of the financial security assessment should be aimed at sustainable growth of the company in the current and future periods.

The key features of companies' financial security are:
- Ensuring the optimal quantity of enterprise's financial resources needed for expanded reproduction and preserve achieved market position;
- Equilibrium in size and timing of cash flows;
- Ensure equilibrium and stable financial position;
- The possibility to identify problem areas of the enterprise at early stage;
- Monitoring the internal and external risks;
- The ability to neutralize or prevent a financial crisis of the company and to avoid bankruptcy.

Evaluation system of the company’s financial security has to perform the following tasks (Yepifanov A., Plastun O., Dombrovsky V., 2009):
- Identification of opportunities and threats for the company, its strengths and weaknesses;
- Assessment of the risks related to internal and external threats;
- Identification of the company’s financial security indicators;
- Implementation of financial security diagnostic and monitoring system;
- Control and assessment of effectiveness of the financial security system;
- Create conditions for sustainable company's financial position;
- Minimizing financial risk of a company;
- Timely implementation in enterprise's financial activity of modern management techniques and tools for their support.

Objects of impact to conduct these tasks are: income; cash flows; equity; commitment; investment in current and non-current assets; financial and economic risks and so on.

Construction of the company’s financial security management system includes the following components as:
- Assessment of the financial position;
- Financial forecasting and planning;
- Financial management (formation and distribution of financial resources, profit generation and cash flow management), which carried out in process of financial relations;
- Assessment of risks and risk management;
- Financial monitoring and controlling.

On this basis we can determine the following steps to ensure the company’s financial security:
1. Forming of information basis.
2. Determining the factors of internal and external environment affecting the company.
4. Development of forecasts and plans of the company for the future.
5. Determination of measures needed to implement the plans, and their applications.
6. Monitoring the implementation of plans.
8. Elaboration of proposals how to eliminate discrepancies and to improve efficiency.

All these steps are interrelated and can affect each other. As an enterprise activity is cyclic, the implementation of the last phase requires repeating the whole procedure from the beginning. These elements have to be connected and combined into a single system which will be permanently in action.

The financial mechanism that ensures the appropriate level of financial security, consist of:
- Financial methods;
- Financial instruments;
- Financial leverage;
- Legal support;
- Information support.

These components are used to influence on financial relationships to ensure sustainable development of enterprises. The achievement of tactical and strategic financial goals will be possible only if we use all elements of the financial mechanism properly.

The financial methods include:
- Financial accounting which is used to form the value indicators of the enterprise through a systematic account of property, capital, liabilities, business activity, and to identify external relationships with suppliers, customers, banks, investors, shareholders and other partners;
- Financial analysis, which aimed to diagnose the company's financial position by using quantitative and qualitative methods;
- Financial forecasting and planning. Financial forecasting is used to determine the short and long term indicators that characterize the activity of the company and its financial position. Peculiarity of forecasts, in contrast to the plans, is their alternativeness, because financial indicators, mentioned in forecasts depend on the initial conditions of forecasting and can provide several scenarios of actions. Plans are based on forecasts with considering of company's financial capabilities and strategies, and provide necessity for indicators achievement in the future;
- Financial regulation, which is used to influence the management object to achieve planned results and to eliminate deviations if they occur;
- Financial stimulation covers use of incentives or penalties to maximize the interest of all company's departments, including financial in achieving the best possible result and to fulfill plans. This method holds a key position in the system of financial security, because the results of company's activity depend on efficiency of the staff work;
- Operational and current cash management, management of accounts receivable and payable, financial results, financial resources;
- Evaluation of financial risks, control and minimization of them, including formation of provisions and insurance;
- Monitoring the implementation of plans for timely detection of deviations, determination of their causes and use of adequate measures to eliminate them, which enabling the company to achieve its goals.
- All financial instruments can be divided into two groups in terms of the impact on enterprise's activity:
  - Tools used by companies: investment, credit, insurance, hedging, pricing, taxation;
  - Tools used by the State: public investments; State loans, including concessional lending; State order; special purpose funding; taxation, including preferential taxation; protectionism; sanctions.

The mentioned instruments can be implemented through the following leverages: income, expenses, profit, credit, capital, investments, stocks, bonds, insurance payments, rates, prices, wages, depreciation, taxes, incentives, sanctions, dividends, security rules and standards, limits and reserves, derivatives etc.

The relationship between the components of financial security is shown in Fig. 2.
The choice of financial instruments used to implement financial methods depends on the company's financial position (financially stable standing, on the verge of financial crisis or the stage of rehabilitation).

Factors influencing the company’s financial security

Conducting its activities company faces many threats that can lead to the deterioration of its financial position resulting in bankruptcy. Therefore, provision of a sufficient level of financial security requires thorough study of factors of internal and external company's environment. There are two groups of reasons that lead to the emergence of the financial crisis at the enterprise:

1. Strategic mistakes in organization of business activity that make the company uncompetitive in the market regardless of the quantity of available resources and management quality (wrongly chosen field of activity, improper assessment of market conditions, incorrect development strategy).
2. Errors in the implementation of enterprise's management (incorrectly defined capital structure, suboptimal allocation of resources, failures in financial planning, etc.).

Thus, the crisis at the enterprise could be resulted by influence of different environmental factors (Fig. 3). Environment can be regarded as a set of subjects and forces that influence company's activity in the market and can divided into two parts:

- Internal (endogenous), consisting of forces and factors related to organizational structure, economic capacity, geographic boundaries of company's activity, finances, management and marketing. The company can control these factors;
- External (exogenous), which consists of the factors which the company interacts with. External environment consist from factors that are beyond the company and may affect its activity. Most of these factors are uncontrollable (changing population trends, economic conditions, adopted legislation acts), but on some of them the company can influence (policy-making, technological developments, competitive situation). Company's activity on the market depends significantly on its ability to react effectively to key changes in the environment. External environment can be divided into macroenvironment and microenvironment. The tasks of management are
to determine the key factors of enterprise's environment, to assess existing and possible in the future relationship between factors and to develop measures of reaction to a changing environment.

In addition, environmental factors can be divided into:

- **permanent** - they affect the company's activity constantly (scientific and technical progress, the quality of informational support, energy and environmental issues, state and interstate regulation, exchange rate and monetary system, etc.);
- **temporary** - they affect the company's activity within limited period of time (seasonality, political and social conflicts, natural disasters).

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**Fig. 3. The classification pattern of internal and external environment of the enterprise**
Changes in the enterprise's environment occur constantly and force the management to make changes in the internal environment in order to achieve financial and economic equilibrium and to consider company's economic potential with the new economic conditions.

Factors (conditions, actions) that prevent the full realization of company's financial interests in process of its activity should be considered as threats. Taking into account classification of factors that affect the business, we can make classification of financial security threats (Table 4).

Table 4. Classification of financial security threats

<table>
<thead>
<tr>
<th>Classification</th>
<th>Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>According to the source of appearance</td>
<td>- External (exogenous) - risk of change of microenvironment and macroenvironment;</td>
</tr>
<tr>
<td></td>
<td>- Internal (endogenous) that are related with failures and shortcomings in the management of the enterprise, and can be caused by circumstances of insuperable force</td>
</tr>
<tr>
<td>Depending on the subjects</td>
<td>- Threats from unfair competition;</td>
</tr>
<tr>
<td></td>
<td>- Threats from the buyers;</td>
</tr>
<tr>
<td></td>
<td>- Threats from other contractors;</td>
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<tr>
<td></td>
<td>- The threat caused by the employees;</td>
</tr>
<tr>
<td></td>
<td>- Threats from criminal organizations;</td>
</tr>
<tr>
<td></td>
<td>- Threats caused by the actions of State officials and local authorities.</td>
</tr>
<tr>
<td>Ability of realization</td>
<td>- Real;</td>
</tr>
<tr>
<td></td>
<td>- Potential.</td>
</tr>
<tr>
<td>Depending on the object of attacks</td>
<td>- Informational;</td>
</tr>
<tr>
<td></td>
<td>- Financial;</td>
</tr>
<tr>
<td></td>
<td>- Threats to staff.</td>
</tr>
<tr>
<td>The size of the expected loss</td>
<td>- The threat of catastrophic amount of damage;</td>
</tr>
<tr>
<td></td>
<td>- Threats to critical size of losses;</td>
</tr>
<tr>
<td></td>
<td>- Threats that cause difficulties;</td>
</tr>
<tr>
<td></td>
<td>- Threats of acceptable size of losses;</td>
</tr>
<tr>
<td></td>
<td>- Minor threat.</td>
</tr>
<tr>
<td>The type of responsibility of subjects whose activity may affect the company’s financial security</td>
<td>- Threats which can cause imposing of civil law sanctions to persons who have committed them;</td>
</tr>
<tr>
<td></td>
<td>- Threats which can cause imposing of financial sanctions to persons who have committed them;</td>
</tr>
<tr>
<td></td>
<td>- Threats which can cause imposing of criminal responsibility to persons who have committed them.</td>
</tr>
<tr>
<td>Forms of manifestation</td>
<td>- Quantitative threats (associated with underfulfil of plans deterioration in the financial position and payment discipline, etc.):</td>
</tr>
<tr>
<td></td>
<td>- Qualitative threats (related to changes that can’t be quantitatively measured, namely the financial crisis, bankruptcy, corporate conflicts, falling market, freezing of bank accounts, closure of foreign markets, etc.).</td>
</tr>
</tbody>
</table>

The dangers and threats that affect the company’s financial security can be divided into internal and external. The internal threats include intentional or accidental errors of management in sphere of financial management connected with the choice of company's strategy, management and optimization of company's assets and liabilities. The main external threats and hazards that affect the loss of financial security are:

- Buying shares, enterprise's debt by undesirable partners;
- The existence of significant financial liabilities of the company;
- Underdeveloped capital markets and their infrastructure;
- Underdeveloped legal system of investor protection and enforcement;
- Crisis of monetary and financial credit system systems;
- Instability of the economy;
- Imperfect mechanisms of formation of economic policy and so on.

As we can see, numerous factors influence the company's activity and which are impossible to control and to monitor, because it will require considerable time consuming and require financial and human resources consuming. That's why we have to identify those threats that directly affect the activity of a particular company and then monitor them. You also need to define "critical risks" for the enterprise, which may significantly affect its financial position and lead to a deep financial crisis or even bankruptcy. Another point we should pay attention to while determining
threats is a stage of company's life cycle, because it can significantly affect the quantity and set of threats, especially when the company moves from one stage to another. Understanding on what stage of the life cycle is a company also could help, because a system of typical risks in each of the stages (rise, maturity, crisis, stagnation) has been already developed (Yepifanov A., Plastun O., Dombrovsky V., 2009).

So, the factors influencing the enterprise should focus on the following provisions:

- threats to the company's financial interests are generated by the limited amount of factors affecting the process of its financial activity, which are destructive and require identification;
- system of the company’s financial security have to identify not only real, but also potential threats;
- concept of financial security includes protection of its priority interests against external and internal threats;
- additional attention of the company’s financial security system have to be paid to the most dangerous threats among all identified ones.

Thus, financial security is the ability of the enterprise to ensure implementation of its own financial interests despite the negative impact of internal and external environment in the future. The functioning of the enterprise evaluation system for financial security will permit to manage effectively the available financial resources, and also to respond in time to signs of a crisis and possible adverse changes, and will give opportunity to use possibilities and reserves.

Business entities in Ukraine are not sufficiently protected from the effects of internal and external environment factors. It caused by:

- Objective factors, the onsets of which are difficult or impossible to predict;
- Subjective factors related to the absence or bad quality of risk management and system of financial position monitoring.

Financial risk management (risk management) system is a part of the company’s financial security system. It includes the following components:

- Qualitative analysis of risks that threaten the financial security of the company - decomposition of complex risks to simple and their identification, detection of risk factors;
- Quantitative risk assessment, which involves determining the probability of occurrence and size of potential losses;
- Development of risk situations optimization by minimizing or neutralizing risks.

Approaches to the evaluation of internal and external environment factors

To assess the impact of qualitative internal and external environment factors on enterprise we can use the following strategic analysis methods:

- SWOT-analysis - we can use it to identify strengths and weaknesses of the company, as well as opportunities and threats arising from its immediate environment (external environment): Strengths - the benefits of the company; Weaknesses - shortcomings of company; Opportunities - external environmental factors, use of which can create benefits on the market; Threats - factors that can potentially worsen the position on the market;
- SNW-analysis designed to investigate the internal environment and involves determining the strength; neutral; weakness. In contrast to analysis of strengths and weaknesses in matrix of SWOT-analysis, SNW - analysis suggests to consider market average condition, as it also could provide a competitive advantage in the market;
- PEST-analysis, which is designed to identify these groups of environmental factors that may affect the company strategy: political (Policy); economic (Economy); Social (Society); technology (Technology).
- ETOM analysis (Environmental Threats and Opportunities Matrix) - an analysis of the environment through an inventory of external threats and opportunities of the enterprise and then weigh each factor (to measure the importance of each factor for a particular organization). The advantage of this analysis is the use of a limited number of factors and events that distinguished by experts (usually 15).

To simulate the influence of internal and external environment factors on financial position indicators we can use scenario method.

Approaches to the quantitative assessment of financial security company

To determine the level of financial security on the basis of financial information it’s necessary to apply the system approach. The main components of the system are:

1. Evaluation of financial and economic standing of the company.
2. Operational or SVP analysis.
3. The analysis of the cash flows of the company.
4. Analysis of enterprise’s risks.
1. Evaluation of financial and economic standing of the company.

The system of financial indicators can be used to assess the level of the company’s financial security. The basic components of this system are on the Fig. 4. The main groups of financial indicators are liquidity ratios, asset management ratios, debt management ratios and profitability ratios which can be used to assess various criteria of enterprise's activity.

Financial capability Indicators. Assessment of financial stability aimed to conduct objective analysis of value and structure of company's assets and liabilities and to determine the degree of its financial stability and independence, to compare financial and economic activity goals with company's statute. The criterion for optimality indicators of financial stability is bigger amount of equity than liabilities. Accordingly, If the share of equity in company's capital structure is higher than company has more financial stability and the higher level of financial security.

Indicators of liquidity and solvency. Analysis of the liquidity of the company is carried out according to the balance sheet and let us to determine the company's ability to pay its current obligations. It is negative to company to have indicators lower than recommended, which can influence the solvency of the company. If liquidity indicators are bigger than their normative value it can be a sign of ineffective use of available financial resources.

With the concept of liquidity it is commonly used a concept of solvency. Solvency is a company's ability to make payments and pay all obligations in time and in full amount. Company is solvent if its short-term current liabilities can be covered by total current assets. Solvency depends on the ratio of equity and current liabilities.

Business activity indicators (asset turnover). Acceleration of asset turnover affects on reducing the need in current assets. The speed of asset turnover determines the level of intensity of their use. As a result of turnover acceleration we can free assets invested in inventories or immobilized in the form of receivables, thereby such measures increase the liquidity of the company.

The criterion for optimality of turnover indicators is to maximize their values and to minimize turnover period of each group of assets that will help to reduce the necessary financial resources for their financing.

Profitability ratios. The main criterion of effectiveness of company's activity is a net profit. Indicators calculated to assess profitability is the ratio of profit to resources or indicators of activity results.

All profitability ratios can be divided into three groups:
1) indicators characterizing the return on assets of the company;
2) indicators characterizing profitability equity and liabilities of the company;
3) indicators characterizing profitability of enterprise's activity.
For the profitability characteristic it is desirable to maximize their value, it will indicate the significant profits from the enterprise's activity, the efficiency of its operation and a high degree of safety (Robinson T., Greuning H., Henry E., Broihann M., 2009).

In order to assess financial position using mentioned above system of indicators, it is necessary to determine normative values of the studied factors on the basis of empirical data for certain sectors of the economy. They can be considered as indicators characterizing the activity of the best enterprise or average data for the studied enterprises plus / minus standard deviation which can be used as limit fluctuations that will not be treated as the deteriorating of financial position (Yepifanov A., Plastun O., Dombrovs’kyv V., 2009). In addition, these indicators must be calculated for a particular country, taking into account the stage of the economic cycle. Epifanov offers to clarify these figures every 5 years, which will lead them into line with the economic situation.

Number of indicators that can be used during this stage of the analysis may vary depending on the task of analysis. A large number of the studied parameters lead to the most detailed analysis, but it increases the time spent on its implementation and it will be difficult to make interpretation of the results.

2. Operational or SVP analysis.

Operational analysis or SVP-analysis is an analysis of company's activity based on the ratio of the volume of production, income and expenses to determine the relationship between costs and benefits at different production levels. Its task is to find the most advantageous combination of variable and fixed costs for sales. This type of analysis is one of the most effective means of planning and forecasting of the company's activity aimed to support effective functioning and to ensure financial security.

The practical effect of the analysis is to identify untapped reserves in all areas of planning and operational management, to define ways of their mobilization in order to obtain maximum profit (Brealey R., Myers S., Marcus A., 2007).

Use of operational analysis allows finding a wide range of factors that affect the final efficiency of the company and its financial security:

- break-even sales level and the minimum selling price;
- optimal range of products produced using limited resources;
- the impact of structural changes in the range of manufactured and sold products on profit;
- taking orders at prices below cost;
- the decision to lower prices by increasing the volume of sales;
- solve the problem "produce or buy parts, semi-finished", etc.

3. The analysis of the cash flows of the company.

The effectiveness of cash flows management is determined by its impact on solvency, turnover of assets, raised funds and accounts payable, and on company's profitability and its financial security. The main directions of the company's cash flows formation shown in Fig. 5.

Areas of the cash flows of the company:

- reimbursement for production, marketing and services received;
- financial obligations to the government, banks and other businesses;
- formation of funds;
- implementation of financial and investment operations.

Fig. 5: Ways of company’s cash flow formation.

Managing cash flow provides meaningful impact on the processes of money accumulation, their spending and redistribution in order to balance the financial and economic activity.

Control after income and outcome of cash flow is a system of monitoring after obtaining and use of funds in order to determine deviations from their set parameters and to prevent threats to the company’s financial security.
The effectiveness of the cash flow management is defined by synchronization of cash receipts and cash payments, support for permanent solvency and includes the following components:

- determine the minimum amount of cash sufficient to service the ongoing business;
- constant monitoring of cash receipts from sales;
- smoothed fluctuations in cash revenues and cash payments to avoid payments crisis in certain periods;
- optimization of payments to suppliers and buyers that justify the policy for obtaining commercial loans and delays in payment;
- making decision about temporary available cash assets use to prevent losses from inflation and loss of profits;
- accelerate the turnover of funds through the introduction of organizational and economic measures.

The practical implementation of these components of cash flows management will enable to find compromise between the need to maintain a certain amount of money to ensure liquidity of the company and the desire to invest available cash for their return to ensure financial security.

4. Analysis of enterprise’s risks

Making its activity company is exposed to various risks, the degree of implementation of which depends on its financial security. There are at least three types of risk of entrepreneurial activities that significantly differ. It is a stand-alone risk, risk of specific project and it's doesn't matter what company is implementing it. Stand-alone risk is measured by assessing the volatility of cash flow and profitability of the company. Corporate brand or within-firm risk is the risk generated by the activities of investigated enterprise. It can be measured through the impact of the project on risk of cash flow and overall profitability. Market risk or beta risk is the risk of the project taken into consideration by well diversified investor. Market risk can be measured through the impact of the project on the beta coefficient of company (Brigham E., Ehrhardt M., 2013).

In turn, stand-alone risk to which the company is exposed and which depends on its level of financial security is divided into business risk (owners risk) of the company when company's management don't attract loan capital and financial risk (additional risk) which exposed holders in case of attracting debt capital.

Business risk strongly depends on the proportion of fixed costs in the cost structure of the enterprise and is characterized by an indicator of operating leverage. If all other factors are constant, the higher the level of operating leverages of enterprise the higher its business risk.

Financial risk depends on the availability of debt sources in the company's capital structure and characterized by indicator of financial leverage. The reason of concentration of financial risk for owners is the fact that lenders receive regular interest payments risk and don't take risk.

So the risks associated with the activity of the company have two main sources:

1. The instability of demand and prices for finished goods, raw materials and energy prices that affect the cost of production and consequently the amount and dynamics of earnings. The impact of operating leverage depends on the proportion of fixed costs in its total amount and defines the company's flexibility. All these factors generate business risk.

2. Variability of financial conditions of credit (particularly fluctuations in economic return on assets) leads to uncertainty of enterprise owners to obtain proper compensation in the case of liquidation of the enterprise with high proportion of debt that generates financial risk and measured force effect of financial leverage.

The business and financial risks are inextricably linked and the effect of operating leverages and financial leverage effect is closely related (Fig. 6).
Operating leverage affects the level of economic profitability of the enterprise, and affects financially the amount of net profit, return on equity level and the amount of profit per 1 share. The growth of interest on borrowings under increasing effect of financial leverage increases the fixed costs of the enterprise leading to higher impact forces operating leverage. This increases not only the business but also the financial risk, which may lead to a decrease in share prices and reducing financial security. Therefore, the goal of the financial manager in this situation is to reduce the effect of financial leverage.

It should be noted that the combination of a large magnitude of the effect of operating leverage high financial leverage effect may be detrimental to the company, because the risks are mutually multiplied.

The criterion for selecting options or a combination of high-level minor operational and financial leverage is up share prices with sufficient security investor. The optimal capital structure is always a compromise between risk and yield.

Each of these areas of enterprise analysis indicates a possible threat to the enterprise and characterizes its work from different points of view.

The level of financial security sufficient for the success of the company is quite controversial. It is worth to emphasize that this question can’t have a clear answer. Since there is no similar companies is the level of financial security for each of them is different.

In order to determine the level of financial security satisfactory to the company may only set indicative limits. For this purpose, it is recommended to define a specific list of indicators to be explored, indicating their optimal values and their weight in the total integrated indicators. The main criterion for inclusion of specific indicators to analyze the level of financial security is to ensure the implementation of the priority tasks of the company as a financial entity. These interests are defined as operation of the business.

The use of indicators to assess the financial security of the enterprise is common in the world. Requirements for the values of the indicators are not mandatory, and are advisory, if financial security is valued. In the case of crisis management should set limits upon reaching which the company can continue to function successfully.

Use of indicative indicators to assess the company’s financial security also reveals the weaknesses of its activity at a satisfactory general condition and focus on their removal.

In order to improve financial security of enterprise we should develop estimation algorithm of financial security. That is the procedure for the assessment, monitoring and diagnosis of their financial security. The main stages of determining the level of the company’s financial security may include:

- Gathering initial information and identification of threats to the company’s financial security;
- The definition and calculation of the indicators comprehensively characterize the state of the company;
- Summary of all quantitative performance and qualitative indicators available to common integral values on which it is necessary to assess;
• Diagnosis of financial security and decision-making regarding its maintenance and improvement;
• Monitoring the level of financial security and enforcement optimal performance level of financial security.

Conclusions

Thus, our study suggests that a system of indicators to measure the financial security of the enterprise should include at least the following main research areas: analysis of financial-economic activity, operational analysis, cash flow analysis and enterprise risk business activities.

For the purpose of an overall opinion on the level of financial security in accordance with international practice are propose establishing a list of basic indicators studied according to the specifics of the enterprise, and the calculation of generalizing integral index.

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