European Proceedings of
Social and Behavioural Sciences
EpSBS
www.europeanproceedings.com
e-ISSN: 2357-1330

DOI: 10.15405/epsbs.2020.03.68

II International Scientific Conference GCPMED 2019
"Global Challenges and Prospects of the Modern Economic Development"

STRATEGIC ANALYSIS OF TOOLS FOR ASSESSING THE FINANCIAL SECURITY OF A COMPANY

V. Manyaeva (a), S. Sotskova (b)*
*Corresponding author

(a) Samara State University of Economics, 443090 Soviet Army street, 141, Samara, Russia, manyaeva58@mail.ru
(b) Samara State University of Economics, 443090 Soviet Army street, 141, Samara, Russia, s_sotskova@mail.ru

Abstract

Financial security and its assessment are a key component of economic safety and relevant areas in uncertain and variable internal and external environment in which the company operates. The article considers the essence of financial security as a specific component of economic security, presents its structure. The methodology has been developed to assess financial security of a company using strategic analysis tools to ensure successful economic activity and prevent threats. It is proposed to use SWOT analysis and Balanced Scorecards as the instruments in this study. Indicators and criteria for the evaluation of company's financial security are proposed. SWOT analysis allows developing a financial strategy for an economic entity taking into account assessments of financial security, it enables to define priorities and deadlines for achieving goals, and establish drivers and barriers. To manage financial security Balanced Scorecards are suggested to use in this research, which establishes four areas of control: finance, customers, business processes, training and personnel development. Analysis of the financial component provides the assessment of financial stability level, business profitability, efficiency of financial resources. To evaluate the customer component, which is characterized by calculations and relations with counterparties, the approaches to identify financially unreliable organizations are offered. The component of business processes involves study of technical and technological independence of an economic entity and competitiveness of technological potential, which ensure sustainable growth rates. The personnel training component determines the need for qualified personnel who can implement financial security measures for an economic entity.

Keywords: Financial security, strategic analysis, SWOT analysis, Balanced Scorecards, company.

https://doi.org/10.15405/epsbs.2020.03.68
Corresponding Author: S. Sotskova
Selection and peer-review under responsibility of the Organizing Committee of the conference
eISSN: 2357-1330

1. Introduction

Any company operates in a market economy in constant uncertainty and sharp competition. One of the main conditions for its stable, successful and long-term functioning is financial security. The analysis of internal and external threats to financial and economic security of the enterprise is necessary in strategic management and allows you to make the right tactical decisions to ensure successful financial activities. The initial process of strategic management of any enterprise should be the analysis of the environment, which states the mission, strategic goals and areas, as well as behavior strategy elaboration that allows carrying out your mission and achieve strategic goals.

The analysis results of external and internal environment of the company make it possible to develop a financial strategy for an economic entity and evaluate the current level of its financial security, determine priorities and terms for achieving long- and medium-term goals, and then short-term goals that are parameterized. Depending on the goals, drivers and financial stability barriers and then financial security of the company are determined. This defines the relevance of the topic, goals and objectives of the study.

2. Problem Statement

The concept of "financial security" is relatively new in our economy. At macro level, these issues are considered in some detail. However, at the micro level they are not studied so deeply. The above problems are researched in the works of Shatalov and Mychka (2017), Glumov and Kiselitsa (2013), Arbuzov (2016), Gaponenko, Bespalko, and Vlaskov (2007), etc. As a rule, there are two approaches to determine the essence of financial security. Most authors view financial security as a part of economic security of a commercial organization. Some authors consider financial security as an independent concept. The following works of Russian and foreign scientists studied the tools of strategic analysis: Kaplan and Norton (2004, 2008), Buzan, Wæver, and Wilde (1998), Tatarovskaya (2017) and others.

The research of financial security assessment of the company are presented in the works of (Dudin et al., (2018), Naumova and Tyugin, (2018), and others.

For reliable assessment of company’s financial security, new scientific approaches and methodological developments are needed that meet current conditions for economic entities in Russia. This goal in the study involves the development of areas for improving the tools of strategic analysis in assessing company’s financial security.

3. Research Questions

In the article the following research issues are highlighted:

- what is the content of the analysis of external and internal environment in assessing company’s financial security;

- how is financial security assessment of the company carried out in a strategic analysis;

- how the level of company financial security is evaluated on Balanced Scorecards (BSC) using a point and rating analysis technique.

4. Purpose of the Study

The purpose of the study is to develop theoretical approaches to develop the methodology for assessing financial security of an economic entity in a strategic analysis system to ensure successful economic activity of the company. The developed methodological provisions are aimed at developing the theory of financial and strategic analysis in the process of assessing company financial security. Practical recommendations contribute to sustainable development of the company and its financial security.

5. Research Methods

The study and assessment of the financial security of an economic entity is based on a set of principles, including comprehensiveness, systematicity, goal-setting, resistance to environmental influences, science, ranking of security objects, advanced management and its hierarchy, informatization, variability, and use of economic methods in the mechanism of ensuring financial security. The following approaches are recommended for monitoring and making managerial decisions in the field of financial security:

- Strategic analysis tools in assessing company’s financial security;
- SWOT analysis to develop a financial strategy for an economic entity and assess the level of company’s financial security, determine priorities and deadlines for achieving goals (long, medium and short term);
- BSC Concept (Balanced Scorecards) to assess the level of company’s financial security..

6. Findings

6.1. Analysis of the external and internal environment to assess the financial security of the company

Economic and financial security of the company is represented by interdependent definitions. Financial security is a specific component of economic security and determines its level. However, it defines not only economic security as a whole, but also the level of its individual components. In particular, in order to ensure a high level of technical and technological security, it is necessary to have financial resources, which are considered as a characteristic of financial security. On the other hand, a high level of technical and technological security allows achieving the output of competitive products, providing large sales, revenue and profits, high profitability level, which characterizes financial security. Thus, financial security means that an economic entity is able to develop progressively in accordance with the financial strategy maintaining its financial independence and stability. Therefore, it includes a set of measures, methods and means to protect financial and economic interests of business entities. Financial security is no longer static, it requires setting goals and considering the mechanisms for achieving them, forecasting threats and assessing risks, and developing methods to neutralize or reduce them. Financial security must be coordinated with the strategy. Moreover, without taking into account the goal of the system, strategic security cannot even be defined. Such research goal involves the development of methods for analyzing financial security of a commercial organization.

https://doi.org/10.15405/epsbs.2020.03.68
Corresponding Author: S. Sotskova
Selection and peer-review under responsibility of the Organizing Committee of the conference
eISSN: 2357-1330

To evaluate company's financial security, it analyzes its external and internal environment. The analysis should be carried out in three directions: macroenvironment, immediate environment and internal environment of the business entity.

The external environment is a source to supply the company with material, technical, intangible, labor and financial resources, which are necessary to maintain its internal potential at required level. The business entity is constantly exchanging with external environment to hold up well. The analysis of external environment includes analysis of social and political influences, as well as the analysis of the condition of those external environment components with which the organization is in direct interaction: customers, suppliers, competitors and labor market. It is essential to emphasize that the company has a significant impact on the character and content of this interaction and thereby actively participates in creating additional opportunities and in preventing threats to its continued existence.

The analysis of company's internal environment is aimed at assisting management to understand company's activities, to understand whether the strategies are justified, to find out how efficiently the resources are used to support these strategies. The value of internal analysis is really significant, since company's activity determines its ability to get ahead of its competitors, allows managers to identify competitive advantage and those areas that require urgent interference to ensure its survival in the market and maintain financial security at high level.

The analysis of external and internal environment of the company allows us to classify analytical tools and use them to assess financial security. This primarily concerns economic and financial analysis. Thus, economic analysis in the management system has a unique opportunity for regulating contradictions of managerial information needs with capability to satisfy them. The basis for this opportunity is creating the systems of financial and non-financial indicators balanced on important aspects of strategic management tasks. The use of these indicators in economic analysis should become the part of the mechanism to solve such "perpetual" problems of civilization at economic microlevel such as the survival of the business entity, increasing its profitability and capital growth, which ensures financial stability and security of the business entity.

When balanced indicators are formed, the desired effect is achieved from all potential data sources; it requires appropriate systematization and processing, primarily based on set tasks. Thus, there is great necessity for systematic presentation of external and internal data sources in this process.

6.2. Using strategic analysis tools in assessing a company's financial security

The strategic analysis tools allow identifying strengths and weaknesses of the company. Environmental analysis provides an opportunity to evaluate opportunities and threats. Therefore, for a comprehensive evaluation and justification of managerial decisions in the field of financial security and forecasts development, a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats). Is required. In the analysis strengths and weaknesses of the economic entity can be considered as factors of positive and negative impact.

Strengths include stability of financial condition of the company, stable financial flows and reliable relations with financial partners (investors, banks, etc.), protection of shareholders' interests, competent and professional management. Weaknesses of an economic entity can include a shortage of

https://doi.org/10.15405/epsbs.2020.03.68
Corresponding Author: S. Sotskova
Selection and peer-review under responsibility of the Organizing Committee of the conference
eISSN: 2357-1330

necessary funds to finance investment projects, low solvency, low profitability or lack of profit, poorly organized sales activity, unsustainable sales channels, incompetent and dishonest employees ("factor IBFN" - incompetence, bad faith, negligence). Opportunities in the SWOT analysis can be considered as factors that have a beneficial effect: providing financial conditions to enhance investment and innovation enterprise activities, to attract investors, and access to new markets.

Threats are factors that can damage an enterprise. The main external hazards and threats to financial stability and security are the following ones:

- undesirable partners purchase shares, company debts;
- the company has significant financial obligations (both a large amount of borrowed funds and large debts to the company);
- capital markets and their infrastructure are underdeveloped;
- legal system for protecting investors' rights and legislation is insufficiently developed;
- crisis of monetary and financial credit systems;
- economic instability;
- mechanisms for state economic policy have to be improved.

Internal dangers and threats to financial stability and security include intentional or accidental errors of management in the field of financial management related to the choice of its strategy; management and optimization of company's assets and liabilities (development, implementation and control of receivables and payables, selection of investment projects and sources of financing, optimization of depreciation and tax policies).

SWOT analysis can contribute to develop a financial strategy for an economic entity and evaluate the level of company's financial security, determine priorities and deadlines for achieving goals (long and medium term), then short-term goals that are parameterized. Specified goals are determined by drivers and barriers. The financial security of the enterprise can be ensured in the conditions of its balanced development.

6.3. Financial Security Assessment Based on Balanced Scorecards (BSC)

The concept of BSC (Balanced Scorecards), developed by D. Norton and R. Kaplan for rapidly developing organizations in a modern changing environment involves the system of four control areas as a criterion of effectiveness that can be presented by 4 components: financial, consumer, business process, personnel training. Consequently, financial security management that assumes the analysis of its level, should be carried out in the same areas.

The financial component is determined by the influence of external and internal factors. External factors include macro factors, namely, stabile payment system, organization of money circulation, tax policy, etc. The protection of private finances by national public law means helps to prevent negative impact of unfriendly agents on domestic financial owners (threat of their "collapse", " freezing "and other forms of liquidation). For example, in order to form the dependence and controllability of such financial owner, he can be used in anti-state projects or for weakening the national economy. Internal hazards should recognize management errors in the financial sector, management of receivables and payables, practicing tax policy. Thus, the analysis of the financial component provides evaluating financial stability

https://doi.org/10.15405/epsbs.2020.03.68
Corresponding Author: S. Sotskova
Selection and peer-review under responsibility of the Organizing Committee of the conference
eISSN: 2357-1330

of the organization, business profitability and efficient use of financial resources. The company's financial security can be assessed using the system of indicators, which include financial ratios, indicators characterizing the state of receivables and payables, profit growth, sales of products, assets.

The client component is determined by calculations and relations with counterparties (customers, suppliers). In the analysis, you can use the approaches developed by the Federal Tax Service of the Russian Federation and the Ministry of Finance of the Russian Federation to identify financially unreliable organizations. The Federal Tax Service defines such companies according to several groups of signs: registration (the quality of constituent documents, legal address), operational (transit operations on current accounts, quality of primary documents - signatures, seals), tax (low tax burden, unreliable accounting and tax reporting, tax dodging), industry (lack of permission to conduct a particular type of activity).

The component of business processes involves the study of technical and technological independence of an economic entity and competitiveness of technological potential, which can ensure a high level of product competitiveness, expanding sales markets and increasing sales, achieving sustainable growth rates. Therefore, in addition to financial analysis, the methodology of investment analysis is necessary to be applied. The main indicators characterizing the production component can be specified: net sales, total variable costs, marginal income, coverage ratio (ratio of marginal income to net sales), sales profit, break-even point, financial safety margin, operating leverage.

Personnel training component determines the need for qualified personnel who can implement financial security measures for an economic entity. Such personnel should have a high level of general legal culture, knowledge in the field of finance and financial law, accounting and economic analysis. For quantitative and qualitative assessment, you can use indicators that reflect the professional level of security personnel, organizational company structure, remuneration, information structure, protection of commercial secrets.

In the analysis methodology, it is necessary to determine critical or threshold values for proposed indicators, based on company characteristics. Based on these criteria, the score system should be developed that will use the average indicators for a number of years (ki), where the key indicator is the indicator of the current year and previous periods are not taken into account much, which should increase the objectivity of the forecast.

$ki = 0,1ki1 + 0,2ki2 + 0.3ki3$, (1)

where ki1, ki2, ki3 are the coefficients for the 1st, 2nd, 3rd years, respectively.

Each component of the balanced scorecard to determine the level of financial security will be evaluated at a certain number of scores: client -20 points, business processes - 20 points, personnel training -10 points, financial - 50 points. As a result of the analysis for each component, it is possible to assess the level of financial security as critical, low, satisfactory, and promising. By the sum of the indicators, we can determine the overall level of financial security on the same rating scale. The maximum that can be achieved is estimated at 100 points and rated as promising. Thus, the rating score allows summarizing the financial security and development prospects of the organization.

7. Conclusion

The development of methodic approaches for assessing company's financial security using strategic analysis tools is aimed at developing the theory of financial and economic analysis that will ensure successful economic company's activity in the future. Practical recommendations can be used by company specialists whose professional responsibilities are ensuring economic and financial security, as well as monitoring financial security. Also, the results can be applied in scientific, research and higher educational institutions.

References

Arbuzov, S. G. (2016). *Features of the methodological and methodological support of economic security of the county at the present stage.* (Ph.D. thesis.) St. Petersburg: Saint Petersburg State University of Economics. [in Rus.].

Buzan, B., Wæver, O., & de Wilde, J. (1998). *Security: A new framework for analysis.* Boulder: Lynne Rienner.

Dudin, M., Burkaltseva, D., Blazhevich, O., Safonova, N., Betskov, A., Gaponenko, V., … & Kilyaskhanov, Kh. (2018). SWOT analysis as an effective tool for identification of the strengths and weaknesses of the state's financial security system. *International Journal of Engineering and Technology (UAE), 7*(3.14), 291-299. https://doi.org/10.14419/ijet.v7i3.14.16908

Gaponenko, V. F., Bespalko, A. L., & Vlaskov, A. S. (2007). *Economic security of enterprises. Approaches and principles.* Novy Urengoy: Os-89. [in Rus.].

Glumov, A. N., & Kiselitsa, E. P. (2013). Formation of economic security the enterprise. *Academic Bulletin, 4*(26), 85-90.

Kaplan, R. S., & Norton, D. P. (2004). *Strategy maps: Converting intangible assets into tangible outcomes.* Boston: Harvard Business School.

Kaplan, R. S., & Norton, D. P. (2008). *The execution premium: Linking strategy to operations for competitive advantage.* Boston: Harvard Business School.

Naumova, O. A., & Tyugin, M. A. (2018). The technique of monitoring the financial security of the economic entity based on the assessment of financial threatening risk. *Science Vector of Togliatti State University. Series: Economics and Management, 2*(33), 34-41. [in Rus.].

Shatalov, M. A., & Mychka, S.Yu. (2017). Modern paradigm of the organization of the mechanism of management of the financial security of the enterprise. *Strategii Biznesa, 8*(40), 13-21. [in Rus.].

Tatarovskaya, T. E. (2017). Strategic approach in accounting and analysis of economic entities' activity. *Bulletin of Samara State University of Economics, 5*(151), 47-51. [in Rus.].