

## **THE MECHANISM OF THE STABLE DEVELOPMENT FINANCIAL STRATEGY OF AN ENTERPRISE: METHODOLOGY AND ORGANIZATION**

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**Summary.** The paper reveals the factors which influence the potential of the financial solvency; starting positions and components of the mechanism of financial strategy, the approach to the mechanism of financial strategy of a stable development of an enterprise and the mechanism of its realization. Fig. 1, tab. 1, source 10.

**Key words:** financial strategy; mechanism; enterprise; diagnostics; choice of financial strategy; potential of the financial solvency.

### **INTRODUCTION**

In the crisis conditions a great attention is paid to the questions connected with the search of new approaches towards increasing efficiency of the finance management. The importance of this problem solving is predetermined by the rise of the financial problems and contradictions between the elements of the financial balance, which considerably influence social and economic processes both at the level of an enterprise, region and the state as a whole. The overall system crisis, which has captured the majority of the industrial enterprises of Ukraine has led to decrease in their financial solvency (38,9% in 2008 are unprofitable) [6]. The increase of profitability of the net worth was accompanied by decrease in the level of the industrial and financial solvency even at the profitable enterprises. The infringement of the capital structure (the high share of short-term obligations and the limited credit volume) didn't promote the increase of the financial solvency of the enterprise. Such tendencies towards the enterprise development testify that the current mechanism of the finance management is insufficiently effective and doesn't have the proper scientifically methodical basis. In particular it has no such key components as the formation of the adaptive mechanism of the stable development financial strategy of an enterprise. Therefore the periodic correction of the finance management methods is necessary for the decision of the problem for the maintenance of the financial solvency of the enterprise on the basis of working out and realization of the financial strategy mechanism.

And though the problem of the strategic finance management did not remain without the attention of the domestic and foreign scientists [1-5; 7-10], there is a sharp requirement for the subsequent development of its methodological and scientific base and the formation on their base of the stable development financial strategy of an enterprise adequate in the existing conditions of the market economy.

**Research object** – forming processes and making elements of the mechanism of financial strategy, which determine prospects and choice of ways of steady development of the enterprise.

**Research results.** The research carried out in the field of the finance management of the industrial enterprises has confirmed the necessity of working out the mechanism of the stable development financial strategy of the enterprise. The analysis of the preconditions for formation of the financial strategy mechanism has shown that while grounding the choice of the strategic decisions one should consider the restrictions of the financial solvency of the enterprise, the reasons of which can be dictated both by extra - economic system and by its internal possibilities. It is caused by the fact, that the vector of a stable development of the enterprise is influenced by different factors, which are dynamically changing. It is impossible to achieve an ideal financial condition, it is possible to come boundlessly nearer, as first of all the strategic priorities are being changed and the initial potential of the financial solvency is being changed dynamically. Therefore it is necessary to reconsider periodically the strategic priorities and to correct financial plans of the enterprise on the basis of the previous regulations.

In the conditions of choosing the strategic reference points the determination of the restrictions of the financial solvency potential of the enterprise acquires a special significance. The reasons for these restrictions can both be outside the economic system and be dictated by the internal financial possibilities of the enterprise. The matter concerns the resource maintenance of a stable development of the enterprise.

At every moment of time the enterprise is characterized by a certain set of financial indicators of its activities. The vector of activity indicators at every moment of time defines the financial condition of the enterprise. A certain aggregate of the financial indicators of the enterprise activity in accordance with the importance principle creates the information base for choosing the financial strategy. Otherwise, there is always a possibility to consider the internal and external factors of the financial solvency of the enterprise to diagnose the condition of the enterprise. The development of the enterprise is possible either in a progressive or regressive direction or the absence of the development is possible – it is stagnation. The limitations of danger (or crises) are regressive or extreme level of regress. The progressive level is the limit of perfection (or an ideal condition). Such a statement of the problem predetermines the necessity in substantiation the more optimal variants of the stable enterprise development in terms of working out the scenarios with their conformity to parameters of the external and internal environment.

Two main criteria were defined for the research of the stable development of the enterprise: financial result (the result of reproduction) and a supply of the financial solvency, i.e. the ability to the reproduction of capital. Such an approach assumes the balance of support systems functions in the finance management of the enterprise. The interrelation and interaction of these functions can be presented in the form of the logic

chain: analysis → diagnostics → financial planning → organization → information supply → control → decision-making. Hence, the deciding-making optimization is achieved on the basis of the balance of subsystem functions of the financial management. It predetermines the orientation to the choice of an expedient variant of the stable development financial strategy of the enterprise with differentiation on the each segment on the basis of the scenario approach. The diagnostics of the financial solvency potential is introduced into the organizational structure of the mechanism of the enterprise financial strategy for the realization of this approach. As the main task of the stable development in preservation and reproduction of the enterprise cost, the diagnostics of the financial solvency potential should unite all the elements and mechanisms into the united whole where each of them or in unity should reflect adequately the financial conditions of the system at the different levels of management. The usage of diagnostics provides coordination of accepting solutions both on directions of activity – operational, investing and at its levels – strategic, tactical.

The matter concerns the realization of the scenario approach to the elaboration of the financial strategy of an enterprise stable development, the mechanism of which should be adaptive. Basing on the concept of continuity, first of all, you should concentrate your attention on 3 aspects: estimating observation of legislation regulations, making efficient mechanism of financial strategy and forecasting parameters of the enterprise stable development.

Regulations of the system concept allowed to form initial status of the paradigm of the mechanism of financial strategy of the enterprise stable development to determine the systems of support the mechanism of financial strategy, organizational and methodical basis and the mechanism of realization of financial strategy of the enterprise stable development. These regulations have been given on figure 1.

The main idea of the proposed approach consist in the coordination of all mechanism financial strategy elements by means of coordination and timely revision of strategic guidelines on the basis of information and feedback.

The mechanism of financial strategy of the enterprise is determined by main concepts: coordination, continuity, concept of cost and financial flexibility.

The main element of financial strategy is the diagnostic of the financial solvency, which is considered as a function of financial management and an essential stage of mechanism making of the enterprise financial strategy. Unlike the traditional approaches the complex one has been proposed to form the diagnostics mechanism on such key potential financial solvency elements of the enterprise. They are financial equilibrium, efficiency of operational and financial activity.

Firstly, it allured to form a new three - dimentional diagnostics subject space of financial solvency approaches to its performing and application of results received during the development of the enterprise financial strategy.

Secondly, to make the diagnostics mechanism of financial solvency, which considers to perform such interconnective procedures consecutively to determine purposeful functions of diagnostics, to choose financial parameters on criterion of materiality; to hold the diagnostics analysis in order to identify the bottlenecks of financial and economic state and to determine diagnosis; to work out the proposals how to identify the deviations in planned parameters of the diagnostics results to choose the

strategy and to form its purposeful vectors: to propose recommendations on the choice of practical alternative of stable development enterprise strategy.

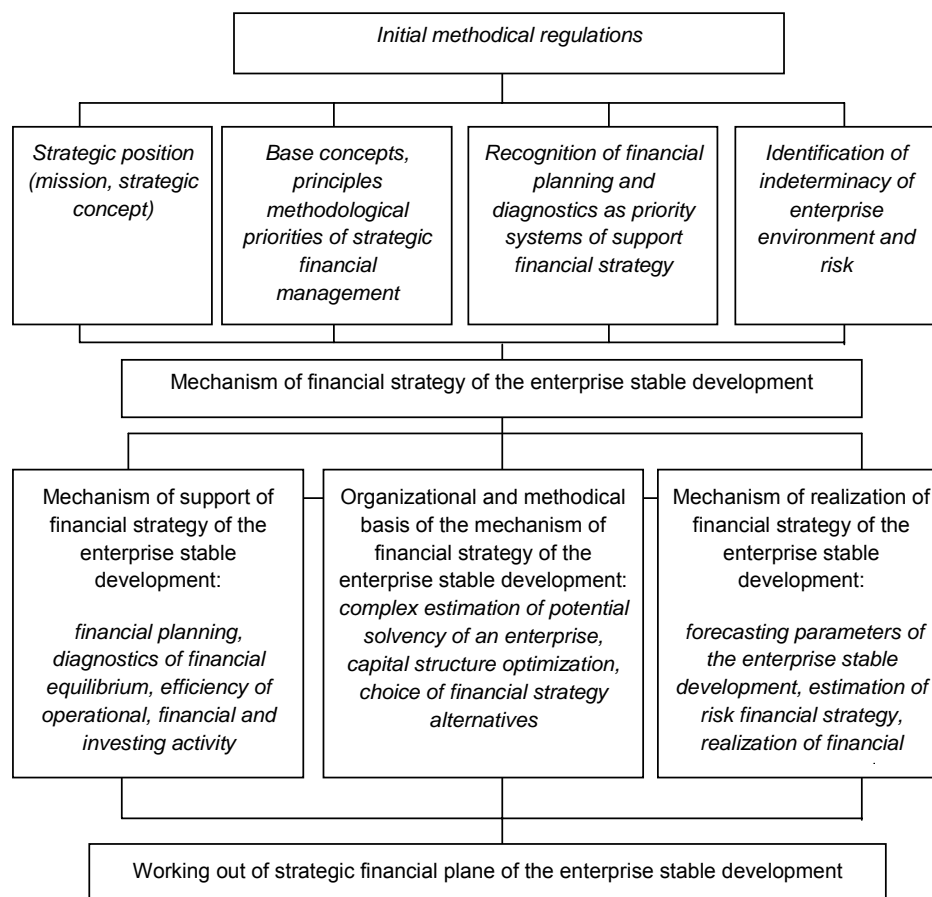


Fig. 1. Methodological regulations of the mechanism of financial strategy of enterprise stable development

During the process of the mechanism creation of financial strategy an enterprise faces with the problem of financial solvency provision. It must be solved only by financial equilibrium and elimination contradictions between its elements. To solve this problem we propose:

1) methodical approach for financial equilibrium diagnostics, which is based on the investigation its key indicators interdependence, namely liquidity and solvability; liquidity and profitability of owner's equity; financial stability and profitability of owners' equity;

2) re-classification of assets and liabilities balance items according to the liquidity principle;

3) the factors have been investigated for choosing financial strategy which influence the behavior of enterprise net assets and liabilities and financial equilibrium; and also conditions and limitations have been determined.

For investigating key factors, which essentially influence the financial equilibrium and the choice of a strategic alternative, the integral coefficient of financial solvency has been proposed, which, unlike well-known ones, takes into account the aggregate influence of integral estimations (in a new term): liquidity  $K_{fp}^l$ ; financial stability  $K_{fp}^f$ ; usage efficiency of owners equity  $K_{fp}^e$  and risk  $K_{fp}^r$ :

$$I_{fp} = (1 - \prod_{i=1}^n (1 - K_{fp}^i))^n = (1 - (1 - K_{fp}^l) \cdot (1 - K_{fp}^f) \cdot (1 - K_{fp}^e) \cdot (1 - K_{fp}^r))^4 \rightarrow 1, \quad (1)$$

where:  $K_{fp}^i$  - is an integral coefficient of financial solvency on any equilibrium state,  $n$  - is the quantity of integral evolution of financial solvency.

According to the results of a system analysis of the financial equilibrium of the researched enterprise (business) real sector we came to the conclusion that it is impossible to achieve simultaneously the financial solvency in the conditions of uncertainty. That's why, firstly, in order to calculate forecasted parameters of financial equilibrium the priorities of important tasks have been determined; secondly, the compromise between financial equilibrium elements (liquidity and profitability; financial stability and profitability of investments) has been found.

Financial planning pays special attention to the formation of mechanism for supporting business (enterprise) financial strategy. While forming the mechanism of financial strategy support, it is necessary to take into consideration its main peculiar feature; namely, the processes of financial planning and strategy formation are submitted the same regularities of the enterprise economic and social development. A permanent harmony of tactical and strategic financial plans is a principal position which needs in a set formation of strategic alternatives, balanced with the sources of finance both on the terms and volumes. So, in conclusion we can see that strategic financial planning is a cyclic process which has such stages as: strategic analysis, bank formation of forecasted financial parameters; the choice of expedient alternative of financial planning; detailing of financial plans on the centers of responsibility; the control and correction of financial plans.

According to the conducted research of existing models and the methods of financial planning a circle has been outlined and some tasks have been solved. They are: 1) the approach to the balancing of assets and liabilities indicators of a financial plan using the coordination of three asset elements: the volume of production (capacity) and its structure; consumption, profit from selling; modified characteristics of financial plan liabilities are proposed - indicators of maximization, business cost (profitability of owner's equity, net worth and its turnover) and minimization of selling financial risk strategy; 2) the choice of financial plans alternatives is justified and it is based on the principles of financial solvency diagnostics; 3) hierarchy model of financial planning is made and some proposals concerning the regulation of its information provision (supply) together with the information feedback usage are developed.

It is proposed to develop the financial strategy enterprise stable development together with the help of situation design which provides the formation of forecast situations set and which may be involved in the enterprise financial-economic activity. Each situation is characterized by the rate of actual and targeted evaluation of financial parameters. The sphere of basic parameters determination is given during the calculation of financial parameters and it puts down into the data bank of an automation system. In the case of financial parameters changes they are correlated. On the basis of diagnostic data base of financial state, the diagnostic conclusion is formed and the recommendations on the financial strategy choice or on the improvement of financial situation are given. Four types are singled out on the base of analyses results of financial strategy choice: the development, stabilization, formation, and diversification.

Scenario approach to the development of alternative variants of enterprise financial equilibrium achievements have been used for the financial strategy choice. It allowed us to determine the behavior of business net assets, net liabilities and authorized (registered) capital on different strategy types: formation, development, stabilization, and diversification. Proposed approach to the financial strategy choice of a stable development with the limitations determinations of the financial equilibrium state and business behavior according to each of these four types is given in table 1.

Proposed succession mechanism formation of financial strategy realization allows: to perform a complex analysis and potential diagnostics of business (enterprise) financial state, the aim of which is to estimate its situation behavior at a definite stage of the development; to determine hierarchy levels of formalized process of financial strategy implementation: the business level (which is determined by the target function of stable development - by value maximization), the level of liabilities centers (which is determined by the created product cost), functional level (which is determined by strategic and tactical solutions which regulate functional processes); to make out strategic financial plan of business stable development in an automatic mode and if it is necessary to make some corrections; to forecast stable business development on the base of strategic value; to evaluate risk and sensitivity of financial strategy parameters; to increase regulating management function in the sphere of control at all stages of business financial strategy realization and if it is necessary to put immediate corrections into the financial plans of the developed projects.

Realization mechanism of financial strategy of business stable development includes the forecasting of business stable development parameters, complex evaluation of financial strategy and control risk over the realization of financial strategy of business stable development. This mechanism is implemented on the base of such principles as management, planning, adaptation, hierarchy and continuous development. Realization of proposed financial strategy mechanism is presented by the strategic financial plan, which is formed as a balance and tables of forecasted parameters of financial results and flow of capital. The making of forecast balance is done on the base of the main balance, of the potential analytical evaluation of financial solvency.

The formed realization mechanism of financial strategy for stable development is adjustable and flexible because it makes possible to optimize the procedure of business stable development forecast, to control and evaluate the effectiveness and risk of its realization.

Table 1. **Proposed approach to the choice of financial strategy of business stable development**

Type	Characteristics	Integral parameters	Limitations
Development	Financial equilibrium on profitability. General strategy – attacked, attacked-defense.	Solvency integral coefficient on the effectiveness of owner's equity (net worth) usage ( $K_{fp}^e$ ): $K_{fp}^e = (1 - (1 - K_{fp}^{ep})(1 - K_{fp}^{ea})(1 - K_{fp}^{pt}))^{n1}$	$NA > 0$ $CP > 0$ $NA > CC$ $CP > CC$
Stabilization	Financial equilibrium on preservation and maintenance of financial stability. General strategy – waited, defense.	Solvency integral coefficient on financial – economic stability ( $K_{fp}^f$ ): $K_{fp}^f = (1 - (1 - K_{fp}^{bs})(1 - K_{fp}^{sc})(1 - K_{fp}^{af}))^{n2}$	$NA > 0$ $CP > 0$ $NA = CC$ $CP = CC$
Formation	Financial equilibrium on liquidity and solvability. General strategy – defense, waiting.	Solvency integral coefficient on liquidity ( $K_{fp}^l$ ): $K_{fp}^l = (1 - (1 - K_{fp}^{la})(1 - K_{fp}^{ls})(1 - K_{fp}^{ul}))^{n3}$	$NA \leq 0; CP \leq 0$ $CC > NA$ $CC > CP$ $FA > CL$
Diversification	Financial equilibrium on preservation and maintenance of financial stability. General strategy – attacked-defense, defense – waiting.	Solvency integral coefficient on risk ( $K_{fp}^r$ ): $K_{fp}^r = 1 - \frac{1}{A} \sum_{k=1}^n \sum_{i=1}^{m_k} \alpha_i \cdot P(A_i) M(A_i)$	$NA > 0; CP > 0$ $CC > NA$ $CC > CP$ $CA_d(AB) > CA_d(A) + CA_d(B)$

Symbols:  $K_{fp}^{ep}$  - solvency coefficient on an economic profitability;  $K_{fp}^{ea}$  - solvency coefficient on effectiveness of assets usage;  $K_{fp}^{pt}$  - solvency coefficient on economic potential;  $K_{fp}^{bs}$  - solvency coefficient on balancing of financial sources structure;  $K_{fp}^{sc}$  - solvency coefficient of turnover assets structure;  $K_{fp}^{af}$  - solvency coefficient provision of financial assets sources;  $K_{fp}^{la}$  - solvency coefficient on turnover liquidity;  $K_{fp}^{ls}$  - solvency coefficient on cash liquidity;  $K_{fp}^{ul}$  - solvency coefficient on current liquidity; NA – net assets value; CP – net liabilities values; CC – authorized (registered) capital; n – a number of strategic stages;  $\alpha_i$  - significance coefficient of any risk in general risk structure;  $m_k$  – a number of risks at any stage of financial strategy realization; A – enterprise (business) assets value;  $M(A_i)$  – losses mathematical expectation during the risk event  $A_i$  realization;  $P(A_i)$  – losses probability during the risk event  $A_i$  realization;  $CA_d(AB), CA_d(A), CA_d(B)$  – given value (cost) of assets portfolio AB, assets A, assets B; CL – current liabilities; FA – financial assets;  $n_1, n_2, n_3$  – a number of solvency parameters according to equilibrium types

## CONCLUSION

The formed regulations help to develop theoretical and methodological fundamentals, to form the mechanism of financial strategy for business stable development. The mechanism of financial strategy for business stable development is considered from all thinking positions and it has been possible to get the idea about its elements coordination from three sides – support mechanism, organization-methodological basis and the mechanism of its realization. Potential diagnostics of business financial solvency allows to form the analytical basis, to determine narrow places of business financial solvency, to diagnose, to evaluate elements state which determine the business cost (net assets and net liabilities), to select parameters of financial strategy of the stable development.

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## МЕХАНИЗМ ФИНАНСОВОЙ СТРАТЕГИИ УСТОЙЧИВОГО РАЗВИТИЯ ПРЕДПРИЯТИЯ: МЕТОДОЛОГИЯ И ОРГАНИЗАЦИЯ

**Костырко Л.А.**

**Аннотация.** В статье раскрыты факторы, которые влияют на потенциал финансовой состоятельности, выходные посылки и составляющие механизма финансовой стратегии, подход к выбору финансовой стратегии устойчивого развития предприятия и механизм ее реализации.

**Ключевые слова:** финансовая стратегия, механизм, предприятие, диагностика, потенциал финансовой стратегии.