

Oleksandr Rachynskyi

*Department of International Economic Relations,
Khmelnyskyi National University, Khmelnytskyi, Ukraine*

E-mail: rachyn1818@gmail.com

ORCID: <https://orcid.org/0000-0002-1854-5223>

Improvement of the financial firmness management system of industrial enterprises

Abstract

The purpose of the article is to determine the most effective approaches, directions and methods aimed at enhancing and improvement of the financial firmness management system of industrial enterprises, taking into account all significant factors of influence on the business in order to implement the set strategic development objectives in the aspect of all levels of management. *The subject of the study* are the theoretical, methodological and practical foundations for determining the directions of improvement of the financial firmness management system of industrial enterprises. The research substantiates the directions of improvement of components of the management system of financial firmness of enterprise under conditions of strengthening of competitive business environment of functioning. Attention is focused on the need to improve the subsystem for assessing the financial stability of the enterprise. *Methodology*. Theoretical and methodological basis for writing the article were the achievements of economic theory, scientific works of domestic scientists, economists on financial firmness management, ensuring financial stability, improving the current and strategic management. The following methods were used in the work: dialectical knowledge, scientific abstraction (to identify the financial firmness management system of industrial enterprises and their components), methods of system analysis and methods of generalization (to identify directions and approaches to improve financial firmness management), methods of prediction and analogy (to systematize and determine the impact of internal and external factors on the level of financial security of the enterprise). *Results*. In order to improve the financial firmness management system of an industrial enterprise and to ensure future financial stability with the possibility of investment and innovation development, it is important for responsible managers to constantly monitor all internal and external factors that have the most important impact on the financial condition. Managerial staff should provide the proper relationship between the functional components of the financial firmness management system of the industrial enterprise with the formation of an information support base, which will help to improve the effectiveness of management decisions made by responsible managers. A crucial role in improving the enterprise management system, in particular, and in the management of financial firmness, in addition to monitoring, organization, analysis, control, motivation, and incentives, plays such a functional component as an assessment of all financial processes.

Keywords

Management system, industrial enterprises, assessment, financial firmness, development of enterprise financial policy

JEL: M20, L69, C13, G32, O23

DOI: <https://doi.org/10.30525/2500-946X/2021-3-4>

1 Introduction

For the development of domestic industrial enterprises in the current environment of increased competition and the influence of many factors both internal and external environment, the urgent issue is to ensure their own financial firmness, stability and equilibrium. Therefore, the priority task for the management personnel of the enterprise, leading managers and economists is to identify areas to improve the financial firmness management system

in the context of its every functional element. With the intensification of globalization processes, domestic industrial enterprises have to constantly adapt to external factors of influence on the financial and economic activity, including changes in the functioning of the financial mechanism. Among available works of scientists-economists, who researched this problematic, there is no uniform opinion concerning the formation and functioning of the management system of financial firmness. The same applies to the definition of the essence of

the concept of financial firmness, financial stability, financial mechanism, as well as the management system of financial firmness. Changes characteristic of modern market economy, require from enterprises to determine and address an increasing number of problematic aspects regarding not only the management of financial firmness, but also the improvement of these processes, taking into account the specifics of doing business is the domestic industrial enterprises. The chosen European integration vector of economic development of the country also encourages industrial enterprises to expand both the domestic market for their products and foreign markets. This requires ensuring an appropriate level of competitiveness of products, requiring the attraction of additional financial resources to update fixed assets (equipment, production facilities), the use of new technologies, the production of innovative types of products, etc. The main objective of the study is to determine the most effective approaches, directions and methods to improve and enhance the financial firmness management system of industrial enterprises, taking into account all significant factors of influence on the business in order to implement the set strategic development goals in the aspect of all levels of management.

2 Peculiarities of the management of financial stability of the enterprise

The basic goal of effective management of financial firmness of industrial enterprises is to provide development in the current and strategic periods, minimize risks and ensure financial security.

An important part in the management system of financial firmness of any enterprise belongs to a chosen appropriate strategy aimed at managing working capital, the implementation of ways to increase assets, increasing the efficiency of financial resource allocation. The level of business performance in the context of both production and financial activities depends on the correct allocation of financial resources.

In order to improve the system of management of financial firmness of the industrial enterprise responsible managers streamline the purpose, tools, methods, principles on which the management of the financial condition of the economic entity. The basic objectives of the management of financial firmness of the enterprise as a process are: ensuring the proper level of solvency of the enterprise, reduce accounts payable, balance income and expenses, preventing significant overruns on the financial results, as well as ensuring structural compliance of assets and liabilities of the enterprise (Chehrynets, 2012).

Analyzing the level of financial firmness of the enterprise, managers pay more attention to the absolute values, that is, by means of the subsystem of

evaluation of financial ratios (liquidity, profitability, solvency) is analyzed financial firmness. Instead, more attention should be paid to trends in performance due to the influence of both internal and external factors of the competitive business, the environment of the industrial enterprise (Shirinian, Bodarieva, 2018).

Agreeing with this statement, we can conclude that one of the areas of improvement of the financial firmness management system of the industrial enterprise is such a functional element as the analysis of financial condition. The latter should include not only the calculation of financial stability ratios, but also detailing all internal and external factors that can affect the financial condition (the level of profitability, solvency, etc.).

Factors affecting the financial firmness of the enterprise are divided into internal and external environment factors. The internal environment factors include investment, operational and financial factors. Each of the elements of the named internal factors of influence on financial firmness of the industrial enterprise has its own level of significance at a particular enterprise. Especially it concerns investment and financial factors of influence on financial stability and stability of industrial enterprise.

3 Improving the components of the financial firmness management system

Financial firmness and stability of the enterprise can be provided by a number of measures aimed at the effective formation, use and distribution of financial security with an appropriate level of solvency of the enterprise. A constituent subsystem of financial stability management is a system of indicators that determine not only the level of financial firmness, but also the ability to determine the financial potential and reserves to ensure the optimal structure of equity (Lyshenko, 2018).

The system of management of financial firmness of the industrial enterprise is an integral part of management, which can significantly affect the increase in profitability and capital growth. The formation of this system begins with the definition of the subjects and objects of management. In this case, the subjects act as financial managers, the management of the enterprise, influencing the objects (resource provision, financial activities). Important in improving the components of the management system of financial firmness of the enterprise is to determine the appropriate tools for managing financial stability, methods, means, leverage, etc. In the system of financial firmness management must be clearly defined strategy to ensure the financial firmness of the enterprise, taking into account the specifics of its activities and the holistic development strategy of the enterprise.

The basic elements of the management system of financial firmness are those sources, through which occurs the attraction of financial resources, streamlined methods of their formation and technology monitoring, i.e. analysis of the financial firmness of the enterprise and control over the implementation of previously adopted management decisions. As the enterprise management system, and financial firmness management system provides a number of supporting components, in particular, software and hardware, regulatory and legal, personnel support and information-analytical support of financial management. Responsible specialists of the enterprise must ensure that such important functional components of the financial firmness management system as planning and forecasting are interconnected with other components of the enterprise management system, as well as with the strategy for managing its financial firmness. An obligatory component of the financial firmness management system is risk management, which consists in timely identification of possible risks, their monitoring and determination of their impact on the effectiveness of financial firmness management.

In the present conditions of functioning of domestic industrial enterprises there is a problem of effective management of financial firmness in the context of optimal allocation and allocation of current assets in production and financial activities. Financial managers of the company should clearly prioritize the objectives of the management of financial firmness of the enterprise, the main of which is the balance between costs and revenues in doing business, the balance of assets, liabilities and cash flows of the company (Tiutiunnyk, 2016).

It should be borne in mind that the use of a number of tools, levers and methods of financial firmness management system is determined by the current regulatory framework of the country in which the company operates. Financial tools and levers in the system of managing the financial firmness of the enterprise are: cost structure, financial forecasts and plans, financial resources, the volume of cash flows, the structure of financial resources, pricing policy, tax burden, the volume of credit financial resources. Financial analysis as a part of the system of managing the financial firmness of the enterprise involves analysis of the absolute indicators of financial firmness, the analysis of the financial strength and the analysis of the relative indicators of financial firmness of the enterprise. Consequently, among the basic directions of improving the financial firmness of the enterprise can be identified the following: ensuring the appropriate level of solvency and credit-worthiness of the business entity; ensuring the optimality in the ratio of assets and sources of funding; optimization of the structure of assets

and sources of financial resources; the optimality of the structure of cash flows of the industrial enterprise.

Relevant functioning and improvement of the financial firmness management system of the industrial enterprise on the following set of principles:

- the principle of regulation, when each component of the system implements its functional purpose within the limits of current legislation;
- the principle of comprehensiveness, the effectiveness of the management system is possible only if all its elements are mutually coordinated and interconnected;
- the principle of integration of the financial stability management system with the overall financial management system of the enterprise;
- the principle of effectiveness, the functioning of the system should bring a positive predictable result;
- the principle of the need to control and monitor the level of financial stability of the enterprise and relevant factors that ensure it;
- the principle of flexibility is a timely adaptation to changes in the external and internal business environment, which has a significant impact on the financial potential of the enterprise;
- the principle of purposefulness is when the functioning of the system is subordinated to the achievement of goals, objectives, a number of objectives;
- the principle of functionality is when each component of the system has a clear functional purpose;
- the principle of subordination of the strategy of improving the efficiency of financial firmness management of the enterprise to the overall development strategy;
- the principle of mutual agreement, this is the coordination of the implementation of measures to ensure the financial firmness of the enterprise (Kalchenko, 2016).

4 Assessment of the financial condition of an industrial enterprise

The most important economic parameters that are determined in assessing the financial stability of an industrial enterprise are as follows: leverage ratio; equity to total assets ratio; the coefficient of maneuverability of own finances of the enterprise; the coefficient of financial stability; the ratio of loan and equity capital of the economic entity and the ratio of current liabilities (Kysh, 2018).

Considering the assessment of financial firmness of the enterprise it is necessary to allocate levels of financial firmness management, namely in the aspect of defining strategic financial firmness,

tactical and operative. Accordingly, each of the varieties of levels of financial firmness management has a set of evaluation indicators.

In the practice of doing business by enterprises in other countries, the analysis of financial firmness is carried out mainly in the aspect of preventing bankruptcy. Widespread models and methods of determining the level of financial firmness of the enterprise are those models that are based on the systematization of the relative coefficients of determining the financial condition. Among them, it should be noted such models for the study of the financial condition of the enterprise as: analysis of financial condition according to the coefficients of Saifulin R. and Kadykov H. rating number; method of rating evaluation of financial condition; evaluation of financial condition by Beaver W. coefficients; estimation of the probability of bankruptcy based on Altman Z-Score; a two-factor model for estimating the probability of bankruptcy; Taffler's bankruptcy model; Springate model; PAS-coefficient; R-model of bankruptcy risk prediction; R. Lis model; Fulmer's model; model formed on the basis of the universal discriminant function (Lynnyk, 2013).

5 Findings

According to the author, the concept of enterprise financial firmness management should be understood as a set of all management decisions of management and responsible professionals aimed at providing such functional elements as forecasting, analysis, evaluation, organization, control, monitoring, staff motivation and aimed at ensuring such financial condition, which will allow to realize not only current but also strategic goals of functioning and development of an enterprise. In order to improve the financial firmness management system of an industrial enterprise and to ensure future financial stability with the possibility of investment and innovation development, it is important for responsible managers to constantly monitor all internal and external factors that have the most important impact on the financial condition. Among such external factors the most important are factors of market business environment (conclusion of profitable contracts on supplies of raw materials and materials for production, volume of market segments of sales, etc.), social, political, legislative (introduction of such changes in legislative and regulatory base of the country, which will contribute to financial firmness of industrial enterprises). It

is important that the enterprise operated its own mechanism for analyzing financial firmness, namely one that takes into account the specifics of the business of each individual enterprise. Analysis of financial firmness in an industrial enterprise should begin with the definition of factors affecting the financial condition; substantiation and systematization of economic parameters characterizing financial firmness; formation of an integral economic parameter of financial firmness and, if necessary, revision of management decisions on the assessment (reduction or increase of indicators for assessing financial firmness).

6 Conclusions

Domestic industrial enterprises need to implement such mechanisms of financial firmness management, which will not only contribute to the implementation of current business objectives, but also ensure the implementation of the existing development strategy of the enterprise. Management of financial firmness in industrial enterprises should be primarily focused on the development of competitiveness of products of the economic entity as a whole, which will allow to expand both domestic and foreign markets of products and approach the level of production efficiency, corresponding to the countries with developed economies. At the same time, management personnel must ensure proper interconnection between the functional components of the financial firmness management system of the industrial enterprise with the formation of an information support base, which will contribute to improving the effectiveness of managerial decisions made by responsible managers. A determining role in improving the enterprise management system, in particular, and in the management of financial firmness, in addition to monitoring, organization, analysis, control, motivation, incentives, plays such a functional component as an assessment of all financial processes. On the successfully chosen system of economic characteristics to assess the financial firmness and financial equilibrium of the company depends on the level of effectiveness of management decisions and the timeliness of corrective actions of the staff. Evaluation indicators used to analyze the financial condition of an industrial enterprise should be clearly substantiated, fully disclose the problematic aspects of the financial condition of the enterprise, both in the current period and in the long term.

References

- [1] Chehrynets, K. V. (2012). Finansova stiiikist pidpriemstva: ekonomichna sutnist ta metody otsinky [Financial stability of the enterprise: economic essence and evaluation methods]. *Upravlinnia rozvytkom – Development management*, 10, 51–54. (in Ukrainian)

- [2] Kalchenko, O. (2016). Teoretychni aspekty formuvannya mekhanizmu upravlinnia finansovoiu stiikistiu pidpriemstva [Theoretical aspects of formation of the mechanism of management of financial stability of the enterprise]. *Problemy i perspektyvy ekonomiky ta upravlinnia – Problems and prospects of economics and management*, 2, 320–326. (in Ukrainian)
- [3] Kysh, L. M. (2018). Finansova stiikist kompanii v suchasnykh umovakh [Financial stability of the company in modern conditions]. *Prychornomorski ekonomichni studii – Black Sea Economic Studies*, 36, 76–79. (in Ukrainian)
- [4] Lynnyk, O. I., Smolovyk, R. F., & Yurieva, I. A. (2013). *Antykryzove upravlinnia na vitchyznianskykh ta zakordonnykh pidpriemstvakh: teoriia, diahnostyka kryzovoho stanu, sotsialno-ekonomichni aspekty upravlinnia* [Anti-crisis management at domestic and foreign enterprises: theory, crisis diagnosis, socio-economic aspects of management]. Kharkiv: Pidruchnyk NTU «KhPI». (in Ukrainian)
- [5] Lyshenko, M. (2018). Analiz finansovoi stiikosti pidpriemstva yak elementu zabezpechennia finansovoi stabilnosti roboty pidpriemstva [Analysis of the financial stability of the enterprise as an element of ensuring the financial stability of the enterprise]. *Visnyk Cherkaskoho universytetu – Bulletin of Cherkasy University*, 2, 49–57. (in Ukrainian)
- [6] Shirinian, L. V., & Bodarieva, T. I. (2018). Upravlinnia finansovoiu stiikistiu pidpriemstva [Management of financial stability of the enterprise]. *Prychornomorski ekonomichni studii – Black Sea Economic Studies*, 35, 85–90. (in Ukrainian)
- [7] Tiutiunyk, Yu. M., Dorohan-Pysarenko, L. O., & Tiutiunyk, S. V. (2016). *Finansovy analiz* [Financial analysis]. Poltava: «PDAA». (in Ukrainian)