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BUSINESS STABILITY ENSURING MECHANISM OF ENTERPRISE IN MODERN MARKET CONDITIONS

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Abstract:
Concepts are developed. Business stability ensuring mechanism of enterprise model in modern economy digitalization conditions is grounded based on complex casual-consequential chains of business management metrics system of the enterprise with its marketing complex. Each component of the business management metrics system of the modern enterprise is proved to form particular components of the general model for business stability ensuring mechanism.

Keywords: Economic security, small business, systematic analysis, business entities, security threat, extortion

INTRODUCTION

The economic instability existing nowadays under the crisis bailout circumstances inevitably affects business systems of all levels; therefore, any manager team should be ready for taking prompt actions of planning and process monitoring at the enterprise. The domain of finance is normally highlighted as one of the main fields at an enterprise, since the result to be achieved depends on quality, deadline, and volume of funding necessary. By examining the notion of stability in the context of ensuring a sustainable and long-term development, the author of this article is underlining the necessity of investigating that concept and developing a new method of its application. The new enterprise financial system stabilization technique implies a partial disclaimer on generally-accepted elements and methods of anti-crisis financial management; it is based on a separate analysis of activity and processes running at an enterprise. The purpose of this article is a research investigation of the origin and evolution of the concept of stability, as well as the development of an innovative technique of financial stabilization of enterprise to provide for a long-term and sustainable development of economy of a modern European country. To attain the goal, the author has posed the tasks as follows: y investigating the origin and the evolution of stability concept; y determination of the role of stability in the process of ensuring a long-term sustainable development; y developing the concept of financial stability at enterprise level; y to work out the innovative model of financial stabilization of enterprise and its basic principles, drawing a comparison between two well-known European air transportation companies; y validation of the model against the actual relevant data obtained from the two operating companies – the Latvian "Air Baltic" and the Estonian "Estonian Air"; y interpretation of the model results, drawing conclusions, and working out proposals for improving the results of enterprise activities. In the course of writing this article, the methods of scientific research most frequently applied in economics domain have been used. In the theoretical part, monographic, comparative, and hierarchical methods, as well as induction and deduction method, have been used. In the practical part, the official annual report data from the Register of Enterprises of Latvia and Estonia over a 10-year period have been used; moreover, quantitative methods of financial ratios, integral indices, the dynamic and structural analysis, as well as the qualitative method applying some elements of Gleiser's grounded theory have been used.

The standard methods of scientific research are used: the comparative analysis, a graphic method, an induction method, a monographic method. The conclusions and proposals put forward by the author as a result of the investigation research are practical concerns. The formulated proposals enable company management to work out a new method of achieving financial stabilization which, subject to particular characteristics of a specific enterprise, may be applied in the context of actual business activityThe conditions of market development and stability at international level are provided by special political and economic institutions. The European Commission is, in particular, a modern international institute regulating the economic stability issues in the European Region. On holding World summit on SD – Guidance in preparing National SD strategy, the European Commission produced a legal document entitled COM/2001/0264 Communication from the Commission A Sustainable Europe for a Better World: A European Union Strategy for Sustainable Development, – regulating the procedure of working out long-term development strategies with respect to the countries of European Union (EUR-Lex Access to European Union Law, 2012: 1). Each country develops those strategies independently, in compliance with the principles accepted. Those principles are aimed at attaining three goals: economic growth, social

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convergence, and environmental protection (EU Commission on sustainable development, 2011: 1). Attaining the goals posed means sustainable development and the long term-oriented growth of economies in trans-national aspect. Consequently, the prerequisites for ensuring a long-term development both of an individual state and an economic group of states are the provision of stability within the economies of those countries. Various institutions are engaged in the provision of financial stability on an international scale. Financial Stability Board is one of those institutions. The association unites 64 agencies from 24 leading countries of the world. It includes central banks, Ministries of Finance, banking sector overseeing institutions, insurance agencies, accounting companies, and other international organizations. Among the member countries are USA, Argentina, BRICS, Japan, Germany, France, Canada and some other countries. The affiliated organizations include the World Bank, the European Commission, the Basel Committee on Banking Supervision (BCBS), and some others. On an international level, FSB is engaged in coordinating the work of national financial authorities; it unites national-level bodies responsible for financial stability of the principle subjects of those states: in the sphere of state finance, in the banking sector, and in business environment (Financial Stability Board Homepage, 2011: 1).

Business environment is the main segment of the investigation since it constitutes the major part of the entire economy of a state. An aspect describing the state of activities of a separate enterprise, the corresponding industry, and the economy as a whole is historical financial information highlighting the results of those activities. The aim of the high ranking managers is to find and establish this moment of optimum correlation between the owned and borrowed capital and as a result increase the company's value. Financial sustainability in the modern economic space is used on a fairly wide scale: this term is used at all levels – from a separate household or an individual entrepreneur to global world finance systems and their activities. Financial sustainability of a commercial agency is defined by law as solvency or capability of being liable for obligations assumed for a long time period. Financial stability is a component of the general stability of enterprise, the cash flow balance, the availability of resources allowing the agency to run its activities within a long time frame, including an efficient control of its equity and borrowed capital and providing for manufacture of products (Glossaries and Encyclopaedias on Academician, 2011: 1). The above-quoted statement is confirmed by some works of foreign scientists as well. For instance, V. V. Bocharov believes management of equity and borrowed capital of company, as well as working out methods of the capital structure optimization, to be one of the most complicated problems to be solved in the course of management of corporate finance (Bocharov, 2001: 93). Those capital structure optimization methods were first suggested by Professor I. A. Blank in his papers published in 1988–2000. According to Blank's assumption, the optimal capital structure reflects such a ratio of equity and borrowed capital usage that provides for the most efficient relationship between profit ratios of the equity and the borrowed capital, which directly influences the increment of corporate value (Yensen, 2001: 21; Blank, 2011: 67; Kopitov, 2006: 148). Some authors of various sources of theory of finance directly interconnect the notions "stability" and "solvency" fairly frequently. For instance, in the opinion of M.Yensen who had introduced the notion of a free cash flow index for scientific use in the 1980-ies to show which cash resources may potentially be placed at the disposal of company owners (Yensen, 2001: 22), one can conclude that the company may be deemed financially stable if the free cash flow is available, and vice versa. However, the notion of solvency denoting the financial standing of company enabling the latter to pay off all of its debts at maturity (Financial Glossary, 2012: 1; Lozovsky, 2007: 88) is only a constituent part of corporate finance stability. Irrespective of company activity profile, three types of cash flow are inherent in any company operating in market environment. Those are cash flows obtained from the main activities, investment operations, and financial activities of company. In the aggregate, all those flows characterize the general 'wave' of flows of free cash flow for owners. M. Yensen defines that flow as FCFE (Free Cash Flows to Equity) index. According to the conclusions drawn by M. Yensen, positive values of FCFE index demonstrate business strength while positive dynamics of FCFE can show the business stability. On the contrary, negative values of FCFE illustrate weakness of business and the dependence of company's operations on borrowed money mobilized. Negative values of FCFE may occur due to instability of the main flow, i.e. the flow obtained from operational activities, and also due to the necessity of major investments and large repayments of debts. Negative flow of money resources free to owner attests exactly to its instability: the company being in such a condition can develop only if supported by some major cash flow from funding. From the above-quoted principle of free cash flow shaping, it is quite obvious that this criterion can be regarded as an integral index of stability of a modern commercial agency. The

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possibility of using that index when analyzing the company standing on market should be the primary goal of financial experts; however, to determine the company standing, a number of tasks should be accomplished to estimate the three above-stated components: operating activities, investment operations, and financial activity. This expert investigation is practically accomplished through using some methods and procedures of the classical financial analysis. The essence of the direct chain is that only an effective business manager heading highly qualified and motivated personnel, using modern IT sources for operational activity, can realize effective management and technological business process system of interaction with market subjects (customers, investors, competitors, etc.) within value creation chain. This, in turn, will provide for stable competitive services (goods) price/quality ratio, resulting in planned dynamics and return on invested capital rate for owners (stakeholders, investors) of the enterprise. The essence of the reverse chain is that causes of negative financial and economic indices should be checked in the «Customer/Market» block as customer dissatisfaction discloses problems in the «Business process» and «IT source» blocks.

The issue of management and technological business process in the value creation chain roots in the «Personnel» block regarding factors of qualification, motivation, modern IT source use for the operational activity of the enterprise. The problem of ensuring financial stability of Russian companies is connected with the absence of quality instruments and methods for its building. Complex recording of the parameters of external and internal environment of the company's operation carried out in the course of risk management process can provide, according to scientists, effectiveness of operation and sustainable development of the company (Bobrova, 2014). In modern economy there are many methods of risk management but the most widespread among them (hedging) cannot be applied to Russian companies due to the absence of derivative financial instruments. Risk management provides technological support of business processes in the identification of risk assessment. According to experts risk management presents an information methodical instrumentarium combining achievements in the field of mathematics, probability theories, statistics, economics, and management theory (Granaturov, 2010; Krichevsky, 2012; Rykhtikova, 2010; Thalassinos et al., 2010; 2013; 2015; Boldeanu and Tache, 2016; Hes and Jílková, 2016). In large companies separate employees or even entire departments deal with internal control of business processes. In small and medium-size businesses information systems of internal control of financial flows of the company are only being formed, so effective internal control can be created with help of external experts such as professional consulting or auditing companies. The problem of creating internal control system for Russian companies which actively cooperate with commercial banks and participate in public procurement is particularly up-to-date. Participation in macroeconomic business processes requires from Russian companies institutional economic behavior and transparency of financial flows. Specific character of internal control system organization in the companies depends first of all on size of the enterprise. For example for companies with an annual turnover of 200-300 million rubles it is rational to employ special employees who will be engaged in the audit of deals and financial operations, procurement analysis, verification of contractors and other activities. In small companies belonging to small and medium-size businesses the majority of control functions are transferred to the services of risk management.

RESULTS

Properly structured risk management service provides internal control in the company. To create an effective internal control focused on maintaining financial stability it is necessary to implement the following set of measures (Holina, 2016): 1. To establish selection control of commercial and financial operations. This will allow risk management service and the company owner reacting in time to potential risks. As a rule spot checks are sufficient in order to "feel the pulse". Separate documents or transactions in which the owner is interested can be subject to complex analysis aimed at identifying potential risks or the documents for verification can be selected by random sampling technique. 2. 2. To check all large transactions; to split all payments by levels of importance. For example a payment of less than 100,000 rubles should be approved by accountant, up to 500,000 rubles by director and accountant, all transactions with large amounts should be assigned to the owner's competency. Such method will allow the owner controlling large expenses and simplifying adoption of various financial decisions: work with contractors and suppliers will be carried out on clear criteria. 3. To divide the powers in the company's management. In the small and medium-size businesses the separation of powers should be organized based on division of employees' competences according to the following

CONCLUSIONS

The scientific novelty of the research lies in forming a new enterprise business stability evaluation concept based on complex casual-consequential chains of business management metrics system of the enterprise

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with its marketing complex according to proposed by authors strategic planning matrix (model) «SBC-MM». Thus, the «business stability of enterprises» category is proposed to be defined as a cortege (complex) of three consequently connected stability ensuring systems: «organizational stability < market stability < economic stability». Each stabilityensuring system, in turn, consists of determined (critical) components, which are functional (operational) stability types. Further problem study prospects are connected with the forming system of quantity trend analysis of business value-creation chains stability for every business metric of modern digital (SMART) enterprise considering the authors model for business stability ensuring mechanism creation based on strategic planning matrix «SBC-MM»

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