DEVELOPMENT OF TOOLS FOR REALIZING THE POTENTIAL OF FINANCIAL STABILITY OF ENTERPRISES

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Abstract. The article discusses the issues of financial stability of enterprises in unstable economic conditions. The authors propose a formal model of the gradual quantitative assessment of the financial stability of enterprises based on the use of regression equations with determination coefficients. The financial stability of enterprises is described by the indicators of their financial status according to the regional-average and industry-average levels. A qualitative assessment of the financial stability potential of enterprises is given based on the interpretation of deviations of the financial stability coefficients. The article defines the limiting values of financial stability of enterprises, the output of which allows the unambiguous interpretation of this concept and its level. An example that determines the financial stability of various Russian enterprises is also presented.

1. Introduction

Considering the variability of factors relating to the external and internal economic environments, it is advisable to both ensure and strengthen the financial stability of enterprises. A model to assess the financial stability potential of enterprises could be used as one of the elements of the financial mechanisms that ensure their

sustainable development. The results of the financial stability analysis of enterprises contribute to effective decision making in their dynamic development. The financial stability potential of enterprises refers to their financial condition, the terms of which provide for balanced functioning and a sustainable development strategy. The presence of financial stability potentials provides a company the possibility of their inclusion in the cluster and the implementation of public-private partnerships. Financial stability in the conditions of economic system is the specific implementation factor, which is holding the diversity of several elements. When discussing financial stability, there are the special prospects, which influence the capability of enterprises. Financial mechanisms, which positively influence the economic sphere of each enterprise, include a stable base of financial factors. For example, there are financial instruments and technologies; they have the specific base on influencing on the potential of enterprises. Economic results are talking about not only the positive or negative factors; they are contributing the whole number of reasons. These reasons influence on the using of such economic analysis tools in which it is possible to construct a collinear relationship between two or several quantities, make an economic analysis using statistical data, etc.

2. Literature review

For example, Pasquariello (2007) found through an empirical investigation of the impact of Central Bank interventions on the process of price formation in foreign exchange markets. Dong et al. (2019) wrote that the development of a country's financial sector plays an important role in shaping its industrial structure. Based on longitudinal data on manufacturing firms, they found that banking reform reduced concentrations in the product market by encouraging the growth of smaller and younger firms. Siegel et al. (1982) wrote that the systematic development of a model of nominal income, based upon the Cambridge equation and the loanable funds theory of interest, they were interested in financial system. Silva et al. (2017) said that the crucial role of the industrial sector is evident in policy makers' focus on the reform and privatization of industry and in seeking foreign investors and technologies to allow for further financing of enterprises. Nam, & Uchida (2019) published their results after controlling for other country- and firm-level characteristics with alternative definitions of the global financial crisis and accounts payable. In Aljifri, & Moustafa (2007) research the main aim of the study is to investigate empirically the effect of some internal and external corporate governance mechanisms on the firm performance.

Extensive and already well-known literature has shown the crucial importance of financial systems to economic growth. What started with simple inter-regional regressions, as used by Schwert (1993), turned into a large body of literature that uses many different methods to go beyond correlation and to control deviations that occur as a result of endogeneity and omitted variables. In particular, using instrumental variable approaches, the various approaches that consider the variably effects of finance on specific sectors and thus point to "smoking gun", studies of specific regulatory changes that have led to a deepening of the financial situation in given countries, micro-level approaches, and the use of company-level data has yielded essentially the same results: a deepening of the financial process is an important part of the overall development of any given country. There are several non-exclusive explanations for this nonlinearity that have been proposed in the recent literature and which are based in part on the recent crisis. Lucas's critique can be applied to standard measures of financial development in the sense that turning this indicator into a policy variable distorts, and ultimately removes the link between finance and growth. The indicators of financial depth and intermediation used in the literature may simply be too crude to capture quality improvements at high levels of financial development. In addition, the financial sector has gradually expanded the scope of its activities beyond the traditional mediation activities in the direction of so-called financial activities "without mediation" (Renneboog, 2008). As a result, conventional mediation measures are becoming less and less compatible with the reality of modern financial systems. Some argue that the reason for the nonlinearity of the relationship between finance and growth may be that financial development helps catch up with the productivity frontier but has limited or no effect on growth in countries that are close to, or at, the

border (Santomero et al., 2005). Thus, we do not expect any growth effects from further financial deepening in high-income countries. Another reason for these nonlinearities may lie in the beneficiary of the loan, according to (Kankia, 2013), which explores the impact of differentiated growth in lending to businesses and households. According to the theory, they believe that economic growth is enhanced by enterprises, not by household loans. Most of the financial deepening in high-income countries comes from additional household lending, which may thus explain the relationship between finance and growth in high-income countries. The financial system may actually grow too large compared to the real economy if where $Y(x)$ is financial stability potential of the business entities in question; it extracts excessively high information rents and thus attracts too many young professionals to the financial industry.

3. Methodology

A multiple linear regression equation can be used as a tool to assess the financial stability potential of enterprises. The multi-factor model of such an equation has the following form:

$$Y(x) = a_0 + a_1 \bullet x_1 + a_2 \bullet x_2 + ... + a_m \bullet x_m \qquad (1)$$

$x_1, x_2....x_m$ are the indicators of financial stability of economic entities;

$a_0, a_1, a_2...a_m$ are the coefficients of the regression equation ($j = 1,2,....m$);

m is the number of indicators.

The indicators typical to the modern financial condition of the Russian enterprises considered herein were selected as appropriate indicators of the financial stability of enterprises in general. These are the regional-average and industry-average indicators and the current actual values of the associated financial coefficients (Borodin, 2015). Analysis of the factors that describe the financial condition of enterprises showed that the most significant impact on financial stability is made by the following indicators: the coefficient of capital structure, the coefficient of autonomy, the coefficient of current liquidity, the coefficient of security of own circulating assets, and return on equity. A monetary flow and its direction have a significant impact on the financial position of any given company.

For example (Hasan et al, 2107) found that firms headquartered in U.S. countries with higher levels of social capital incur lower bank loan spreads, where in this case the financial stability of each enterprise depends on the bank's support.

(Renneboog, 2008) noted that the past decade has witnessed a spectacular surge in corporate restructuring worldwide, as driven by technological shocks, market deregulation, and the increasingly intense global competition for capital supply. They researched financial factors and their influences.

(Bandiera et al., 2000) said that the effect of financial liberalization on private saving is theoretically ambiguous, not only because the link between interest rate levels and saving is itself ambiguous, but also because financial liberalization is a multidimensional and phased process, sometimes involving reversals, so it will influence on the whole activity.

(O'Connor, & Lucey, 2015) said that primary goal is to provide an outlet for high quality Financial Research. They mentioned that it would be the big openness to every country how it will work inside the firms.

The indicators of the financial stability of enterprises are shown in Table 1.

Table 1.Indicators of financial stability of enterprises

Name of indicator	Economic characteristics
1. The coefficient of capital structure (x_1)	Indicates the relationship between borrowed funds and a company's own resources. The value recommended is 1.0
2. The coefficient of autonomy (x_2)	Defines the ratio of own funds to the total amount of funding. The value recommended is 0.5
3. The current ratio (x_3)	Shows adequacy of current assets to repay current liabilities. The value recommended is 2.0
4. The ratio of own working capital (x_4)	Indicates the security holdings of a company's own working capital. The value recommended is 0.1
5. Return on equity (x_5)	Defines the ratio of net profit to private sources of capital funding.

It is advisable to perform the phased construction of the model used to assess financial stability potential (1) in two stages.

The first step is to provide the independent variables in the model (1). It is advisable to identify correlations between the indicators that influence the financial stability of the enterprise and the potential for their financial stability on the one hand, and the correlative dependence between the indicators of financial stability of enterprises on the other. We consider the financial stability potential of enterprises to be the result criterion y_i and indicators that affect the financial stability of enterprises as per the factor criteria x_i.
 To calculate the degree of correlation between the above, we can use the formula:

$$\kappa = \frac{\sum_{1}^{n}(x_i - \bar{x})(y_i - \bar{y})}{n \bullet \delta_x \delta_y}, \qquad (2)$$

where κ is the correlation coefficient;

x_i, y_i are the values of the x, y indicators for the $i-th$ measurement;

$\bar{x}, \bar{y}$ - are the average statistical values of the x, y indicators;

δ_i, δ_y are the standard deviations of the x, y values;

n is the number of measurements in the sample.

The correlation coefficient ranges from -1 to + 1. The closer the value of the correlation coefficient is to unity as an absolute value, the stronger the relationship between the financial stability potential of the enterprises and the factors affecting their financial sustainability. To calculate this correlation, we must specify values for the x_i, y_i indicators. The industry-average indicators (for a particular industry) are taken as the x_i indicators, where the y_i indicator was determined on the basis of the results of particular studies that used the expert evaluation method, which consists of collecting the opinions and suggestions of experts on the issue of interest with subsequent scientific processing of the results so obtained.

A written survey was used in the study of research, which included: the purpose of the examination (determination of the magnitude of financial stability potentials); substantiation of the object of the research; definition of the research stages; the selection of experts; verification of experts' competence; harmonization of

the evaluation studies received; and the evaluation of the examination's results. To obtain our results we used a questionnaire survey, where business and professional qualities of such experts were determined by answering specially designed questions. The questionnaire designed included questions, the possible alternative answers and their weights. Questionnaires were distributed among the employees of various enterprises in the real sector of the economy and university employees working on this issue. The coefficient of competence was determined in order to examine the competence of these experts.

The magnitude of the financial stability potential lies in the range from 0.0 to 1.0. The factors influencing subject preference of one factor over another were revealed in the process of determining the magnitude of financial stability potential. In this case, a method of ranking objects with processing results on the calculation of generalized values ranking and the application of the method of ranks sums was used. The objects were then ordered along the chain of inequalities $r_1 \leq r_2 ... r_m$. Quantitative assessment of the extent to which experts were in agreement can be defined on the basis of calculation of the concordance dispersion coefficient.

The ranking of each factor was determined by means of expert evaluation where, according to experts, the financial stability potential of enterprises is mostly influenced by factors associated with capital structure (the resultant grade 1); factors related to the amount of equity (rank 2); and factors determining the efficiency (rank 3). The factors that appeared to be less important from the experts' points of view took the following order: factors related to the security holdings of the company's own working capital (grade 4); and factors related to solvency and liquidity (grade 5). The coefficient of experts' concordance was found to be 0.9, which means that more than 90% of the ranking factors are the same. For the purposes of this study, this coincidence was considered to be sufficient to ensure the validity of our subsequent analysis.

The magnitude of an enterprise's financial stability potential can be determined in descending order of influencing factors, starting with the most important ones with the resulting grades of 1, 2, and 3. The magnitude of the financial stability potential was calculated for each level of financial stability (super-steady, high, quite high, medium and low). At each subsequent level, the magnitude of the financial stability potential is lower than for the previous one, since resistance may decrease due to negative changes under the influence of external and internal threats.

4. Results' analysis

Factors directly associated with indicators of capital structure, equity ratio and other parameters are shown in Table 2, with the associated levels of financial stability also given.

Table 2.Differentiation of financial stability potential of enterprises by level

Level of financial stability potential	Super-stable	High	Quite high	Medium	Low
Indicator deviation, %	0-9	10-19	20-39	40-69	70 and more

Standard deviation and variance are the absolute indicators, the values of which depend on the absolute values of the original symptom. It is therefore necessary to consider the coefficient of variation. Variance, standard deviation and variation in the levels of financial sustainability potential are listed in Table 3.

Table 3. Variance, standard deviation and variation of financial stability potential

Name of indicator	Level of financial stability potential of enterprises				
	Super-stable	High	Quite high	Medium	Low
S	1.0	0	0	0.05	0.03
σ	1.0	0	0	0.22	0.17
B	0.86	0	0	0.073	0.034

The dependence of financial stability potential on the values of the factors affecting financial sustainability are given in Table 4.

Table 4. The dependence of financial stability potential of enterprises on factors that can affect financial stability

Levels of financial stability potential	Values of the indicators and financial stability potential of enterprises					
	(x_1)	(x_2)	(x_3)	(x_4)	(x_5)	$Y(x)$
Super-steady	0.206	0.260	0.112	0.012	0.330	0.890
Quite steady	0.166	0.199	0.084	0.014	0.396	0.880
High	0.226	0.290	0.140	0.010	0.260	0.630
Medium	0.226	0.290	0.126	0.011	0.160	0.540
Low	0.216	0.280	0.136	0.010	0.210	0.480

The correlation between the indicators influencing financial stability and financial stability potential are presented in Table 5.

Table 5. Correlation between the indicators influencing the financial stability and financial stability potential of enterprises

Indicators	(x_1)	(x_2)	(x_3)	(x_4)	(x_5)
Correlation coefficient	0.790	0.824	0.835	0.636	-0.72

The correlation between the indicators influencing the financial stability of enterprises between is presented in Table 6.

Table 6. Correlation between the indicators of financial stability

Indicators	(x_1)			
	(x_2)	(x_3)	(x_4)	(x_5)
Correlation	0.567	0.670	0.659	-0.929
	(x_2)			
Correlation	(x_3)		(x_4)	(x_5)
	0.647		0.681	-0.538
	(x_3)			
Correlation	(x_4)		(x_5)	
	0.516		- 0.678	
	(x_4)			
Correlation	(x_5)			
	-0.637			

In order to determine the independent variables, it is essential to check them for multicollinearity using the system of inequalities:

$$\begin{cases} Rx_i\, y_i \geq Rx_i x_{i+1} \\ Rx_{i+1}\, y \geq Rx_i x_{i+1} \end{cases} \qquad (3)$$

Using this system of inequalities, a comparison of correlation coefficients of enterprises' financial stability indicators was carried out. The evaluation of inequalities is based on the method of exclusion of indicators, but

which requires the correlation coefficients to satisfy the system of inequalities or at least one of the following conditions (Table 7).

Table 7. The performance of the conditions of the inequalities system, taking into account the correlation

Taking into account the correlation coefficients with the financial stability potential		
(x_1)	0.790 > 0.567 0.824 > 0.567	The condition is satisfied, we retain (x_1)
(x_2)	0.824 > 0.670 0.835 > 0.670	The condition is satisfied, we retain (x_2)
(x_3)	0.835 > 0.659 0.636 < 0.659	The condition is not satisfied, we reject (x_3)
(x_4)	0.636 > -0.929 -0.72 > -0.929	The condition is satisfied, we retain (x_4)
Taking into account the correlation of the coefficients of the indicators with each other		
(x_1) (x_2)	0.790 > 0.670 0.824 > 0.670	The condition is satisfied, we retain (x_1)
(x_1) (x_4)	0.790 > 0.659 0.636 < 0.659	The condition is not satisfied, we reject (x_4)
(x_1) (x_5)	0.790 > -0.929 -0.72 > -0.929	The condition is satisfied, we retain (x_5)
(x_2) (x_5)	0.824 > -0.538 -0.72 > -0.929	The condition is satisfied, we retain (x_2)

The test showed that the independent variables are: (x_1) - the coefficient of capital structure; (x_2) – the coefficient of autonomy; (x_5) – return on equity. Two specific criteria were used to select the independent variables: linear collinearity and the magnitude of closeness between the correlation connection and financial stability potential of enterprises.

In order to assess the quality of the correlation between the financial stability potentials and financial stability indicators, the Chaddock ratio is used as an empirical correlation indicator.
The highest correlation coefficients (0.8 or more) were found between the financial stability potential and the following indicators that influence financial stability: (x_1) - the coefficient of capital structure (correlation coefficient of 0.79); (x_2) - the coefficient of autonomy (correlation coefficient of 0.83); (x_5) - return on equity (correlation coefficient of 0.82). In accordance with Chaddock's recommendations, this value of the connection is close. Given the fact that we considered the factors affecting financial stability as independent variables, the estimation of financial stability potential of enterprises, would be as follows:

$$Y(x) = a_0 + a_1 x_1 + a_2 x_2 + a_5 x_5 \qquad (4)$$

where (x_1) is the coefficient of capital structure;

(x_2) is the coefficient of autonomy;

(x_5) is the return on equity.

Analysis of the results so obtained showed that the greatest impact of the capital structure, autonomy and return on equity on the financial stability of the enterprises coincides with the research of sustainability assessment, the reliability and stability of such entities on the basis of deviations of parameters from average values for organizations of the same size. A check of the statistics of financial stability allowed the identification of the most informative indicators using the well-known methods of complex evaluation of financial stability and competitiveness, as created by (Borodin, 2015).

The study of information content in the financial stability indicators allowed us to determine the most informative of such, which include the coefficient of autonomy.

The second step was to determine the coefficients of regression equation (4) by solving the system of normal equations via economic-mathematical methods and the choice of the approximating function. The system of normal equations has the following form:

$$\begin{cases} na_0 + a_1\sum x_1 + a_2\sum x_2 + a_3\sum x_3 = \sum y \\ a_1\sum x_1 + a_1\sum x_1 x_1 + a_1 a_2\sum x_1 x_2 + a_1 a_3\sum x_1 x_3 = \sum x_1 y \\ a_2\sum x_2 + a_2 a_1\sum x_2 x_1 + a_2 a_3\sum x_2 x_3 + a_2\sum x_2 x_2 = \sum x_2 y \\ a_3\sum x_3 + a_3 a_1\sum x_3 x_1 + a_2 a_3\sum x_2 x_3 + a_3\sum x_3 x_3 = \sum x_3 y \end{cases} \quad (5)$$

The calculation of a system of normal equations (5) and the definition of the parameters of equation (4) are presented in the Table 8. As a result of solving the system of normal equations, the following equation parameters were derived (5): $a_0 = 0.00187$; $a_1 = -6.21$; $a_2 = 5.153$; $a_3 = 2.271$. The approximation is accurate to a maximum of 10%, and a minimum of 1.5%. A further calculation of the coefficients of the regression equation was carried out within the linear three-factor model. With the coefficients given, regression equation (4) then takes the following form:

$$Y(x) = 0{,}00187 - 6{,}21x_1 + 5{,}153x_2 + 2{,}271x_3 \quad (6)$$

The validation of the regression equation values in (6) in terms of their adequacy to empirical values is made on the basis of the Fisher criterion (F-criterion). The critical value of the F-criterion was determined for the two degrees of freedom: $\kappa_1 = m - 1$ (3 - 1); $k_2 = n - 3 - 1$ (32 – 1 - 3). The adequacy of the resulting equation (6) was confirmed by F-criterion at a 1% significance level.

Practical calculations that allow for the determination of the financial stability potential can be performed in the following way. First, the values of the financial sustainability parameters are determined: the coefficient of capital structure, the coefficient of autonomy, and return on equity. Then the financial stability potential is calculated according to formula (6). The dependence of the financial stability potential changes on the volatility of the values of selected indicators is considered in two directions:

The first direction (in the instance of the simultaneous deviation of all indicators from the values recommended of the same magnitude to the downside). In such a situation, a clear relationship between the magnitudes of the indicators' deviations and the financial sustainability potential is determined: the bigger the indicators' deviations, the lower the potentials of financial stability.
Qualitative assessment of financial stability potential depends on the magnitudes of changes in factors affecting financial stability, as presented in Table 8.

Table 8. Qualitative assessment of the financial stability potentials of enterprises

Name of indicator	Financial stability potential of enterprises				
	Super-stable	High	Quite high	Medium	Low
Value of potential	6.176 - 5.44	5.43 - 4.88	4.87 - 3.76	3.75 - 1,0	0.99 and lower
Indicators deviation, %	0 - 10	11 - 20	21 - 40	41 - 60	61 and higher

Taking into account the qualitative assessment of the enterprises financial stability potential and the increases in variance of the factors affecting their financial stability from the recommended values in the downside, the financial stability potential of enterprises is steadily declining.

Let us assess definite the limiting (extreme) values of the financial stability potential. If the deviation of indicators influencing financial stability is as high as 10%, the financial stability potential can take values from 6.176 to 5.44 units. Such values were theoretically calculated based on the condition that the coefficient of capital structure was equal to 0.01 (equity 99%, borrowed capital 1%); the coefficient of autonomy in this case is equal to 0.99; the maximum return on equity is up to 50%. This is a theoretical option in excess of steady-state economic entities. The value of the indicators in the worst-case situation from a financial stability point of view will be as follows: the coefficient of capital structure is equal to 0.99 (borrowed capital 99%, equity 1%); the coefficient of autonomy is equal to 0.01; return on equity is up to 1% (almost none). In this case, the financial stability potential will be minimal, up to one and below.

The second direction. The values of the various indicators affecting financial stability simultaneously deviate from the recommended values in the direction of deterioration, but with different magnitudes. Some indicators have smaller deviations, whilst others are larger. The value of the financial stability potential in this situation will depend on which specific indicators have deviated and the magnitudes of their deviations. First and foremost, it is advisable to monitor the most informative indicator from the point of view of financial stability, i.e., the coefficient of autonomy and the size of this deviation. Due to the different values of indicators influencing financial stability, the potential for financial stability of economic entities can vary from 5.43 to 1.0, or potentially lower or even negative values, which would correspond to high, quite high, medium or low values. Negative values indicate that the economic entity is functioning on the basis of borrowed capital. When the deviation of certain indicators is in the range of 50-80%, the financial stability potential of the economic entity can be low; when other indicators range from 40 to 60%, the financial stability potential will be correspondingly moderate.

5. Case studies: "Identification of the financial stability potentials of enterprises"

It is necessary to determine the financial stability potential of enterprises based on the results of the model calculations (6) according to different industries; the associated calculations are presented in Table 9.

Table 9. Calculation of financial stability potential of various enterprises

The name of enterprise	The coefficient of capital structure	The coefficient of autonomy	Return on equity	Financial stability potential
1. SE "Orion"	0.66	0.34	0.12	-2.07
2. SE "Barkas" ("Longboat")	0.15	0.85	0.34	4.23
3. SE "Romashka" ("Daisy")	0.43	0.57	0.18	0.68
4. SE "Ussuri"	0.25	0.75	0.20	2.77
5. "Zelenstroy"	0.12	0.88	0.29	4.45
6. "Grand"	0.55	0.45	0.05	-0.98
7. SE "OVK"	0.07	0.93	0.43	5.36
8. "Blagoustroystvo" ("Landscaping")	0.50	0.5	0.29	
9. SE "Souveniryi" ("Souvenirs")	0.29	0.71	0.37	2.74
10. SE "Rouchniye izdeliya" ("Handicrafts")	0.34	0.66	0.26	1.88

Evaluation of the calculated results of various enterprises' financial stability potentials (Table 9) showed that a number of enterprises have low and even negative financial stability.

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"Orion" has the lowest financial stability potential (-2.07) due to its low equity ratio and high borrowed capital, as evidenced by the ratio of the capital structure. The return on equity is 12%, which is insufficient to maintain the sustainable and dynamic development of this organization.

"OVK" was found to have a relatively high financial stability potential of 5.36. Such capacity has been achieved due to the high value of the coefficient of autonomy, where almost the entirety of its capital is its own and estimates 93%, the share of loan capital is small. This company uses its capital effectively as the return on equity is 43%.

Quite high financial stability potential was shown by "Barkas" (4.23) and "Zelenstroy" (4.45). Average financial stability potential was observed for "Ussuri" and "Souvenirs" at 2.77 and 2.74, respectively. The performance of "Rouchniye izdeliya" can also be attributed to its average financial stability potential of 1.88. "Romashka" is financially unstable (-0.68). "Grand" is in crisis in terms of its financial stability because of its potential for financial sustainability is very low, with a corresponding value of -0.98.

Conclusions

Using the estimation model to determine the various enterprises' financial stability potentials, as calculated on the basis of the regression equation, we can determine the financial stability potential of enterprises via a numeric expression. We were also able to assess the quality of financial stability from the consideration of dynamics and structure, taking into account the variations of the indicators determining the quality of financial stability, to monitor indicators of financial stability potential, tracking, first of all, the most informative parameter of autonomy.

Thus, the financial stability in relation to an individual enterprise can be considered as being the construction of such an internal system of organizing production and financial activities that ensures long-term activity in the market. This can be achieved through effective management of a company's assets using its own and other attracted sources of capital when environmental factors are variable. This is not possible without the effective distribution and use of the enterprise's economic resources, management of the sources of their education, as well as the management of financial risks.

Simply put, an enterprise will be financial stable if it has an internal system of organizing the production and financial activities that ensure its financial stability in the long term.
Thus, the authors use the concept of financial stability, which is defined as follows:
- the ability of the company to continue to achieve its operational goals and fulfil its mission in the long term;
- the ability of an enterprise to undertake continuous production and business activities within the market through the effective management of its financial resources, thus ensuring its creditworthiness and solvency;
- building an internal system of organizing production and financial activities, which ensures continuous activity in the market through balanced asset management, using both its own and attracted sources of capital when environmental factors are variable;maintaining financial stability for a long period of time when environmental factors are variable.

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