

# The Estimated of Threats to the Financial Security: Evidence from Uzbek Company's

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**Abstract-** The article analyzes the scientific and theoretical aspects of the concept of financial security of the company. A system of indicators characterizing the financial security of the joint-stock company has been developed, and based on these indicators, the financial security status of the joint-stock company "Kattakurgon yog-moy" has been assessed. The indicators of financial risks have been analyzed. Also, the problems were identified associated with the financial risks and threats of the joint-stock company. Those scientific and practical recommendations eliminate to reduce threats to financial security.

**Keywords:** Financial security, liquidity, financial leverage, equity, financial independence, dividend

## I. INTRODUCTION

Ensuring sustainable growth of the enterprise, the stability of the results of its activities, the achievement of goals that meet the interests of owners and society as a whole is impossible without development and implementation of an independent enterprise strategy, which in the modern economy is determined by the presence of an effective system of its financial stability and security. The state of its finances largely determines the effectiveness of the activities of economic entities in a market economy. That leads to the need to consider the problems of ensuring the financial stability and security of the enterprise

Insufficient attention to the problems of financial stability and security of the enterprise can lead, even with high profitability of the business. That fact that the company will become a target for a hostile takeover, on the other hand, the growth of business rates causes a higher dependence of the enterprise on external sources of financing and, possibly, loss of stability and independence in making managerial decisions.

Thus, the relevance of the study is caused by the need for a comprehensive scientific analysis. Additionally, the development of a system of indicators of financial stability and security of the enterprise, identification of factors (threats and dangers) leading to the loss of financial stability. The safety to select and justify measures, counteracting this trend, and, secondly, to determine the optimal financial strategy of the enterprise, aimed at achieving its sustainability in the short and long term

## II. LITERATURE REVIEW

These days, a single generally accepted definition of the concept there is no financial security of the enterprise. It is generally accepted that financial security is one of the functional components of economic security, which predetermines the essential formulations of the definition of the term "financial security". It is believed that the concepts of economic and financial security are almost identical (Bezuglaya N.,2012).

Without pretending to be a complete list, I will give several definitions of this concept with an indication of the authors. Financial security is the ultimate state of financial stability in which an enterprise must be to implement its strategy and is characterized by the ability of the enterprise to resist external and internal threats (Papekhin R., 2007). However, another essential feature of the company's financial security is that the ability of the enterprise to ensure sustainability and progressive development in a constantly changing internal and external environment, maintain immunity to threats (Ovechkina O., 2013). That is the level of the financial system of an enterprise. It is characterized, firstly, by financial equilibrium, which is the result of resolving the contradictions between profitability, liquidity and risk due to the optimal combination of external and internal factors; secondly, financial stability, i.e. maintaining the state of financial balance in the process of enterprise development.

Financial security is that it is a specific financial condition of the enterprise, characterized by its ability and ability to withstand the existing and emerging threats to its financial interests. (Badaeva O., Tsupko E., 2013) According to these authors, financial security reflects a certain level of financial condition at a specific date; that is, it is static, which narrows the scope of using this concept to manage financial security. They believe that it is necessary to introduce a new concept of "controlled financial security" into scientific circulation. That implies a specific financial condition of an enterprise, mediated by the absence of danger to its financial interests, subject to constant monitoring and diagnostics of its level, as well as the formation of several preventive and control measures. Thus, managed financial security is a unique form of financial security that reflects the potential to increase its level, provided that monitoring, diagnostics, preventive and control measures are used. But, another researcher is that the financial security of an economic entity is the willingness and ability of an economic entity

to effectively ensure the functioning of the process of distribution and redistribution of limited monetary and financial resources, in the presence of harmful internal and external threats. (Bagaeva K., 2011). From the point of view of the author, the most concise and reasonable the definition that reflects the essence of the concept is the following:

The financial security of an enterprise is that the state of the financial system of an organization that ensures the most efficient use of corporate resources, countering threats or mitigating their impact, and at the same time contributing to the achievement of business goals. That is the fact that the concept of "financial security of an enterprise" is synthesized. It is integrating the essential characteristics of the categories "economic security" and "enterprise finance". The financial security of an enterprise is a quantitatively determined level of its financial condition. It ensures stable protection of its priority balanced financial interests from identified real and potential threats of external and internal nature, the parameters of which are determined based on its financial philosophy and create the necessary prerequisites for financial support of its sustainable growth in current and future period (Blank I.,2013). At the same time, a specific type of financial policy acts as a form of implementation of financial philosophy in various aspects of the financial activity of an enterprise. Financial security and financial stability are not the same concepts.

At the same time, the financial security of an enterprise is closely related to its financial stability. From my point of view, financial security is a broader, complex concept that includes financial sustainability, along with other components. The essential condition for ensuring the sustainable development of the company and obtaining favourable results of its financial activities is the functioning of a significant financial security system that can reduce the impact of external and internal threats on the company. The fundamental goal of the financial security of the organization is to ensure a constant and high efficiency of the enterprise in the present and to ensure sufficient potential for development in the future (Zaporozhtseva L., 2013). In general, the financial security of an enterprise can be defined as the state of its protection from the negative influence of external and internal threats. These destabilizing factors ensure the sustainable implementation of the leading commercial interests and goals of the statutory activities. (Goncharenko L., Akulinina F., 2015).

The primary condition for ensuring a stable and safe financial condition of a company is its ability to withstand emerging threats. How effectively the company's management can identify possible risks in advance, and then avoid and neutralize the damage - the level of financial security of the company will depend.

Currently, it is customary to single out several methods for determining the level of financial security of an enterprise, which is based on (Vagina N., 2016):

- Calculation of relative coefficients and dynamics of their changes;
- Assessment of the consequences of threats (by determining the amount of material damage);
- Analysis of the adequacy of working capital for the implementation of core activities;
- Indicator approach (analysis of deviations of the actual value of the indicator from the threshold);
- Calculation of the integral indicator (using the indicator approach or the method of expert estimates).

The indicator approach has become widespread, which is based on the choice of a group of indicators that allow the complete characterization of the financial condition of the enterprise, and further comparison of their actual values with the normative ones. Typically, this method is implemented in tabular form. Indicator models often lack an integral indicator, and also do not take into account the industry specificity of the enterprise. That explains the relevance of the development of the author's model for assessing the level of financial security of an agricultural organization based on already applied methods

### III. RESEARCH METHODOLOGY

In the research of many economists, it is based on the fact that the financial security status of the enterprise can be evaluated using the following system of indicators:

1. Absolute liquidity ratio= (Cash+ Short-term financial investments)/ Short-term liabilities
2. Current liquidity ratio= Current assets/ current liabilities
3. Financial leverage ratio= equity/ Debt
4. Equity ratio= Current assets/ equity
5. Return on equity (ROE)= Net Income/equity
6. Financial independence ratio=equity/ Balance asset
7. Dividend yield ratio= Dividends Paid/ Charter Capital
8. Dividend Payout Ratio=Dividends Paid/Net Income
9. Price-to-Earnings (P/E) Ratio= Market value per share/ earnings per share (EPS)
10. Price-To-Book (P/B) Ratio= Market Price per Share/ Book value per share

The table below shows the normative level of indicators that characterize a company's financial security (Table 1).

Table 1: Indicators characterizing the financial security of companies

Number	The name of the indicator	Normative level
1	Absolute liquidity ratio	min 0,2
2	Current liquidity ratio	min 1,25
3	Financial leverage ratio	min 0,1
4	Equity ratio	min 0,25
5	Return on equity	min 0,15
6	Financial independence ratio	min 0,5 (optimal level 0,65-0,75)
7	Dividend yield ratio	min 0,15
8	Dividend Payout Ratio	1 (optimal level 0,4-0,7)
9	Price-to-Earnings (P/E) Ratio	optimal level 12-15
10	Price-To-Book (P/B) Ratio	optimal level 1-2

Source: Based on information from [www.imf.org](http://www.imf.org) (International Monetary Fund), <http://www.worldbank.org> (World Bank Group), <http://www.oxpaha.ru> (Internet newspaper security portal, Russia), <http://www.wisp.ru> (Catalog of Internet Security Resources, Russia)

The absolute liquidity ratio determines how much of the short-term liabilities will be repaid immediately at the expense of available cash and liquid securities. The normative value is higher than 0.2 (optimal level 0.2-0.35), such a value of absolute liquidity means that the enterprise will quickly repay 20-35% of short-term liabilities at the expense of cash.

The current liquidity ratio determines to what extent all the current assets of the enterprise cover the existing short-term debts. It allows to select the size to which this debt can be repaid without raising working capital, and finally, how much of short-term debt can be covered by the most liquid value of assets - cash and short-term financial investments. The current liquidity ratio in Uzbekistan should be at least 1.25.

The high level of financial leverage reflects the dependence of enterprises on borrowed funds. At the same time, it affects the profitability of its funds through the effect of financial support and is used in assessing the level of financial risk, ie determines the level of financial dependence. The level of performance is directly related to the composition of assets, efficiency of their use, profitability and specialization of the enterprise.

Equity ratio indicates the adequacy of its own funds needed to finance the current (operational) activities of the enterprise

Return on equity ratio is an important financial indicator for an enterprise and shows how effectively any investor, business owner, has used his investment in the business.

Dividend yield ratio the high coefficient is a favourable condition. If the dividend income ratio is less than 0.15, it indicates that the company is not able to place its assets on the stock market effectively. As a result, there may be dissatisfaction among investors. Otherwise, above 0.15 indicates that the market price of the stock is rising.

The dividend payout ratio reflects a company's level of maturity. This ratio is important in assessing the stability of an enterprise's dividend. The smaller the figure, the more money the company spends on development, new products and new markets.

Price-to-Earnings (P/E) ratio is one of the key indicators used in the comparative assessment of a company's investment attractiveness. The small value of the coefficient indicates that a company's profit is estimated to be lower than the profit of another company in the market where this coefficient is greater. A significant disadvantage of the ratio is that it cannot be applied to a company whose losses are reflected in its financial statements, as this would be negative for the value of the company. The optimal level of the coefficient should be in the range of 12-15

Price-To-Book (P/B) ratio shows that the market value of the company is related to the book value and the level of liquidity and attractiveness of the shares of the joint stock company. Its optimal level should be in the range of 1-2.

#### IV. THE ANALYSIS AND RESULTS

We evaluate and analyze the state of financial security threats of JSC "Kattaqo'rg'on yog'l-moy" operating in our country (Table 2).

Table 2: The threats indicators of the financial security of JSC "Kattakurgon yog-moy"

Name of indicators	2015	2016	2017	2018	2019
Absolute liquidity ratio	4,29	7,27	2,06	0,89	1,89
Current liquidity ratio	11,47	22,89	6,28	4,25	1,85
Financial leverage ratio	0,72	6,01	3,06	3,97	1,43
Equity ratio	0,88	0,75	0,85	0,85	1,25
Return on equity	0,27	0,31	0,21	0,33	0,30
Financial independence ratio	0,77	0,85	0,75	1,17	0,79
Dividend yield ratio	0,14	0,14	0,16	0,21	0,47
Dividend Payout Ratio	0,35	0,24	0,37	0,19	0,15
Price-to-Earnings (P/E) Ratio	3,76	2,20	3,55	1,16	2,63
Price-To-Book (P/B) Ratio	0,65	0,52	0,47	0,37	0,36

According to Table 2, the absolute liquidity ratio of JSC "Kattakurgon yog-moy" in 2015 was 4.29, but it was 1.89 in the 2019 year. That indicates that the ability to repay short-term liabilities of JSC "Kattakurgon yog-moy" at the expense of cash and liquid securities is low. The analysis of the current liquidity ratio of JSC «Kattakurgon yog-moy" shows that in 2015 this figure was 11.4, in 2019 it decreased by ten times and amounted to 1.85.

This ratio covers the current short-term debt of all current assets of the enterprise. It is possible to determine the extent to which this debt can be repaid without raising working capital, and finally, how much of short-term debt can be covered by the most liquid value of assets - cash and short-term financial investments. The current liquidity ratio in Uzbekistan should be at least 1.25. That means that the absolute and current liquidity ratios of JSC "Kattakurgon yog-moy" in the analyzed years are higher than the normative level. Therefore, in terms of these coefficients, the financial security of the joint-stock company is considered to be ensured.

The analysis of the financial leverage ratio of JSC " Kattakurgon yog-moy" shows that this ratio was 0.72 in 2015 and 1.43 in 2019. This ratio is an indicator of the share of debt capital in the capital structure of the enterprise. Most economists have set the normative level of the financial leverage ratio at 0.25. The analysis of JSC "Kattakurgon yog-moy" shows that the amount of debt capital in the capital structure of the enterprise is low and the enterprise is sustainable.

If the coefficient of equity of JSC " Kattakurgon yog-moy" in 2015 was 0.88, in 2019, it was 1.25. That means that the share of current assets in the company's sources of capital is 1.25 percent.

As for the analysis of the return on equity, in 2015, this figure was 0.27, and in 2019 this value was 0.30. This ratio shows how much capital is invested in net profit. The share of capital in the net profit of JSC " Kattakurgon yog-moy " is 30 percent. The normative level of this ratio should be higher than 15%.

The coefficient of financial independence was 0.79 in 2015 and 0.79 in 2019. If we take into account the normative level of this coefficient is 0.5, the coefficient of financial independence of JSC "Kattakurgon yog-moy" is higher than the normative level. The high ratio indicates the high share of own funds in the assets of the enterprise. In other words, 79% of the assets of JSC "Kattakurgon yog-moy" are formed at the expense of its own funds, the remaining 21% are sources of debt.

The analysis of the dividend payout ratio showed that in 2015, 35% of net profit was allocated for dividend payment, while in 2019, 15% of net profit was allocated for dividend payment. As a result, the market value of the company's shares amounted to 3,788 soums.

The price-to-earnings (P/E) ratio rose from 3.76 in 2015 to 2.63 in 2019. In particular, the growth of this ratio makes it possible to determine the profit per share and the market value of shares through the profit of the enterprise. A high P/E ratio indicates that the market value of the company's shares is high, while a low indicates that the market value of the company's shares is low.

From the analysis of the price-to-book (P/B) ratio of one share, it can be seen that in 2015 this ratio was 0.65, in 2019 it was 0.36. The P/B ratio indicates whether the market price of the stock is below or above the carrying amount. The analysis shows that the book value of one share of JSC "Kattakurgon yog-moy" is 10,540 soums, and the market value is 3,788 soums. This, in turn, leads to high volatility of shares of JSC "Kattakurgon yog-moy" and low market value of shares of the company. As a result, the company's shares require financial security, indicating that there is a risk associated with the market value.

## V. CONCLUSION

In the current economic conditions, small and medium-sized businesses need systematic financial security management, as they concentrate on themselves entrepreneurial risks. However, the majority of economic entities

that are not representatives of large business do not pay due attention to ensuring the required level of financial security, endangering not only the effectiveness of individual transactions, but the activities of the enterprise as a whole, since they concentrate on themselves entrepreneurial risks

In this study, the essence of the financial security of an enterprise as a management object from the point of view of protection from external and internal threats is considered, and the existing methods for assessing its level are analyzed. Today, the indicator method is the most practically applicable method for determining the level of financial security. But a broad set of differently changing indicators makes it difficult to interpret and formulate a short and information-rich conclusion about the level of financial security of an enterprise. The variants of calculating a problematic indicator of the level of financial security based on the spectrum-point method, additive and multiplicative models are proposed.

These calculation methods have several disadvantages, such as the complexity of interpretation. An extensive set of indicators used in the calculation and indicators calculated on their basis. Additionally, the inability to include in the computation qualitative indicators characterizing the level of financial security, without which an adequate complete picture of the degree protection of the enterprise from financial threats.

As a result of solving the set tasks, the goal of the work, consisting of the conceptual generalization of theoretical ideas about the concept of financial security of an enterprise. Improving methods for identifying its level and designing a financial security system at a particular enterprise was achieved.

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