*Annual International Scientific Conference*
*"Competitiveness and Innovation in the Knowledge Economy" September 20-21, 2024*
*Chisinau, Republic of Moldova*

DOI: https://doi.org/10.24818/cike2024.52
**UDC:** 005.334:658.15

# MANAGING THE RISK OF DECREASING FINANCIAL STABILITY

**IULIA SUVOROVA**
PhD, Associate Professor
Academy of Economic Studies of Moldova
Chișinău, Republic of Moldova
suvorova.iulia@ase.md
ORCID ID: 0000-0002-0323-4668

**Abstract:** This article discusses the issues of assessing the risk of reducing the financial stability of an enterprise, analyzes the content of this type of risk, and proposes the stages of its assessment. The results of calculations and analysis of the risk of reducing financial stability depend on the presence or absence of distortions in the financial statements. Based on the study, enterprise operations were identified that could lead to a deterioration in the balance sheet structure and a decrease in financial stability. The proposed stages of assessing the risk of a decrease in financial stability will allow us to develop an action strategy aimed at minimizing negative consequences. In conclusion, it is emphasized that the sustainable development and stable position of business entities in modern conditions depend on their ability to quickly respond to changes in the environment, which is reflected in indicators of financial stability. Therefore, achieving financial sustainability is an important condition for the effective functioning of an enterprise.

**Keywords:** risk of reducing financial stability, financial risks, risk identification, capital structure, financial difficulties, mitigation measures risk, solvency, investment attractiveness.

**JEL Classification:** G32

## Introduction

The development of a market economy contributes to the fact that the main condition for the financial stability of an enterprise is its financial stability, which is a guarantee of survival and the basis for the strength of its position. In this regard, ensuring financial stability in modern conditions is one of the most important tasks. In addition, it is necessary not only to ensure a stable level of financial stability, but also to strive to find ways to improve it. (Serebryakova *et al*. 2017)

Financial stability is understood as the ability of an enterprise to carry out its activities while maintaining a balance of assets and liabilities, subject to influence from the external and internal environment, which guarantees its constant solvency and investment attractiveness within the limits of acceptable risk.

## Classification of enterprise financial stability

The classic classification of financial stability should be considered the following division: (Lee *et al*. 2014)

- Absolute financial stability, characterized by a high level of solvency of the company. With this type of financial stability, the organization does not depend on external creditors and competently manages its financial flows and working capital.

- Normal financial stability, which is also characterized by sufficient high level of solvency. With normal financial stability, the company is partially dependent on its creditors, however, it uses borrowed funds rationally and resorts mainly to long-term loans and borrowings. (Simonov *et al*. 2016)

- Unstable financial condition, characterized by a violation of the normal solvency of the organization. With this type of financial stability, the company has a need to attract additional capital; not only long-term, but also short-term loans and borrowings are used as sources of financing.
- Crisis financial condition. The company is completely insolvent and is on the verge of bankruptcy.

**The influence of financial risks on the strategic development of an enterprise**

Financial risks have a serious impact on many aspects of the strategic development of an enterprise, but their most significant influence is manifested in two directions: (Pimenov 2015)

- the level of risk has a decisive impact on the formation of the level of profitability of the enterprise's financial transactions;
- financial risks are the main form of generating a direct threat of bankruptcy of an enterprise, since the financial losses associated with these risks are the most tangible.

**Risk of reduced financial stability**

The risk of a decrease in financial stability refers to the so-called structural risks of an enterprise, since it is caused primarily by imperfections in the structure of the formation of operating assets and capital. Therefore, the main content of the process of managing the risk of reducing the financial stability of an enterprise is the optimization of the composition of long-term and current assets, on the one hand, as well as the ratio of equity and borrowed capital, on the other. (Lee *et al*. 2014)

It should be emphasized that the results of calculations and analysis are influenced by the quality of financial statements, the presence or absence of distortions in them, as well as the level of professionalism of the analyst. If the information requirements are met, there is a high probability of identifying the risk of a decrease in financial stability through the analysis of financial statements. In addition, the risk identification method, based on the analysis of audit reports and other expert opinions on the financial condition of the organization, is also quite informative. (Gilyarovskaya *et al*.2012)

The most risky types of transactions that can be identified through analysis of an organization's financial statements are systematized in Table 1.

Similar to the data presented in the table, you can supplement the list of operations, taking into account the characteristics of the organization's activities and its industry. Both external (official) and management reporting, generated in accordance with the internal requirements of management personnel, can be used as an information base for identifying such operations. Forecasting financial difficulties allows you to develop measures to reduce risks in advance and more objectively draw up plans for the development of the organization. (Pimenov 2015)

Based on the analysis and assessment of identified risk factors that contribute to a decrease in financial stability, methods and tools are developed to mitigate the negative impact. In addition, in order to formalize the actions of the risk manager and increase the efficiency of applying risk neutralization methods, it is necessary to create regulatory and methodological support, including a list of standard risk management procedures. (Shulgina *et al.* 2012)

**Table 1. The most risky operations in the activity of enterprises in the structure of the accounting balance**

| Operations with an increased risk | Reflecting the economic content of high-risk transactions in balance sheet items | |
|---|---|---|
| | Article | Change |
| The investment of propertyasa contribution to the authorized capital of another company with the subsequent resale of the stake to third parties(interested parties) | Fixed assets. Financial investments | Decrease<br>Increase with subsequent write-off of the amount |
| The introduction of property as a contribution to the authorized capital of a friendly company or a one-day company | Fixed assets. Financial investments | Decrease<br>Increase |
| Repayment of debt to interested/third parties with valuable property, including fixed assets | Fixed assets<br>Accounts payable | Decrease |
| Providing an interest-free loan to a friendly company, an affiliate | Financial investments | Increase depending on the term of the loan |
| Issuance of commercial or commodity credits and their non-return, transfer of advance payment to the Supplier for a non-existent operation | Receivable indebtedness | Increase |
| Bills of exchange in which the debtor accepts bogus bills as payment for goods, works,services | Receivables | Increase |
| Formation of artificial debt to a friendly creditor | Accounts payable | Increase |
| Realization of financial investments in low-quality securities in the absence of income on them | Financial investments | Increase |
| Making guarantees on loans of third parties that are not related to a legal entity | Securing obligations and payments issued | Increased off- balance sheet item |

**Source:** based on Lyadova (2020)

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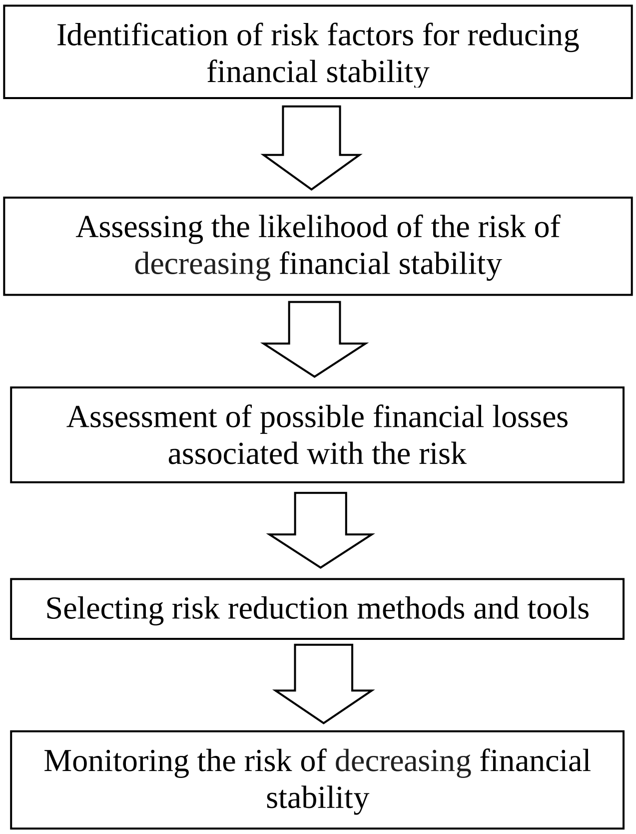
When managing the risk of reducing the financial stability of an enterprise, the following stages of its assessment are proposed. (Scheme 1)

The risk management system used at the enterprise, including the risk of reducing financial stability, must ensure the prompt identification of problem areas and the adoption of the necessary measures to eliminate them.




**Scheme 1. Stages of assessing the risk of reducing the financial stability of an enterprise.**

**Source:** authors own study or based on Gilyarovskaya et al. (2012)

## Conclusions

Summarizing the above, we can draw the following conclusions. In conditions of economic instability, accompanied by a high level of uncertainty, the creation of an effective risk management system becomes necessary. An important aspect of this system is managing the risk of reducing financial stability.

To structure the risk assessment process, we have identified the main stages of assessing the risk of reducing the financial stability of an organization, which allows us to deeply examine the factors influencing the risk.

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