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## DOMESTIC EXPERIENCE OF ENTERPRISES IN DEVELOPING A FINANCIAL STRATEGY

The article deals with the effectiveness of the enterprise's financial strategy on the example of domestic companies. The modern stage of economic development requires companies to constantly improve the efficiency and competitiveness of services through the introduction of scientific and technological advances, innovative management systems, the use of innovative methods of market conquest and maintaining their positions. Effective tool for long-term management of a company's financial activities, subordinated to the objectives of its overall development in conditions of significant changes in macroeconomic indicators, the system of market processes state regulation, financial market conditions and related uncertainty, is a financial strategy. Effective management of financial stability allows the company to adapt to the external environment and control the degree of its independence from external sources of funding.

**Keywords:** financial strategy, index, financial stability, strategy, financial crisis, bankruptcy, COVID-19.

**Introduction.** In today's world, the main characteristic is the uncertainty that arises from political, social, global, and military actions. All these factors directly or indirectly influence macroeconomic and microeconomic processes, which in turn is a defining characteristic in the adoption and formation of financial strategy in the world and in Ukraine.

**Formulation of the problem.** Modern Ukraine is a springboard for the development of world politics, which pushes the state to make not always popular decisions, and this ultimately affects the development of the economy and the financial level at which the company is. As a result, businesses of all forms of ownership, management and location are forced to create a flexible strategy for their own business, especially in recent years, when the investment climate in the country has been disrupted by military action in the east, the severance of economic ties with Russia, and in the last 2 years, the global pandemic. In such circumstances, we consider it necessary to study and research the mechanism of financial strategy formation of companies with the definition of the prospects for the development of such strategic plans.

**Analysis of recent research and publications.** To the solution of theoretical, methodological

and practical problems associated with the development and implementation of enterprise financial strategy, devoted their scientific works such scientists as, in particular, Davydova L., Sokolova N., Dykan L., Ivanov I., Podderyogin A., Blank I., Mizyuk B. and others.

**Purpose of the study.** Study and analysis of the company's internal financial strategy, management, development and implementation of the strategy.

**Presentation of the main material of the study.** We will conduct a study of financial strategy on the basis of PJSC "Santa Ukraine". To evaluate the financial strategy efficiency of Santa Ukraine PJSC, we calculate the index of its financial condition. The methodology for calculating the financial condition index is presented in Table 1.

According to the result (FCI) the company can be classified into one of four groups Figure 1.

Figure 1 shows groups of indices according to the method of financial strategy calculation

Based on this methodology, we will perform the calculation. We will use the financial statements of PJSC «Santa Ukraine» for three years (2018–2020) (Table 2).

Analyzing 2018–2020, we can see three different situations. First, we describe the

Table 1

## Methods for calculating the financial condition index

Indicator	Index calculation method
Current ratio ( $CR$ )	If $\geq 1,8$ , then $(CR/2)*100$ If $< 1,8$ , then $(CR/2)*100 - 100$
Coefficient of autonomy ( $CoA$ )	If $\geq 0,45$ , then $(CoA/0,45)*100$ If $< 0,45$ , then $(CoA/0,45)*100 - 100$
Ratio of borrowed and own funds ( $RoF_{b\&o}$ )	$100 - RoF_{b\&o} * 100$
The ratio of receivables and payables ( $R_{r\&p}$ )	If $\geq 1$ , then $R_{r\&p} * 100$ If $< 1$ , then $R_{r\&p} * 100 - 100$
Own working capital formation coefficient ( $C_{owcf}$ )	If $\geq 0,78$ , then $(C_{owcf}/0,78)*100$ If $< 0,78$ , then $(C_{owcf}/0,78)*100 - 100$
Return on assets ( $RoA$ )	If $\geq 0,05$ , then $(RoA /0,05)*100$ If $< 0,05$ , then $(RoA /0,05)*100 - 100$
Financial Conditions Index (FCI)	The sum of all indices

Table 2

## PJSC «Santa Ukraine» financial condition index for 2018–2020

Indicator	2018		2019		2020	
	value	index	value	index	value	index
Current ratio	1,38	-31	1,11	-45	0,70	-65
Coefficient of autonomy	0,76	168,8	0,69	153,3	0,66	146,6
Ratio of borrowed and own funds	0,94	94	0,95	95	1,06	106,5
The ratio of receivables and payables	0,37	-62,6	1,03	103,3	0,29	-70,4
Own working capital formation coefficient	0,69	-11,5	0,36	28,6	-0,86	-210,2
Return on assets	0,0018	-96,4	0,10	210	-0,07	-240
Financial Conditions Index (FCI)	-	61,7	-	545,2	-	-333,1

Source: calculated by authors

financial health index for 2018, with an index of 61.7. According to stable data, can be attributed to  $0 \leq FCI < 600$ , and therefore in 2018 PJSC "Santa Ukraine" is an enterprise with temporary financial difficulties, for which there is a prospect of solvency recovery.

In 2019, the situation is similar, but the index is 545.2. Thus, the financial strength index is greater than zero and less than 600, but already close to  $FCI \geq 600$  as a company in satisfactory financial condition, but still lower, and it is important that the company with temporary financial difficulties, for which there are prospects for rehabilitation.

In 2020, the situation is completely different, the index is -333.1. This indicator falls into the category  $600 \leq FCI < 0$ , and these are companies that have an unsatisfactory financial condition, but are able to restore solvency in the face of urgent anti-crisis measures.

Over the past three years, the position of the company PJSC "Santa Ukraine" has shown dynamics to reduce the index of financial stability, which indicates deterioration in the effectiveness of the financial strategy of the enterprise.

In 2018, some financial solvency issues in the area of self-financing and independence are being overcome. Also unresolved is the situation with the low level of profitability of PJSC "Santa Ukraine", which is confirmed by the unstable dynamics of net profit positive

value. This area can be a weak and critical point.

Here's a graphical representation of the Financial Stability Index for 2018–2020 to visualize the dynamics in Figure 1.

Let's look at the factors that influenced such a dramatic decrease in the index in 2020. The first is the situation with Covid-19. Exports fell by almost 60%. The quarantine led to a decrease in demand for products, as retail outlets did not work during the quarantine.

The reasons for the deterioration of the financial situation were the fall in the exchange rate and the negative impact of the COVID-19 pandemic on the economy of Ukraine and the world. During the reporting year, there were no events that could significantly affect the financial and economic condition of the company and lead to a substantial change in the value of its securities. The main types of economic activity of the company are outerwear production, lingerie production, other clothing and accessories production. The use of modern technology and equipment makes it possible to produce high-quality and competitive products for both export and domestic markets.

Given the risks (rising cost of fuel and energy resources, increased competition in the market, illegal imports of light industry goods, the outflow of skilled professionals, unstable currency exchange rates, pandemic coronavirus and as a consequence of reduced

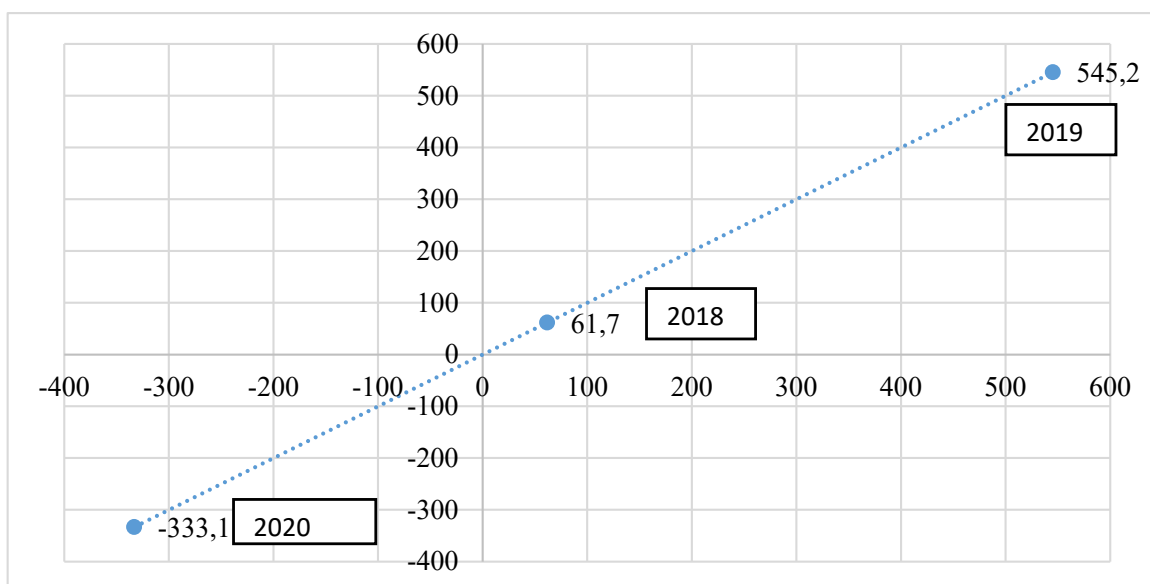


Figure 1. Dynamics of PJSC «Santa Ukraine» financial condition index for 2018–2020

Source: calculated by authors

orders) and difficulties in doing business, PJSC "Santa Ukraine" has further prospects for development.

The company's management is constantly working to expand the market for services and finished products in both foreign and domestic markets. In 2020, the Company issued 169 thousand units products in the amount of 31378.4 thousand UAH, in 2021 it is planned to produce 170 thousand pieces products in the amount of 33,000 thousand UAH.

For comparison, we will diagnose the probability of bankruptcy according to the Altman's Z-Score Model.

By performing calculations on bankruptcy models, we characterize the financial potential of the enterprise from a short-term perspective. Given the volatility of the market environment and the instability of the country's economy, it is important to regularly assess financial potential and compare its current performance with the past. This is necessary to study the dynamics (positive or negative) and investigate the corresponding trend. Thus, the purpose of assessing the level of financial capacity is to determine the financial stability of the enterprise and its solvency for further building a strategy for managing financial capacity.

Bankruptcy assessment models can be used as a tool for solving this problem, as the result obtained in the calculation process is an indicator that on a given scale can determine the presence or absence of financial stability, its violation, pre-crisis state or high probability of bankruptcy [3].

As part of this analysis, a function is built, which is a calculation of the integral index. This allows us to accurately determine the enterprise condition and assess the likelihood of bankruptcy. The Altman's Z-Score Model, which we will consider in more detail, provides

such opportunities. This model consists of five indicators that characterize different aspects of a company's financial condition.

The calculation process uses five factors (coefficients) that can most accurately characterize the financial potential of the enterprise, compared to other models for assessing the probability of bankruptcy. In addition, a significant advantage of this model is also the possibility of determining the presence of a crisis in its early stages.

This model has undeniable advantages over other foreign models, such as:

- computational simplicity;
- a small number of indicators to ensure results accuracy and quality;
- availability of initial values, which are reflected in the forms of financial statements;
- the presence of a logical sequence of research;
- the ability to predict bankruptcy and determine the risk zone the company is in;
- in some cases, the prediction accuracy was as high as 95%.

It is very important that, unlike most Western models for assessing the probability of bankruptcy, after calculating the indicator using this model it is possible to determine the risk zone in which the company is, rather than simply testifying to the fact of the existing crisis. The formula for calculating the Altman's Z-Score Model is presented in formula:

$$Z = 1,2x_1 + 1,4x_2 + 3,3x_3 + 0,6x_4 + 0,999x_5.$$

To determine the probability of bankruptcy, the calculated indicator is compared with its critical value. Let's calculate the Altman's Z-Score Model on the basis of the indicators of the studied enterprise for 2020.

The calculation begins by determining:  $x_1$ ,  $x_2$ ,  $x_3$ ,  $x_4$ ,  $x_5$ .

$$\begin{aligned}
 x_1 &= (4\ 659 - 6\ 610) / 19\ 946 = -0,009 \\
 x_2 &= -1\ 056 / 19\ 946 = -0,05 \\
 x_3 &= -1\ 056 / 19\ 946 = -0,05 \\
 x_4 &= 13\ 336 / (0 + 6\ 610) = 2,01 \\
 x_5 &= 30\ 458 / 19\ 946 = 1,52 \\
 Z &= 1,2 * (-0,009) + 1,4 * (-0,05) + \\
 &+ 3,3 * (-0,05) + 0,6 * 2,01 + 0,999 * 1,52 = \\
 &= -0,0108 - 0,07 - 0,165 + 1,206 + 1,518 = \\
 &= 2,4782 \approx 2,48
 \end{aligned}$$

Depending on the result we determine the probability of bankruptcy of the studied enterprise with the use of a special scale Figure 2.

**Conclusions.** Analyzing the calculations according to the scale of determining the condition of the enterprise according to E. Altman's model, we can say that our index of 2.48 refers to a high probability of bankruptcy. Based on this we conclude that there is no financial stability of PJSC "Santa Ukraine" and the company is financially unstable, which means that the level of financial potential is low.

In order for a company to begin to emerge from a crisis situation, it is necessary to build a better financial strategy. To improve the situation, this study suggests the following ways to strengthen the financial strategy:

1. The company's net gains can be increased by reducing the cost of garments by subcontracting production with garment manufacturers in Southeast Asia, China, or with domestic sewing workshops at the State Penitentiary Service of Ukraine.

2. Product cost reduction will outpace the market with the introduction of innovative technology.

3. Efficient use of the resource base and effective management.

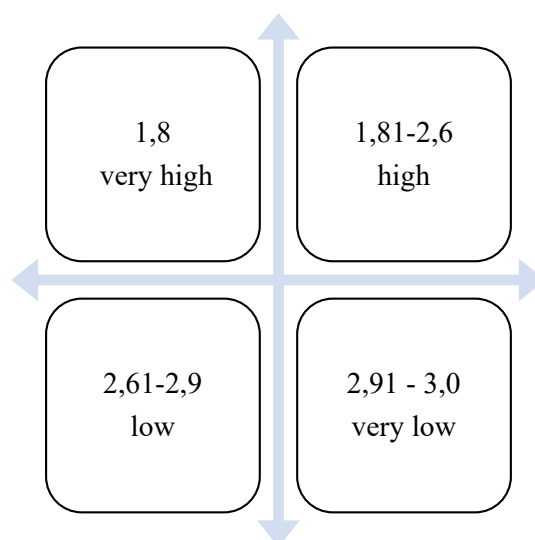
4. Involve financial planning to improve efficiency. You need to develop a business plan, a financial plan, monitor and analyze the implementation of the business plan, particularly the financial plan, and take specific measures for financial and economic stabilization.

5. Take into account seasonality, especially if you establish trade with Southeast Asia, China.

6. Proper use of assets and their increase has a significant impact on the efficiency and effectiveness of the enterprise, its financial stability.

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**Figure 2. Scale for determining the state of the enterprise according to the Altman's Z-Score Model**

## 7. System of capital structure optimization.

After analyzing the financial activities of PJSC "Santa Ukraine" for three years 2018–2020, we determined that the situation of the company from 2018 to 2020 has deteriorated. After making calculations, they identified the signs of the balance of property and sources of its financing, which influenced the deterioration. Also, making calculations of the index of financial condition, we came to the conclusion that the company is on the verge of bankruptcy. The deterioration of the financial situation was due to various factors, both external and internal. To stabilize the financial situation and overcome the crisis, options for improving the situation were proposed.

Indicators PJSC "Santa Ukraine" has a dynamic instability of the main source of replenishment of domestic financial resources – net profit.

The probability of bankruptcy was diagnosed according to the Altman model, the unstable position of the enterprise on the market and the high probability of bankruptcy of PJSC "Santa Ukraine" were confirmed.

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## ВІТЧИЗНЯНИЙ ДОСВІД ПІДПРИЄМСТВ У РОЗРОБЦІ ФІНАНСОВОЇ СТРАТЕГІЇ

### Резюме

У статті розглянуто ефективність фінансової стратегії підприємства на прикладі вітчизняних підприємств. Сучасний етап розвитку економіки вимагає від підприємств постійного підвищення ефективності діяльності та конкурентоспроможності послуг на основі впровадження досягнень науково-технічного прогресу, провідних систем управління, використання інноваційних методів завоювання ринку та утримання своїх позицій. Розроблення стратегії розвитку будь якого підприємства є невід'ємною умовою його успішного функціонування на внутрішньому і зовнішньому ринках. Ефективним інструментом перспективного управління фінансовою діяльністю підприємства, підпорядкованого реалізації цілей загального його розвитку в умовах суттєвих змін макроекономічних показників, системи державного регулювання ринкових процесів, кон'юнктури фінансового ринку і пов'язаною з цим невизначеністю, виступає фінансова стратегія. Теорія фінансової стратегії досліджує об'єктивні закономірності ринкових умов господарювання, розробляє способи і форми виживання в нових умовах, підготовки та ведення стратегічних фінансових операцій. Фінансова стратегія підприємства забезпечує: формування та ефективне використання фінансових ресурсів; виявлення найбільш ефективних напрямків інвестування та зосередження фінансових ресурсів на цих напрямках; відповідність фінансових дій економічному стану та матеріальним можливостям підприємства; визначення головної загрози з боку конкурентів, правильний вибір напрямків фінансових дій та маневрування для досягнення переваги над конкурентами; створення і підготовку стратегічних резервів; ранжування та поетапне досягнення цілей. Ефективне управління фінансовою стабільністю дозволяє компанії адаптуватися до умов навколишнього середовища та контролювати ступінь своєї незалежності від зовнішніх джерел фінансування. Запропонований механізм розробки стратегії фінансової стабільності підприємства передбачає організацію ефективної системи взаємодії всіх елементів, залучених до управління фінансовою стійкістю підприємства. Важливим у процесі розробки фінансової стратегії є усвідомлення того, що вона є центральною складовою загальної корпоративної стратегії. Таким чином, за рахунок реалізації фінансової стратегії реалізується загальна діяльність підприємства шляхом здійснення виробничої, маркетингової, інноваційної та інших видів стратегій. Фінансова стратегія охоплює всі напрями розвитку фінансової діяльності та фінансових відносин підприємства.

**Ключові слова:** фінансова стратегія, індекс, фінансова стабільність, стратегія, фінансова криза, банкрутство, COVID-19.

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## **ОТЕЧЕСТВЕННЫЙ ОПЫТ ПРЕДПРИЯТИЙ В РАЗРАБОТКЕ ФИНАНСОВОЙ СТРАТЕГИИ**

### **Резюме**

В статье рассматривается эффективность финансовой стратегии предприятия на примере отечественного предприятия. Современный этап экономического развития требует от компаний постоянного повышения эффективности и конкурентоспособности услуг за счет внедрения достижений научно-технического прогресса, передовых систем управления, использования инновационных методов завоевания рынка и сохранения своих позиций. Эффективным инструментом долгосрочного управления финансовой деятельностью предприятия с учетом целей его общего развития в условиях значительных изменений макроэкономических показателей, системы государственного регулирования рыночных процессов, состояния финансового рынка и связанной с ними неопределенности является финансовая стратегия. Эффективное управление финансовой устойчивостью позволяет компании адаптироваться к условиям окружающей среды и контролировать степень своей независимости от внешних источников финансирования.

**Ключевые слова:** финансовая стратегия, индекс, финансовая стабильность, стратегия, финансовый кризис, банкротство, COVID-19.

