

UDC 65.012.12 :657.62

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THE PROBLEM OF CHOOSING THE FINANCIAL STRATEGY OF INDUSTRIAL ENTERPRISE

ПРОБЛЕМА ВИБОРУ ФІНАНСОВОЇ СТРАТЕГІЇ ПРОМИСЛОВОГО ПІДПРИЄМСТВА

ANNOTATION

Scientific approaches to choosing financial strategy of the enterprise are formalized in the article. The main types of financial strategies of enterprises are classified. The methods of choice the financial strategy of enterprises has been improved on the results of diagnostic and depending on the stage of the life. The methods provide a recommendation type and priority directions of financial policy. Within the conducted research the approach to assess of sensitivity of financial strategy has been developed based on the integrated risk level of its implementation and set diagnosis.

Keywords: financial strategy, types of financial strategies, financial management, diagnostics of financial and economic activity.

АНОТАЦІЯ

У статті формалізовано наукові підходи до вибору фінансової стратегії підприємства. Проведено класифікацію основних видів фінансових стратегій підприємств. Удосконалено методику вибору фінансової стратегії підприємства за результатами діагностики і залежно від стадії його життєвого циклу. Методика передбачає рекомендацію типу і пріоритетних напрямків фінансової політики. В рамках проведеного дослідження розвинуто підхід до оцінки чутливості фінансової стратегії на основі інтегрального рівня ризику її реалізації і поставленого діагнозу.

Ключові слова: фінансова стратегія, види фінансових стратегій, фінансовий менеджмент, діагностика фінансово-господарської діяльності.

АННОТАЦИЯ

В статье формализованы научные подходы к выбору финансовой стратегии предприятия. Проведена классификация основных видов финансовых стратегий предприятий. Усовершенствована методика выбора финансовой стратегии предприятия по результатам диагностики и в зависимости от стадии его жизненного цикла. Методика предусматривает рекомендацию типа и приоритетных направлений финансовой политики. В рамках проведенного исследования развит подход к оценке чувствительности финансовой стратегии на основе интегрального уровня риска реализации и поставленного диагноза.

Ключевые слова: финансовая стратегия, виды финансовых стратегий, финансовый менеджмент, диагностика финансово-хозяйственной деятельности.

Problem setting. In the conditions of modern market economy instability traditional financial technology tools become less effective for ensuring the competitiveness of enterprises. Under such conditions, most industrial companies can not objectively evaluate their capabilities to form and grow strategic potential. Development of strategic plans for enterprises (the concept of strategic management) in the long term perspective is paramount. In a market of uncertainty, responsibility for the results of the company are displayed by financial terms, it is therefore particularly important development of financial strategy.

Recent research and publications' analysis. The analysis of approaches to the essence of financial strategy as part of the overall business strategy of native and foreign scientists as L. Alekseyenko, I. Ansoff, I. Blank, A. Bandurin G. Veretennikov, N. Gerashchenko, S. Evtukhov P. Drucker, L. Zhylyanska, D. Klidland, L. Kovalenko, H. Mintzberg, A. Poddyerohin, L. Remnova, E. Stoyanova, determines the strategy of financial and business management as reasonable direction that contributes to the general mission by development and use of financial resources. In other words, it is a functional area of the overall strategy, but also achieves a particular range of financial goals. This feature of financial strategy is generated by differences in strategic and financial goals of the enterprises and their simultaneous subordination.

However, despite numerous publications on the issue of financial strategy, remains inadequately explored the question of determining the necessity of application the results of diagnostics of financial and economic activity of Ukrainian industrial enterprises.

The goals of the article. The aim of the article is to improve the methods of choice the financial strategy of enterprises based on the results of diagnostic and the stage of the life cycle. The other aim of the article is to provide a recommendation type and priority directions of financial policy.

Key research findings. The results of the diagnosis are the starting point of the selection strategy of financial-economic of the enterprise that we offer to divide into five main types.

1. The strategy of financial resources forming – is chosen when a priority for the enterprise is the expanding the potential of financial-economic activity by placing their funds raised through the reasonable arrangement of own costs (investments), raised through the issue, loans, investments and the implementation of joint activities that takes different forms of horizontal, vertical and diagonal integration.

The strategy is appropriate to stage the origin and formation of the enterprise and other phases provided radical reorganization procedures, which are when there is an urgent need to create a strong base of financial resources.

The company can operate on the basis of: their own resources if their proportion is at least 75-80% (share capital, profit, cross-financing) – this option is generally marginally profitable and only available in highly specialized large undertakings operating in unstable markets; from attracted resources if their share exceeds 60% of the total resource base (association of financial resources for joint projects, bank loans, bond issues, issue shares to attract donor funds large enterprises-consumers within the vertical integration) – a option is rather risky, but it extends beyond profitability; mixed financing, when shares reached an approximate equality of own and attracted funds.

The strategy of financial resources determines:

- the purpose use of financial resources and capital;

- the optimum correlation between capital – fixed and working, own one and loan;

- the cost of borrowed resources available to the enterprise – short-term credits (credit lines, accounts derived from factoring); long-term credits (secured, including mortgage loans for a period of three to five years, bonds or debt obligations); order offering (partial accommodation offer for public sale, the correlation of ordinary and preferred shares);

- the measures of refinancing (long- and short-term refinancing, the acquisition of own shares, liquidation debts by selling shares);

- the ways of managing cash flow distribution and redistribution between units.

2. The strategy of financial support of rapid growth – implemented as a need to ensure high rates of operations, expansion of structure, the direction of investment for development. It is used in the rapid growth of production, favorable market conditions. The strategy requires:

- the maintenance of the effectiveness of implementation, provided by the effective control of operating expenses, the expedient development of price policy, the achievement of optimal taxation;

- the development investment of prior activities directions, achieved by effective politics of calculation and payment of dividends – the installation of dividend payments sizes (normal, increased, too low), the suspension of payment of dividends to direct resources for further development (share price is supported by the image of “prosperity”, allowing raise capital through the sale of common shares);

- the intensifying asset turnover by forming appropriate structure of property of the enterprise, accelerating of the turnover of individual elements of working capital;

- the use of all available financial resources, which are justified by the value of the effect of financial leverage.

3. The strategy of financial support of sustainable growth – is appropriate under conditions of moderate growth of operating activity and satisfactory level of financial security. The overall

objective of the strategy is balancing parameters of financial-economic activity of the enterprise with strategic environment factors by:

- optimization of capital structure – increasing the share of equity working capital, achieving consistency between amounts receivable and payable debts, the support of higher growth assets compared to the growth of long-term liabilities;

- optimization of operating costs (a current cost audit) and financial activity (control debt servicing costs);

- financing adequate level of production capacity by investing in the recovery of assets due to the depreciation fund and profit.

4. The strategy of achieving financial security – is beneficial for companies that lose their ability to self-finance economic activity and solvency level reaches a critical level. It is used in forecasting conditions of recession or adverse effects of environmental factors. The prior directions are:

- evasion or diversification of financial risks (due to insurance, distribution directions of capital investment, the formation of reserve funds, introduction of penalties, portfolio management of papers security, currency and deposit portfolios);

- restoration of long-term solvency by refinancing, control calculations, optimization of correlation the long - and short-term debt, minimizing payments from profit;

- formation of a rational structure of property, management of inventory holdings in particular, allowing to raise the asset turnover;

- maintaining gain by direction of financial resources to the development of advanced subsystems, reducing investment programs with long payback.

5. The anti-crisis strategy – used when the enterprise leaves or lose markets or individual segments that limit production capacity. Its goals are the diversifying of financial income sources, the financial support restructuring activities, the achievement curative ability of the enterprise, the minimizing of financial risks. Possible measures within this strategic direction are:

- elimination of insolvency (reduction of current liabilities, obtaining delays in payment, the realization of surplus stocks and property that are not used, sale or lease of low-profit enterprises, the elimination of short-term portfolio investments);

- curative treatments through the debt restructuring or reorganization of the entity;

- strict control of expenses for cost reduction, review pricing policies;

- accelerating asset turnover, accounts receivable due to a decrease terms of providing commercial and consumer borrowings, stocks of inventory – by minimizing insurance and seasonal inventory, cash and papers security – by implementing highly liquid financial instruments and stock portfolio of long-term investments.

The approach to the classification strategy differs from the definition of dominant trends of financial-economic activity, formulated I. Blank in the fundamental work "The financial strategy of the company" [1, p. 33]: the strategy of financial resources forming, the investment strategy, the ensuring financial security strategy for improving the quality of financial management enterprise. This difference is conditioned by the peculiarities of the selection methods and strategies and more conformity of stages organization development. Methods of diagnostics of financial-economic activity have been taken as a basis for the selection matrix strategies.

Strategic directions of financial-economic activity, selected on the basis of diagnosis, determine priority areas for management attention that correspond to the stage of the company's development. We remark that the methods provide a list of typical strategies measures that should be added in real situations.

The whole set of management measures can be divided into directions of financial policy implementation:

- the investment policy – a set of measures and projects for investment in new assets;
- the capital structure policy – coordinated system solutions that are aimed at changing the correlation of own and borrowed long, short sources of capital forming;
- the dividend policy – the system management measures benefits for the owners of the share capital;
- the working capital management policy – a coordinated set of decisions regarding restoration or liquidity support in accordance with the objectives of operating activity.

It is clear that the only type of financial-economic strategy of enterprise does not provide the same set of management measures – they should be developed individually based on the diagnosis of the options for each situation, with obligatory consideration of opportunities and threats of the

environment.

The use of diagnostic results, which has a promising direction, will avoid a main drawback of basic management of most modern enterprises, including financial-economic activity – namely, the absence of strategic guidelines of their development. Such short-sightedness partly generated by incompetent managers, who firstly are concerned with operative response to unexpected market changes and instability legislation. On the other hand, historically constituted a mental trait induces to it – the excessive caution in making long-term plans.

Obviously, the strategy of Ukrainian industrial enterprise may not be as far-sighted as the industry of foreign countries, whose economy is characterized by stable development and strategic planning period, which is 10-15 years. However, this is only reason to make it as flexible as possible, and not to cancel at all.

The management of most home enterprises has not realized yet the need for allocation of a separate department that would take care of tasks like strategic management. And while the scope of management of financial-economic activity is limited to accounting, planning department and, and at the best way, the internal audit department. Inside audit – is one of the most effective methods of everybody participation in the management and identifying opportunities for improvement.

It should be also emphasized that the ability to think strategically requires not only knowledge and skills but also considerable creative competencies of searching new forms and directions of effective implementation of financial-economic activity, the increasing professional level, the ability to self-education.

In addition, the level of power does not always mean the great interest of key enterprises' groups in the process formation of strategic alternatives.

Therefore, one should take into account not only the interest of the owners, but the state, creditors, top management of enterprise in influ-

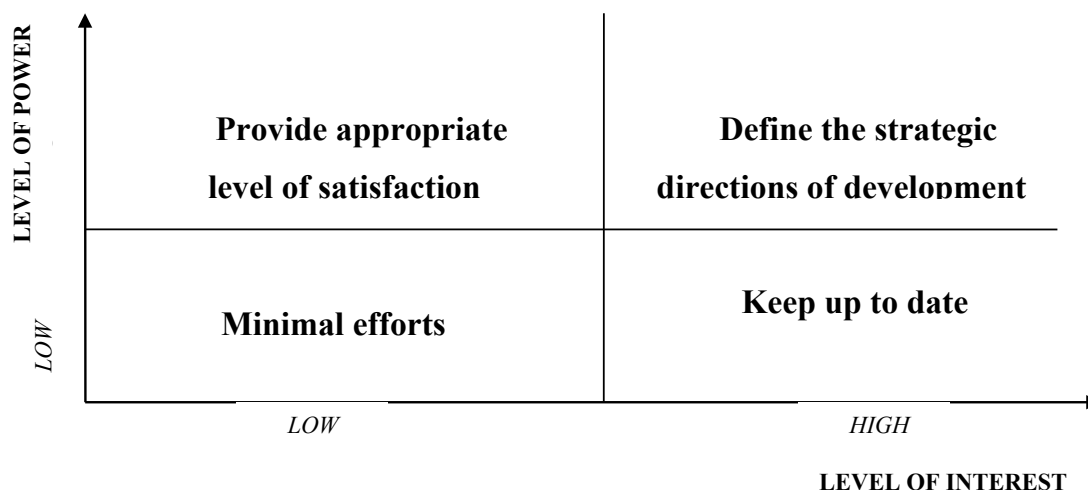


Fig. 1. The matrix of interest ratio of power and key enterprise groups [2, p. 15]

encing the selection of strategy and evaluating the ability of making this impact – the sufficiency of power (Fig. 1).

As we have proved above the goal of organization should be present as hierarchical goals' subordination, where each of them is an integral part of the system and serves the achievement of the main strategy goal of financial-economic activity, namely – the welfare of capital owners. The ways of its implementation for an individual enterprise make up a list of alternative strategy variants (portfolio strategies). The formation of strategic set allows increasing the flexibility and adequacy of management to environmental conditions' changes.

Among the choice of set options strategies of financial-economic activity we propose to carry into practice on the basis of diagnosis of the situation that display the possibilities of realization of any variant. We also propose to carry into practice the assessment of sensitivity according to the given diagnosis. Matrix approach allows optimizing the choice of strategy towards the most appropriate alternative risk by limiting its implementation. Depending on the area of risk the strategy takes the following characteristics types: optimal, possible, allowable and such that one should refuse from it.

The catastrophic level of risk should be considered when an enterprise risks losing more than 80% of capital at its disposal. Critical one should assess the risk of losing more than 40% of invested capital. It is also worth noting that the title of "free zone" – is conditional, because there are no operations with zero risk in market conditions. The strategy is optimal when the initial favorable conditions for its implementation the enterprise does not risk more than 30% of the capital.

The effective risk management also predicts its limiting levels for each uninsured financial transaction or type of business – loss of size in which management rejects a decision [3].

Of course, a considerable influence has predisposition of owners (managers) to risk, which determines the type of financial policy – aggressive, moderate or conservative (tab. 1).

Conservative financial policy, although it is the safest at first sight, but incomplete use of potential, resistance to innovations could significantly harm the competitiveness of enterprise, that's why the strategic management of financial-economic activity should not seek to min-

imize the risk, but rather to optimize its level and ensure the efficiency of strategy. The task of management is the identification, risk assessment and the selection of those who should adopt and develop protective measures against the consequences of their actions.

Choosing the type of financial policy allows vary within portfolio of strategies according to the strategic position of the enterprise, the correlation of possible threats. The meaning of alternative as the definite characteristic of strategic management of financial-economic activity determines the actuality of developing an exhaustive list of options strategies [4, p. 40].

The quality of the chosen strategy indicates the level of achievement of its objectives:

- the forming and efficient use of financial resources;
- the identifying of the most promising directions of investment and concentration of financial resources around them;
- the compliance management capabilities and state of the enterprise;
- the adoption of a certain range of risks and focus on their avoiding or minimizing;
- the creation and maintenance of strategic reserves;
- the creating of hierarchical structure of objectives and their phase in implementation [5, p. 128].

Consequently, in quantitative terms, the effectiveness of the chosen strategy is determined by the productivity of its implementation activities. To monitor the effectiveness of the implementation of planned activities one can use a system of targeted capacity assessment of the enterprise that allows matching the level of achievement of strategic objectives according to the output potential implementation of the strategy. It is reasonable to put into practice such an assessment in every direction of financial policy. Firstly, they determine the system of targets; they form the regulatory structure in accordance with the options of the development of the situation. Comparing the norms of actual data will identify the factors braking strategy implementation and time to discharge them. The dynamic assessment of the effectiveness of the strategy gives the use of not the indicators, but the rate of their growth.

Conclusions. The results of diagnostics of financial-economic activity facilitate the assessment of effectiveness: firstly, the diagnosis

Characteristics of the Types of Financial Enterprise Policy

Table 1

Basic characteristics	The type of financial enterprise policy		
	Aggressive	Moderate	Conservative
Focus on results of financial activity	the highest possible	the industry average level	low constant effectiveness
Measure to risk	risk is not taken into account	avoiding of excessive risk	minimizing risk
The expected growth rate	intensive growth	moderate growth	stability

evaluates the output potential of implementation strategy, secondly, the standards indicators form the target structure of the potential, and thirdly, indicators of diagnosis are the “control points” in the process of monitoring implementation of the strategy. So, we can confirm about the important role of diagnosis in the assessment of development alternatives of industrial enterprises of Ukraine.

Economic-organizational preconditions that facilitate the optimization of industrial development strategies are:

- the clear formulation and argumentation of general corporate mission according to the prior directions of activity and development;
- the achievement of satisfactory balance structure and sufficient financial stability (solvency);
- the creation of opportunities for strategic development of goods production by attracting investment.

It is necessary to pay the prior attention to these preconditions in the implementation of state policy, the assistance for home industrial output of the critical state in which they are.

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