



**Indicators of financial
security of small and
medium enterprises**



INDICATORS OF FINANCIAL SECURITY OF SMALL AND MEDIUM ENTERPRISES INDICADORES DE SEGURIDAD FINANCIERA DE PEQUEÑAS Y MEDIANAS EMPRESAS

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Abstract

This article reveals the importance of the financial security of an enterprise. At the same time, the authors consider the financial stability of small and medium-sized enterprises as an integral part of the economic security of an economic entity. The development and functioning of the financial security system should be carried out in accordance with the legislative framework of the Russian Federation in the field of business, informatization and information protection, private security activities and other safety regulations. The article discusses the methodology for monitoring the financial security of an enterprise in the form of several stages. The objects of financial security control are determined, which may be: assets (property), information, personnel, information resources (databases) and the company's reputation. It is indicated that the financial security control centres of the company can be such significant management and external control subsystems as the human resources department, top management, internal control or internal audit service, external controllers represented by audit organizations, representatives of counterparties, tax authorities, and international organizations. To reduce the financial security risks for the selected control centers, the authors suggest using certain recommendations. As a result, the company's financial security indicators are systematized, distributed among control centres. It is specified that the express analysis of the financial security of the enterprise must be carried out on the basis of financial and managerial accounting.

Keywords: financial stability; financial security of the enterprise; financial security indicators; objects of financial security control.

Este artículo revela la importancia de la seguridad financiera de una empresa. Al mismo tiempo, los autores consideran la estabilidad financiera de las pequeñas y medianas empresas como una parte integral de la seguridad económica de una entidad económica. El desarrollo y funcionamiento del sistema de seguridad financiera debe llevarse a cabo de conformidad con el marco legislativo de la Federación de Rusia en el ámbito de los negocios, la información y la protección de la información, las actividades de seguridad privada y otras normas de seguridad. El artículo analiza la metodología para monitorear la seguridad financiera de una empresa en varias etapas. Se determinan los objetos del control de seguridad financiera, que pueden ser: activos (propiedad), información, personal, recursos de información (bases de datos) y la reputación de la empresa. Se indica que los centros de control de seguridad financiera de la empresa pueden ser subsistemas de gestión y control externo tan importantes como el departamento de recursos humanos, la alta dirección, el control interno o el servicio de auditoría interna, los controladores externos representados por organizaciones de auditoría, representantes de contrapartes, autoridades fiscales y organizaciones internacionales. Para reducir los riesgos de seguridad financiera para los centros de control seleccionados, los autores sugieren utilizar ciertas recomendaciones. Como resultado, los indicadores de seguridad financiera de la empresa se sistematizan y se distribuyen entre los centros de control. Se especifica que el análisis expreso de la seguridad financiera de la empresa debe realizarse sobre la base de la contabilidad financiera y administrativa.

Palabras clave: estabilidad financiera; seguridad financiera de la empresa; indicadores de seguridad financiera; objetos de control de seguridad financiera.



Introduction

The problems of ensuring the financial security of the company are associated with growing instability in the economy due to the financial crisis, with fluctuations in oil prices and subsequent political decisions and economic sanctions, which ultimately leads to increased financial risks for all enterprises. Financial stability is an indicator of the financial security of the company, as it reflects the effectiveness of financial management within the company, shows how stable the company can develop in conditions of high micro and macro risks. This is especially true for small and medium-sized businesses, which is one of the most important subsystems of a market economy.

Small and medium-sized businesses can create tax revenues to budgets of all levels, employment, contributes to the development of innovative technologies, competitive markets, helps create jobs with low capital costs, etc. Therefore, Russia pursues an active state policy to support the development of small and medium-sized enterprises, its sustainable growth, business incubators are opened, subsidies and grants are allocated, business training is provided, soft loans are granted, admission to participation in exhibitions and fairs is granted free of charge, free consultations are organized (Oveisi et al., 2018a; Agara, 2017). "The needs and expectations of consumers are constantly changing due to business development, the impact of competition and technological development" (Chernikova et al., 2015). Therefore, organizations must constantly improve their products and processes. The manufacturer of the goods must take into account the wishes and requirements of consumers because otherwise the goods will not be sold, since the buyer does not buy just the goods, but some benefit (Safargaliev & Komarova, 2013).

At the same time, small and medium-sized businesses are subject to many financial problems due to the low level of their financial resources, unlike large businesses. Large business structures have the potential to create special units to ensure their financial security, as have the tools and potential to create the financial stability of the business entity. Small and medium-sized businesses as a whole often lack even an understanding of the category of "financial security" of an enterprise.

Of great importance for the issue of managing the financial stability of enterprises are the works of such foreign researchers as: L. Bernstein, R. Braille, S. Myers, P. Milgrom (Peter, 1998; Graeber, 2014; Heilbroner, 2011; Penman & Penman, 2007; Marc, 2018). Among domestic scientists, we distinguish the works of A. Bobylev, V. Kovalev, M. Melnik, V. Nechaev, and others, devoted to various aspects of the analysis and management of financial stability of economic entities. An analysis of the literature shows that at present in domestic practice there is no universally accepted definition of "enterprise security" (Kravchuk & Ushakov, 2017). It is believed that the content of such a category as "economic security" is constantly replenished and develops depending on changes in society, this is a complex and dynamic category (Zagarskih, 2015).

Financial security in the economic literature is understood as stable security of production and financial activities from real and potential external and internal threats, ensuring the sustainability of its development in the current period and in the future (Zaporozhtseva & Ryabykh, 2013). The financial security of an enterprise is a comprehensive concept that reflects a state of finance in which the enterprise is able to develop stably while maintaining its financial security under conditions of an additional level of risk (Grigoryeva, 2015; de Almeida Cruz & de Azevedo Silva, 2017). Thus, we can



conclude that financial stability is an integral part of the economic security of an economic entity (Zotova, 2017).

Methods

In the course of studying the issues of financial security of small and medium-sized enterprises, such research methods as analysis of regulatory documents, content analysis of documents and databases, desk research on the analysis of secondary sources of information were used.

Thus, the conducted research reflects the author's concept, in which various ideas, positions, proposals, representing a fairly wide range of opinions and opinions on this issue, are embodied to one degree or another.

The article discusses the methodology for monitoring the financial security of an enterprise in the form of several stages.

1. Identification of financial security risks;
2. Determination of control areas;
3. Development of financial and economic indicators and criteria for monitoring financial security;
4. Determination of information and analytical base for analysis and control of financial security.

The first stage begins directly with the procedure for identifying risks and determining areas of financial security control.

External threats to the company are caused by geopolitical relations associated with relations between states, for example: the imposition of sanctions on certain goods and, accordingly, the restriction of activities; the instability of the domestic currency; monetary defaults and a sharp increase in inflation; a change in the regulatory framework; increase in interest rates on loans; unfair competition and fraud; high level of economic crime.

Internal threats for the business are caused by the unconscientious work of personnel, by the low level of its qualification and by the low quality of work; by corporate swindle; by insufficient control from the side of management; by the obsolete technical base, by interference of equipment; by the low level of the liquidity of active memberships; by the leakage of information, by a drop in the reputation of company; by the absence of the plans development, ineffective by the policy the company and by the unjustified administrative solutions.

For providing of financial safety of company it is necessary to build the system of internal check in terms of the centres of responsibility, for which it is necessary for accordance with the specific character of business to determine the directions of control, subjects of control, the system of the financial and economic the parameters and the criteria for the monitoring financial safety, end also information-analytical base for the control, the methods of the development of the risks of financial safety, the principles of its guarantee.



Results And Discussion

In the opinion the authors, as the objects of the control of financial safety they can appear:

- active memberships (property);
- information;
- personnel;
- information resources (databases);
- the reputation of the company.

It is indicated that the financial security control centres of the company can be such significant management and external control subsystems as the human resources department, top management, internal control or internal audit service, external controllers represented by audit organizations, representatives of counterparties, tax authorities, and international organizations. To reduce the financial security risks for the selected control centres, the authors suggest using certain recommendations.

- 1) advanced training of accounting and financial and economic personnel;
- 2) advanced training and skills of senior management of the company;
- 3) continuous monitoring, analysis and assessment of the financial security of the company, continuous and mandatory legal support;
- 4) increasing the effectiveness of the internal control system (double control, increased attention to atypical operations, the presence of internal audit, conducting annual initiative audits) - partially carried out at the enterprise;
- 5) compliance with strict cash, tax, and payment discipline;
- 6) control of sales, marketing, personnel policies, and staff;
- 7) improving the security of internal information systems.

The financial security of the company is determined by the level of maintaining the stability of the state and financial stability of the company, the adequacy of funds for operating, financial and investment activities, the balance of cash flows, sufficient independence from counterparties and business partners.

To control the level of financial security, certain requirements must be observed, such as:

- the measurability of financial security parameters (the availability of qualitative and quantitative indicators);
- the presence of threshold values by which one can judge the degree of financial security of a business.

In addition, the control of the financial security of the company should ensure the development of its integrated potential, cost growth, financial stability in the long and short term. As a result, the company's financial security indicators are systematized, distributed among control centres.



Table 1. Distribution of financial security indicators

Control centers of financial safety	Indicator	Economic characteristic
1	2	3
Property (assets) of the company	Index of current liquidity	Shows the company ability to fulfill current liabilities through liquid assets. In the process of identifying fraud, the current liquidity Index can be an indicator of manipulation in accounting. A waste will lead to a decrease in this Index; concealment of obligations will give it a higher value.
	Index of the short term liquidity.	Shows the company ability to meet unexpected cash needs, may be an indicator of fraud. For example, in a situation of a significant change in the indicator, you can consider cases of fraudulent billing of buyers, which contributed to an increase in sales for the year. The coefficient value will be unusually high: the liabilities will not reflect balancing short-term liabilities.
	Accounts receivable turnover.	Shows how many times accounts receivable are wrapped during the reporting period. In other words, it indirectly characterizes the time between the proceeds and the receivables for accounting and receipt of funds in payment. If the fact of fraud consists of recording fictitious sales, money on them will never be received. As a result, receivables turnover will decrease.
	Inventory turnover.	This Index is a good characteristic of the effectiveness of procurement, production, and sales. For example, if the cost of sales increased due to the theft of inventory (inventory at the end of the period decreased, but this was not due to their sale), then this ratio will be higher than usual.
	Average period. Inventory turnover.	An increase in the number of days when stocks remain in stock (a decrease in turnover) causes additional costs, including storage costs, the risk of obsolescence of stocks, lower market prices, as well as interest and other costs arising from the freezing of funds in stocks. Inconsistencies and significant fluctuations in this ratio may indicate the presence of signs of possible fraud. You can use this coefficient when studying inventory accounts to identify possible theft. This ratio can be affected by fraudulent schemes with the purchase and receipt of inventories, false posting to increase the cost of sales will cause an increase in this ratio. Significant changes in inventory turnover - a signal of possible fraud with inventories.
Company staff.	Index of staff turnover.	Extreme instability of the staff may indicate the presence of financial problems in the company and indirectly the presence of signs of possible fraud.
Reputation	Complaints Cost PRODUCTS	Increase in other expenses due to economic sanctions, supply disruptions, increased product returns, which may be signs of ill-being, decrease in financial stability, financial irregularities
Financial risks	Index of financial leverage	Shows the balance of resources provided by creditors and resources provided by owners; it is essential for the analysis of the financial position of the company. Maintaining a certain ratio of borrowed funds and equity is often included as a condition in loan agreements. Unexpected changes in this ratio may indicate financial irregularities.
	Index of profitability sales.	The ratio of net profit to sales revenue reflects not only changes in gross profit margins but also changes in trade and administrative expenses. When fraud occurs, artificially inflated sales will not be followed by an increase in the cost of sales, net profits will be overestimated and profit margins will be unusually high. Fictitious expenses and fraudulent payments will lead to an increase in expenses and a decrease in profitability.

An express analysis of the financial security of an enterprise must be carried out on the basis of financial and managerial accounting data, "in order not only to determine the position of the organization, but also to evaluate the effectiveness of management in ensuring its financial stability" (Safargaliev & Kozhevnikova, 2017; Sazesh & Siadat, 2018).



Summary

The organization and functioning of the internal financial security control system should be based on the principles of comprehensiveness, timeliness, continuity, legality and accounting for the industry specialization of the business.

The principle of comprehensiveness is to ensure the safety of personnel, property (assets) of the company, information databases and the confidentiality of information from all types of threats in accessible ways. This is achieved by a personnel policy for the selection of personnel, the use of technical means of security and information protection, developed by information and analytical activities aimed at preventing potential risks of financial security of the company (Aetdinova & Nikolaeva, 2017; Oveisi et al., 2018b).

The principles of timeliness and continuity presuppose the existence of a system of constant monitoring, prevention, and warning of the current and future state of the company, which is ensured by the constant analysis and forecasting of threats to the company's security, as well as the development of effective protection measures.

Conclusions

The development and functioning of the financial security system should be carried out in accordance with the legislative framework of the Russian Federation in the field of business, informatization and information protection, private security activities and other safety regulations.

Monitoring the financial security of the enterprise in the four stages presented is available for any business entity, regardless of scale and type of activity. Moreover, it does not require large financial investments, which is especially important in conditions of a low level of provision of small and medium-sized businesses with their own financial resources, a high level of competition and unpredictability. A small enterprise cannot always invite the appropriate specialist of the necessary qualifications to work, and the culture of attracting external consultants or outsourcers is still poorly developed. Often, the manager himself deals with the financial security of the enterprise. However, the universality of the proposed methodology of financial security allows you to organize work in this area to a specialist who does not have extensive experience.

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