

ACTING ON THE FINANCIAL SUSTAINABILITY OF THE ENTERPRISE INTERNAL AND EXTERNAL FACTORS IN THE COVID-19 PANDEMIC

Mariam Zubiashvili

Doctor of Economics, Professor

Nino Mghvdeladze

PhD Student, Georgian Technical University

Abstract

The article addresses some of the issues of ensuring the financial sustainability of industrial enterprises. As it is known, the development of market relations in the country has led to an increase in the financial role of enterprises. The condition of the financial resources of the enterprise is an important factor that determines the results of its activities. The study of the issue assured us that the results of economic activities in the industrial enterprises of Georgia are unfavorable, many enterprises have ended their activities with negative financial results. Therefore, the main goal is to form the right approaches to financial management by enterprises.

In order for an enterprise to develop in a market economy and to prevent its bankruptcy, knowledge of financial management is required, it is necessary to identify all the factors affecting the activity of the enterprise. Both internal and external factors must be identified.

“SWOT“ analysis and „PEST“ analysis are actively used to assess the market situation of the enterprise. The results of the analysis conducted by the given methods can reveal the significant problems related to the financial policy and strategy of a particular company.

Key words: industrial enterprise, sustainability, financial resources, management, market analysis.

1. Introduction

Covid-19 pandemic changed many industrial enterprises usual working rhythm, because of this, employers were forced to find those ways, which they could use to operatively reply to this challenge.

Changes, which were provoked by Covid-19 pandemic cause serious operational, social and financial negative results in industrial enterprises. This forces employers to look at the organizing risks and working methods in the new conditions. At the same time, it is necessary for them to be maximally oriented toward the business of the future, for which new technological solutions are needed. This kind of strategy not only upgrades business steadiness, defenses production and secures workers during crisis, also it will keep specific superiority, which will increase business, when economy will rise.

2. Presentation of the main research material

In this kind of extraordinary situation, it is specifically important to keep financial steadiness. Financial steadiness of enterprise may be absolutely stable, normally stable, unstable and critical [1]. The ability of

enterprise, realize payments in time, finance its own business, confirms its good (steady) financial status. To keep existing financial status during pandemic and not to allow it to bankrupt, it is necessary to know financial management and capital structure, with its composition and forming sources, which part is its own resource and which is hauled.

Thus, financial sustainability manifests a steady surplus at the expense of revenue and a state of resources that ensures that the organization is free to maneuver in cash and facilitates the smooth process of production and sale, expansion and renewal through their efficient use. It represents capital structure. Also, it represents current, investment and financial capital formation speed of the organization, mobile and immobilized resource accordance of the organization and enough reserve ensuring of its own resources.

Financial statement estimation methodology and ensuring activities of organisation is described in Georgian and foreign economic literature [1,2,3,4], although not all of activities are acceptable to the concrete enterprise. It is noteworthy that too many indicators are proposed for financial sustainability analysis, some of which duplicate each other, which may even lead to uncertainty.

Let's analyze the financial sustainability on the example of JSC „Georgian Beer Company“. Table 1 shows the main indicators of the financial result of the society's activities.

Table 1. The main indicators of JSC „Georgian Beer Company“ 2018-2019 years

| Indicators | 2018 | 2019 | Absolute change | Increase (decrease) rate% |
|------------------------|--------|---------|-----------------|---------------------------|
| Profit from sales | 38,106 | 35,417 | -8,689 | -7,1 |
| Net profit | 7,375 | (3,712) | - | - |
| Profitability of sales | 0,43 | 0,42 | -0,01 | 0,98 |

Source. Company Accounting

Based on the analysis of the main indicators of the activity of JSC „Georgian Beer Company“, it can be said that the profit from sales in 2019 decreased by 7.1 percentage points compared to the previous 2018, which is equivalent to GEL 8,689 thousand in absolute terms, sales profitability decreased by 2%. We think this confirms the decline in the financial sustainability of the company.

The analysis of the financial sustainability of an enterprise is traditionally conducted on the basis of estimates of absolute and relative ratios. The source of information for analysis is the financial statements of the public.

The analysis of the absolute indicators of JSC „Georgian Beer Company“ to find out the type of financial sustainability is presented in Table 2, which shows that in 2019 the company's own working capital decreased by 19.5 percentage points compared to the previous 2018, which was expressed in absolute terms by 4.529 thousand GEL. Somehow, this is due to the decrease in sales profit in the mentioned analytical

period, which is related to the decrease in sales profits in 2019 compared to the previous year by 4,033 thousand GEL.

Table 2. Absolute indicators of financial sustainability of JSC „Georgian Beer Company“

| Indicators | 2018 | 2019 | Absolute Change | Change rate, % |
|----------------------------------|--------|----------|-----------------|----------------|
| Own working capital | 23,324 | 18,795 | -4,529 | -19,5 |
| Reserves | 17,808 | 16,126 | -1,682 | -9,5 |
| Type of financial sustainability | | unstable | | |

Source. Company Accounting.

Ratios of financial sustainability characterize the structure of the assets of the organization and their condition, the sources of their coverage (liabilities), as well as the effectiveness of their use [5]. The analysis of the financial sustainability ratios of the organization is presented in Table 3.

JSC „Georgian Beer Company“ does not have the opportunity to replenish working capital with its own sources. The equity maneuver ratio is significantly below the norm, it is half of the lower level. During the reporting period, borrowed sources exceed the lower limit of their own source, while the upper limit lags behind by only 0.01 percentage points. Thus, the financial sustainability of the enterprise is reduced.

The financial sustainability of a research company can be enhanced by making a net profit and increasing it, the magnitude of which is affected by the profit from sales. An increase in net profit will increase its own working capital, and consequently increase the financial sustainability of the company. Sales profits can be increased by increasing sales profits and reducing company costs.

Table 3. Analysis of financial sustainability ratios of JSC “Georgian Beer Company”

| Indicators | 2018 | 2019 | Recommended values |
|---|------|------|--------------------|
| Autonomy coefficient | 0,5 | 0,48 | >0,5 |
| Share of the borrowed funds | 0,52 | 0,49 | 0,4 – 0,5 |
| Conformity ratio of borrowed and its own assets | 0,81 | 0,86 | 0,8 – 1,0 |
| Investment repayment ratio | 0,8 | 0,8 | 0,6 – 0,8 |

| | | | |
|---------------------------|------|-----|------------|
| Equity Maneuver Ratio | 0,34 | 0,3 | 0,6 – 0,8 |
| Own funds provision ratio | 0,57 | 0,4 | >0,1 |
| Stock supply ratio | 0,3 | 0,3 | >0,5 – 0,8 |

The management of JSC „Georgian Beer Company“ is interested in periodically conducting a solvency analysis in order to identify and eliminate the negative effects on the financial activities of the enterprise, which today is one of the common economic problems. Consequently, the low level of financial stability confirms the lack of funds for the enterprise to renew its current activities and the inability to settle with creditors, which may lead to bankruptcy. At the same time, high levels of financial sustainability can mean inefficient management.

Given the above, defining the limits of financial sustainability is a very important economic task. In order to determine the level of financial sustainability, it is necessary to identify the factors affecting it. All the factors that affect the activity of the enterprise can be divided into two groups:

1. Internal factors;
2. External factors.

The first group of factors includes factors directly related to the technological process of production.

Consider the essence of the internal factors that affect the financial sustainability of enterprises:

1. Material-technical factors contribute to the timely discovery of new opportunities for the modernization of production technology and the sale of products;
2. Labor factors are determined taking into account the personal qualities and individual characteristics of the person in accordance with the position held by the staff;
3. Financial factors. The financial viability of the enterprise depends on the asset management organization. On how much the fixed asset is activated, what size it is and what kind of supplies it is.

External factors affecting the financial sustainability of the enterprise include:

- Economic factors. The ability of an organization to make a profit is primarily influenced by the economic situation of the country as a whole. A slowdown in economic growth will have a negative impact on enterprises producing goods and services, while an increase in its pace will positively change the situation. When analyzing external situations, a particular enterprise should assess the following economic indicators: interest rate on credit, exchange rate, inflation rate, etc.
- Political factors. This group includes various factors of legislative and state nature that can influence the activities of the organization. In the first league, these are changes in tax legislation, antitrust legislation; Monetary policy; Elections held at all levels of state government; Government relations with foreign countries, etc.
- Technological factors. To this group belong the discoveries of the last decade and the revolutionary

technological changes, for example, the replacement of human labor with machines; transport, communications and others.

- Sociocultural factors shape the modern human lifestyle, work style and demand, and in practice have a significant impact on the company. Modern trends determine the type of customer, as well as motivate the population to demand new goods and services.

After receiving a fairly extensive information about the internal and external sphere, it is possible to synthesize it by the method of creating a scenario.

Scenario – a description of all possible options for the development of the research object under the given conditions. This method may reveal the most important factors in the internal and external sphere, which must be taken into account by the company.

The most common methods for assessing the market position of an enterprise are:

- SWOT analysis
- PEST analysis

The essence of the first method is to identify the strengths and weaknesses in the future activities of the organization (internal factors) considering the capabilities and threats of the organization (external factors), with the help of building a SWOT matrix.

The essence of the second method lies in identifying the political and economic, social and technical factors of the external sphere that influence the strategic development of the organization. This method is usually used to conduct a more detailed study of an organization's internal scope after conducting a SWOT analysis.

The main difference between the above methods is that with PEST analysis it is possible to study the whole market, at the same time SWOT analysis examines the state of the enterprise in the market conditions, the idea and concept of this or that product.

3. Conclusion

The results of the analysis conducted by both methods can reveal the important problems related to the company's financial policy and strategy. These methods are aimed at increasing competitiveness, attracting new partners, increasing the use of labor resources and improving the material and technical base.

Thus, conducting a financial sustainability analysis of an organization is quite a time-consuming process, as the financial sustainability analysis is conducted in a functioning enterprise, and consequently it is subject to constant changes, both externally and internally.

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