

## The Strategy of Economic Security of Commercial Organizations

A.V. Agibalov, L.A. Zaporozhtseva and Y.V. Tkacheva  
Emperor Peter I Voronezh State Agrarian University, Michurin Str. 1, Voronezh, Russia

**Abstract:** The study investigates the mechanism of practical realization of the strategy of ensuring the economic security of organizations. The researchers relying on the study of approaches to the definition of strategy come to the conclusion about the importance of economic security for its realization which allows to identify its qualitative and quantitative content. Based on the assessment of management system, tracking control points of financial security of the company and trustworthiness of counteragents for a priori localization of crisis processes, the strategic effect of permanent development of commercial organizations is reached.

**Key words:** Economic security of enterprises, the strategy of organizations, the level of development of personnel, trustworthiness of counteragents, the financial security of enterprises, the types of strategic perspectives

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### INTRODUCTION

Despite the frequent use in practice from the theoretical positions, the notion “strategy” is the subject of academic arguments of scientists from all the world. Akmaeva (2006) terms strategy as a concretized long-dated plan for achievement of long-range aim. She believes this plan to be based on the condition that all the changes in the environment are predictable, deterministic and amenable to complete control and management, that is subjective in its nature. Ansoff considers strategy only as one of several potentially possible sets of decision rules in relation to behavior of the organization. Chandler (1962) describes it as a method of establishing long-term objectives of the organization as well as the action program and the priority areas for the allocation of resources in the structure of its activities holds the same opinion Klainer (2003). He understands the strategy as a set of interrelated decisions that determine the priorities of investment of resources and efforts of the enterprise for the realization of its mission. Mintsberg *et al.* (2001) treats strategy as a plan, a kind of consciously and deliberately elaborated sequence of actions. Tompson (2007) define it as a set of actions and approaches to achieve the goals of actions.

From an economic point of view, this plan implies long-ranged, most fundamental, important directives, intentions of management of enterprises in terms of production, income and expenditure, budget, taxes, investments, prices and other economic parameters of development (Petrov, 2008). The variability of external and internal environment, the existence of life cycles of products, the competitive advantages of the very

enterprises lead to the fact that the strategic component of the effective functioning of the companies is economic security.

Thus, we conclude that the strategy for economic security as a part of integrated enterprise strategy (Andreeva, 2010) is a set of interrelated decisions aimed at ensuring the long-term period of permanent sustainable development (Peshkova, 2010) of the enterprise despite the cyclical laws of its functioning (Frolova, 2009) on the basis of an effective structured mechanism to protect from the real and potential threats. Only in the system of economic security the preserve and increase of such corporate values as invested cost, capital, financial and organizational architecture with the most efficient expenditure of financial resources are possible.

### MATERIALS AND METHODS

**Formation of determinants of economic security and methods of their estimation:** The studies of different approaches to the formation and assessment of economic security, the theory of life cycles and the methods of financial analysis of corporations led to the conclusion that from a practical point of view, the strategy of economic security is realized by harmonizing the three determinants; financial security, level of development of management personnel and degree of trustworthiness of the company contractors.

Financial security of enterprise is a stable protectability of production and financial activities from real and potential external and internal threats, providing sustainable development in the current period and for future, based on a commercial assessment of organization. In estimating financial security, important are both the

Table 1: Points of reference of financial security of the enterprise

Indicators	Criteria of estimation	Calculation methodology
Current liquidity ratio	$>1$	Circulating funds/short-term obligations
Equity ratio	$\geq 0.5$	Owned capital/balance sheet total
Financial leverage	$\leq 1$	Borrowed capital/owned capital
Return on average assets	$>$ inflation index	Nett profit/total assets $\times 100$
Net profitability of equity	$>$ return on assets	Nett profit/owned capital $\times 100$
The level of investment of amortization	$>1$	The ratio of gross investments to amortization allowances
Profit growth rate	$>$ rate of growth of income	Nett profit as of the end of the period/nett profit as of the beginning of the period
Income growth rate	$>$ rate of asset growth	Ending income/opening income
Asset growth rate	$>1$	Closing stocks/opening stocks
Receivable turnover	$>12$	Incomes (nett)/average annual amount of accounts receivable
Creditors turnover	$>$ receivables turnover	Cost of products sold/average annual amount of accounts payable
Account balance	$>1$	Physical availability of account balance/(Annual wages with taxes 30/360)
Weighted Average Capital Cost (WACC) (1-Profit tax rate)	$<$ return on average assets	Equity cost of capital $\times$ Equity ratio+cost of borrowed capital $\times$ Equity to debt ratio
Economic Value Added (EVA)	$>0$	Net operating profit after tax over a period-Opening net assets $\times$ Weighted average capital cost

	- I1;		- I2;		- I3;
	- I4;		- I5;		- I6.

Where the areas of integral estimation are presented by blocks

Indicators	Fixed assets	Operating assets	Accounts receivable	Funds	Owned capital	Owned circulating capital	Long-term liabilities	Current liabilities	Account payable	Cost of sales	Proceeds from sales	Profit on sales	Net profit
Fixed assets													
Operating assets													
Accounts receivable													
Funds													
Owned capital													
Owned circulating capital													
Long-term liabilities													
Current liabilities													
Account payable													
Cost of sales													
Proceeds from sales													
Profit on sales													

Fig. 1: "Input-output" matrix of trustworthiness of the counteragent

very indicators and their threshold values (limit values, failure to comply with which leads to the formation of negative, destructive tendencies with respect to the financial security-financial "danger").

We set secure (presented in the Table 1) and dangerous value (realized when non-complying with the above criteria) to every indicator. The system of quantifying the indicators of reference points allows to signal in advance of the threat and to take preventive measures. It is important to emphasize that the highest degree of security is achieved provided that the full range of indicators is within the permissible limits of their threshold values and the threshold values of one indicator is achieved not detriment of others.

We think that to determine financial security of enterprise is possible on the basis of estimates of the number of identified threats or "dangers" with qualitative expression of high or low levels. "High" level of financial

security of the enterprise is established if the number of the revealed dangerous "control points" amounts to one or two which is below of the threshold level of 15% or the absence of financial dangers is identified.

"Low" level of financial security of the enterprise takes place if the number of dangerous "control point" exceeds the threshold level of 15% or equal to 3 or more. Trustworthiness of the counteragent is the degree of trust in the partner, based on the assessment of the dynamics of indicators of its production and financial activities characterizing the potential investment and credit risks of cooperation with him. As a special tool of assessing the level of trustworthiness of the counteragent, we have proposed a special matrix method of express-evaluation which is based on the principle of hierarchical maximization of the financial performance of the company. The matrix (square array) is the activity of the enterprise in the form of "input-output" model (Fig. 1).

Table 2: Reference points of the level of management component

Indicators	Criterion of estimation	Calculation methods
Efficiency of job management (unit)	$\geq 1$	Rate of growth of income over a period/rate of growth of salary of personnel over period
Percentage of managerial personnel in total number of personnel (%)	$\leq 1.5$	Number of managerial personnel/ total personnel $\times 100\%$
Managerial efficiency (unit)	$\geq 1$	Rate of growth of net profit over a period/Rate of growth of salary of managerial personnel over a period
Administration expenses (unit)	$\leq 0.1$	Administrative costs/ total costs
The quality of decisions made (unit)	$\geq 1$	Predefined indices of net profit (or income)/actual index of profit (or income)
Rate of increase of average monthly salary of personnel (unit)	$\geq 0.10$	Accounting salary of personnel/prior salary of personnel-1
Measure of stability of personnel (unit)	$\geq 0.80$	(1-personnel, who retired from the company during the reporting period)/(average number of employees in the enterprise in the period prior the accounting+the number of newly hired employees during the reporting period)
Pace of investment growth for personnel training (unit)	$\geq 0.02$	Investment in the training of personnel in the reporting period/investment in training of personnel during the base period-1

Table 3: The key of assessment of the level of the management constituent.

Criteria of estimation	Bettering of values	Come-down of values	Change of danger level
Safe values	I.1. (5 scores)	I.2. (4 scores)	I.3 (3b)
Dangerous values	II.1. (3 scores)	II.2.(2 scores)	II.3. (2b)

Entrance is 13 traditional absolute indicators of public financial accountability applied in various models of assessing stability (Shesternikova, 2013) and "Input" is 177 relative indicators, based on them. The matrix is defined by a set of interrelated indicators derived from the correlation (division) being at the intersection of numbers horizontally and vertically as well as the dynamics of these indicators.

To make conclusion about the trustworthiness of the counteragent, generalized block and integrated assessment is used which is calculated as the arithmetic values of the indicators of this block. Each of these blocks has its own name and economic sense:

- I1; Subordination of totals of activity of an enterprise
  - I2; Drivers of financial performance, that is, the levers of conversion of expenses interms of accounting, into profits of enterprise
  - I3; Reflection of reimbursement of costs with the funds and sources
  - I4; Financial architecture of enterprise funds
  - I5; Financial architecture of the sources of enterprise funds
  - I6; Financial architecture of enterprise;
  - I7; Integral block of financial architecture
- $$I7 = (I4+I5+I6)/3$$

These indicators, besides I3, being below the main diagonal of the matrix, characterize the drivers of net results, income and expenses of the enterprise, the funds and their sources and are located above the main diagonal of the matrix (shown in different patterns). The main criterion is a general Indicator of Financial Stability (IFS)

which is calculated as the arithmetic mean of the main blocks of indicators I1, I2, I3, I7. It is well established and justified theoretically that for a stable enterprise, IFS must be  $\geq 1$  and in the case of an unstable financial situation, this index value will be  $< 1$ .

The level of trustworthiness of counteragents within the framework of the proposed method can be high or low. The "high" is assigned when defining the indicator of financial stability as of the reporting date greater than or equal to one with the dynamics of growth or stability in comparison with the previous period and in the case of growth of IFS from the value less than one to the value greater than or equal to one.

The "low" level is determined by the condition index values financial stability at the reporting date is less than unity with the dynamics of reduction or stability compared with the previous period, as well as in case of reduction of IFS from the value greater than or equal to one to the value less than one.

The level of development of managerial personnel is understood as the ability to prevent by the employees of the enterprise the negative impact of external and internal environment on its economic security by ensuring a high level of management and management control. Estimation of the level of development of the management component is proposed to be made on the basis of indicators presented in Table 2 by establishing dangerous and safe levels for each of the indicators shown.

In order to give an integrated assessment to the level of development of the management component of the enterprise, it is advisable to use a scoring system in estimating the importance of each indicator. The coordination of states of development of the indicators of estimation of management component which horizontally reflects the change of the indicators (deterioration or improvement) and vertically-their values (insecure or secure) allows to consider their six types, expressed in scores (Table 3). Analyzing the control points, one can

assign values from 2-5 points to each of the indicators and then obtain an average integral estimation of the level of development of the management component as the arithmetic mean of indicators. The resulting integral estimation must correspond to a certain level of development of the management component out of the normative intervals set by the expert-high and low. "High" level is assigned after obtaining the resulting integrated assessment, corresponding to the interval [4, 25-5] and "low"-(2.0-4.25).

## **RESULTS AND DISCUSSION**

### **Determining the types of strategic perspectives of enterprises according to the level of economic security:**

In the process of forming the strategy of ensuring economic security for commercial organizations, principal is the question concerning the types of strategies of operation of the enterprise by determining the level of its economic security, based on the combination of the levels of its financial security, trustworthiness of counteragents and the level management component.

In this connection, it is necessary to apply the approach which differentiates the strategies of development of the enterprise on the basis of the level of its economic security with consideration for strategic perspectives.

Strategic perspectives-a potentially reasonable opportunity of the enterprise to maintain, increase or decrease the level of strategic economic security. The studies have shown that it is necessary to distinguish between three types of Strategic Perspectives of the Enterprise depending on the Specific Level of Economic Security (SPES):

- The strategy of sustainable secure development which is corresponded to by a high level of SPES
- The strategy of insecure development of the enterprise, it is realized at an average level of SPES
- The strategy of survival of the enterprise, characterized by a low level of SPES

Let us illustrate eight combinations of the levels of financial security, trustworthiness of the counteragents and development of management component describing different levels of strategic economic security of the enterprise and, consequently, eight different strategies for its operation, that fit in the framework of the three types of strategic perspectives of the enterprise. The types of strategies of enterprises, based on the estimation of three economic determinants of economic security are presented in Fig. 2. The strategy of sustainable secure

development is characterized by a high level of strategic economic security of the enterprise with a high level of development of all the three key determinants. This is the best type of the strategy adhering to which an enterprise is able to ensure the sustainable permanent development of despite the laws of the life cycle.

The strategy of sustainable insecure development is characterized by an average level of strategic economic security of the enterprise with a high level of financial security and trustworthiness of the counteragents in conjunction with the low level of management component.

The strategy of enterprise revival is determined by a low level of strategic economic security of the enterprise with a high level of management component combined with a low level of financial security of enterprise and trustworthiness of the counteragents.

The strategy of temporary financial difficulties is characterized by an average level of strategic economic security of the enterprise with a high level of development of management component and trustworthiness of the counteragents together with low levels of financial security.

The strategy of survival using own resources is defined by a low level of strategic economic security with a low level of development and management component and trustworthiness of the counteragents combined with a high level of financial security of the enterprise.

The strategy of development "contrary to" management personnel is characterized by the average level of strategic economic security of the enterprises with a low level of development of management component combined with a high level of financial security of enterprise and trustworthiness of the counteragents.

The strategy of trust survival is inherent in the enterprise in case of a low level of strategic economic security with the low level of development of management component and financial security of the company combined with the high level of trustworthiness of counteragents.

It is worth noting that each of the eight strategies of operation of the enterprise presented above corresponds to one of the strategic prospects of the enterprise. The first strategic perspective entitled "The Strategy for Sustainable Secure Development of the Enterprise" is corresponded to by the strategy with the same title.

The second strategic perspective entitled "The Strategy of Insecure Development of the Enterprise" is corresponded to by three strategies: the strategy for sustainable insecure development, the strategy of temporary financial difficulties, the strategy of development "contrary to" management personnel. The third strategic perspective referred to as "The Strategy of

		The level of financial security			
		High	Low	High	Low
The strategy of trust worthiness of counteragents	Low	The strategy of sustainable insecure development	The strategy of revival of the enterprise	The strategy of survival using own resources	The dangerous strategy of downturn (breakup)
	High	The strategy of sustainable secure development	The strategy of temporary financial difficulties	The strategy of development "contrary to" management personnel	The strategy of trust survival
		High		Low	
		The level of development of managerial component			

Fig. 2: The types of strategies of enterprises on the basis of estimation of the level of development of determinants of economic security

Survival of the Enterprise” is corresponded to by four strategies of operation of the enterprise: the strategy of enterprise revival, the strategy of “in-house” survival, the strategy of trust survival, the dangerous strategy of downturn (destruction).

Thus, having studied the possibilities of forming different types of strategies of operation of business, depending on the achieved level of economic security, it is found that the change of one strategy by another is influenced by the change of the level of development of the key determinants. This dependence can be traced with combination of high developed parameters, the most favorable strategy ensuring the sustainable permanent development and vice versa is characteristic for the enterprise (Kaplan, 2003).

**Summary:** The target guideline for the development of the strategy of ensuring the economic security of the enterprise is achievement and long-term application of the strategy of sustainable safe development. It is necessary not only to keep the obtained position “The Strategy of Sustainable Development of Secure Enterprise” at any cost but also to constantly carry out planning, internal control, assessment of the results on conditions of system monitoring of the threats of economic security of the enterprise.

## CONCLUSION

The strategy of economic security of enterprises is practically realized on the basis of differentiation of the three strategic development prospects. The first is the strategy of sustainable safe development being characteristic for enterprises that develop persistently and permanently contrary to the laws of the life cycle: continuously the transition from maturity to growth and

from growth to maturity is being formed due to the constant emergence of new factors of development, whereas in the normal course of the life cycle there is a succession of stages from spring to growth, from growth to maturity, from maturity to decline, followed by the termination of activities. The enterprise must constantly fortify its position on the occupied level, monitoring the status of key determinants of economic security, by leveling or eliminating the detected threat.

The second strategic prospect and the three strategies corresponding to it characterize the possibility of permanent sustainable development of the enterprise provided a high level of development of one of the undeveloped determinants, along with the system monitoring of the state of threats of economic security of the enterprise which can come from the highly developed determinants.

The third strategic prospect with its four strategies of functioning of the enterprise characterizes not the possibilities of its development but the scenario of stagnation or collapse. Here the main objective is the survival of the organization. But if there is a goal of long-term continuation of its activities, it is necessary to raise the level of the key determinants in the next legitimate sequence by turns: first, it is necessary to raise the level of development of the management component, second-the level of financial security and third-the level of trustworthiness of counteragents.

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