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## Approaches to enterprises' financial and economic security management

**Abstract.** In relation to management of financial and economic security, it is very important to follow certain rules and approaches that will help to build this system, and to avoid possible risks of ineffective activities of an enterprise. Therefore, we focus on issues that provide orderliness, rationality and validity of such a complex function as management of financial and economic security of an enterprise. Primarily, this is due to the measurement of both management processes and outcomes, standardization of management activity and coordination of corporate interests. The article presents the standards that can be used to provide company's financial and economic security and typical problems that may lead to conflicts of interest in corporate management.

**Keywords:** Financial and Economic Security; Security Management; Measurement; Standardization; Corporate Interests

**JEL Classification:** M21; L15

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### **Підходи до управління фінансовою та економічною безпекою підприємств**

**Анотація.** В управлінні фінансово-економічною безпекою підприємств дуже важливо дотримуватися певних правил і підходів, які допоможуть вибудувати цю систему й уникнути можливих ризиків неефективної діяльності. Тому ми акцентуємо увагу на питаннях, що забезпечують упорядкованість, раціональність та обґрунтованість такої складної функції, як управління фінансово-економічною безпекою підприємства. В першу чергу, це пов'язано з вимірюванням як процесів управління та його результатів, так і зі стандартизацією управлінської діяльності та координацією корпоративних інтересів. У статті досліджені і представлені стандарти, які можуть бути використані для забезпечення фінансово-економічної безпеки, а також типові проблеми, які можуть призвести до конфлікту інтересів у корпоративному управлінні, стати загрозою його фінансово-економічної безпеки.

**Ключові слова:** фінансово-економічна безпека; управління безпекою; вимірювання; стандартизація; корпоративні інтереси.

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### **Подходы к управлению финансово-экономической безопасностью предприятий**

**Аннотация.** В управлении финансово-экономической безопасностью предприятий очень важно соблюдать определенные правила и подходы, которые помогут выстроить эту систему и избежать возможных рисков неэффективной деятельности. Поэтому мы акцентируем внимание на вопросах, обеспечивающих упорядоченность, рациональность и обоснованность такой сложной функции, как управление финансово-экономической безопасностью предприятия. В первую очередь, это связано с измерением как процессов управления и результатов, так и со стандартизацией управленческой деятельности и координацией корпоративных интересов. В статье исследованы и представлены стандарты, которые могут быть использованы для обеспечения финансово-экономической безопасности, а также типичные проблемы, которые могут привести к конфликту интересов в корпоративном управлении, и стать угрозой его финансово-экономической безопасности.

**Ключевые слова:** финансово-экономическая безопасность; управление безопасностью; измерение; стандартизация; корпоративные интересы.

**1. Introduction.** The researches on financial and economic security are quite widespread. Since the end of 1990s up to the present time these issues have not lost their actuality. The expansion of economic and information space, on the one hand, and an increasing demand for openness, social responsibility, observance of economic norms and rules, environmental standards, on the other hand, are inextricably linked with international security standards, security policy of enterprises and companies, monitoring and prevention of threats. Security is just an integral part which is an objective, a norm, a standard, a condition according to which the efficient functioning and development of modern enterprises and companies are possible.

The relevance of the enterprise and company security can explain the emergence of scientific researches and publications related to its different aspects, such as corporate and economic security, security of national and social systems, security of an organization and personal security, etc. It also indicates a demand for highly qualified specialists with managerial security tools. Economic security reflects the nature and complexity of all the threats that affect the companies among all the types of security. Thus, in our opinion, its essential part is financial security. Financial security provides protection and accumulation of financial resources, as well as response to threats to the effective operation and sustainable financial situation at enterprises. It is more reasonable to talk about financial and economic security because it is inextricably linked with the managerial accounting of all types of resources of an enterprise, the economic mechanism and institutional changes that increase its flexibility, the interests which affect the economic goals and results of enterprises activity, as well as their market value.

**2. Brief Literature Review.** There is a significant number of both domestic and foreign publications which examine different types of economic security and their specificity, as well as some aspects of security management at enterprises of different branches.

The first domestic scientific studies that describe various aspects of economic security of enterprises include the publications by Vasilitsev T., Datskiv R., Kozachenko A., Lukyanova V., Lyashenko, A., Ponomarev V. and others. Among foreign researches we should mention widely used publications by Davidson M. (2012) [1], Kleiner G., Tambovtsev V. et al. (1997), Grunin O., Oleynikov E. (2004), Petersen K. (2013) [2], Ridley G. (2011) [3], etc. The works focusing on clarification of terms, such as «security», «danger», «threat»; the identification of risks and development of criteria for their evaluation, including the quantitative ones which define the boundaries of the quality of state security; the management of different types of economic security (financial security, information security, personnel security, security of coercive power); the implementation of certain functions of the Department of Economic Security have particular importance for security studies.

However, it should be noted that changes in the external environment lead to the changes of demands for organization and management of financial and economic security. In this regard, we observe a lack of researches which could highlight the main points of economic and financial security and tools for safe operation and development of enterprises.

**3. Purpose.** The main aim of this article is to form a holistic view of the approaches to management of financial and economic security, which increase the flexibility and stability of enterprises to the threat factors. It is reasonable to clarify the concept of financial and economic security and to point out the tools of quality management and the level of security and development of enterprises.

**4. Results.** Financial and economic security is a condition of enterprise's activity. It has direct influence at enterprise's profitability, financial stability and sustainability, ability to continuous self-updating and improvement. It is an efficient use of resources, ensuring stable functioning of an enterprise in present and sustainable development in future. The concept of «financial and economic security» is inextricably related to the concepts of «development», «sustainability», «controllability» and «vulnerability». If the system does not develop, then its sur-

vival, flexibility and adaptability to internal and external conditions decrease rapidly. Sustainability reflects the strength and reliability of system elements, vertical and horizontal links within the system, an ability to carry internal and external information loads. Controllability is one of the aspects of the social system. It describes the ability to transfer the system from one state to another. Vulnerability is a measure of the degree of its inclination to the internal and external hazards, that is, the degree of insecurity. In general sense, vulnerability is a result of the negative impacts of certain origin and intensity.

According to such characteristics of an enterprise security the first important issue in company's financial and economic security management today is the implementation of the principle of measurement in company's activity. Management based on the measurement will improve the controllability of all the company's activities and its security management system.

This approach refers to the concept of the balanced scorecard introduced by D. Norton and R. Kaplan (1996). According to it, the performance of each business process should be regularly measured using a specific set of key performance indicators (KPI) [4]. Further implementation of this idea in practice allows to state the fact that any process in a company must be considered as a subject to a regular measurement on the basis of clearly measurable indicators that will facilitate the management, make it transparent to managers and performers and make it possible to reconcile the results of all the company's processes together as a complex system.

The choice of key performance indicators are widely studied by the experts of the international consulting company «Price Waterhouse Coopers», which in 2007 conducted a research and formed general recommendations, according to which the specific requirements for narrative reporting have been a point of debate for several years now. However, one certainty remains: the requirement to report financial and non-financial key performance indicators.

A challenge is whether the KPIs currently presented to the Board are those that allow them to assess progress against stated strategies, and when reported externally, allow readers to make a similar assessment. If not, is this because the information is simply not available or because it is not yet escalated to the Board but may instead be assessed by management of individual business units? In addition, the KPIs will to a degree be conditioned by the industry in which a company operates. The choice of such indicators is unique to each company and its strategy; it is therefore impossible to specify how many KPIs a company should have. However, experts of PricewaterhouseCoopers suggest that between four and ten measures are likely to be optimal for most types of companies [5].

The necessity of activities formalization has been reflected in many books on Business Management in recent decades. So, K. Sewell and P. Brown in their book «Clients for life» (1999) argue that the challenge for the manager is to create a system of measurement and a feedback that would be interesting and suitable for every team member. In their company, they used the key indicators for the number of parameters (sales, the number of items sold, shipped orders, making calls), quality (the number of correctly performed repairs, the number of repeated purchases, staff turnover) and costs (total costs per unit, employees' payment, ratio of planned and actual costs, the cost per square meter of space), terms (the average time per order, the percentage of deliveries in time, the percentage of orders executed within 48 hours), etc. [6].

M. Popov (2012) proves the following possible types of key indicators [7]: KPIs of results which are the number and content of the results that were obtained; KPIs of costs which reflect the quantity of resources expended to achieve the results; KPIs of operation – reflect the performance of business processes and allow to compare the process with a desired algorithm of its execution; KPIs of productivity are the indicators that characterize the relationship between the results and the time that was spent on their achievement; KPIs of performance are the derivative indicators that characterize the value of the results achieved and resources spent.

During the development of process indicators it is important to follow the rules which are summarized below [7]: firstly, a set of indicators should contain the minimum necessary amount to ensure an entire business process; secondly, each indicator should be measurable; thirdly, the cost of measurement shall not exceed the managerial effects of its usage.

Shifting emphasis towards management of financial and economic security, the above-mentioned sets of indicators of management control systems should be developed for all major components of company's security, particularly, informational, personnel, manufacturing, legal, etc.

As Daniel Liber (2014) says, it isn't easy to persuade a Chief Financial Officer or a Vice-President of finance to increase the resources. However, sometimes the best argument is that poor investments in security management will likely result in expenses that supersede the original budget [8].

From our point of view the idea that costs on economic security will always be higher than were planned before is not an effective way. It can lead to the additional expenditure costs and as a result desirable sales will not bring profit.

Control of costs on company's security should be coordinated with the overall results of its activities. Based on the fact that the purpose of any business is to receive and maximize profit, the financial KPIs in the security management are more preferable. But the classic indicators of profitability and solvency should be approved with the results of security services.

The security management process as a set of measures taken to detect and counteract internal and external threats requires the development of the following types of KPIs: company's resources preservation; effectiveness of resources use; risks assessment (setting ranks, grades, ranges, etc.).

The issue of management control of financial and economic security based on measurement can be continued with consideration of managerial standards during the development of KPIs.

Standardization of processes is not very popular among Ukrainian scientists. The main reason is the lack of common view on the methodological basis of these standards preparation. The most common view is standardization as a process of managerial activities formalization.

The relevance of processes' standardization in the context of company's financial and economic security management is connected with the contraction to a risk of losing key employees who take away their valuable knowledge and experience when leaving a company. I. Adizes (2012), the author of popular books on organizational changes in his work «Managing Corporate Life Cycles» notes that management of a company without standards can be characterized by the concept of «partisan culture» [9]. He highlights that in an environment where company policy is not fixed in the relevant documents; old employees operate as the company's memory. In case of their departure from office comes chaos that continues until someone else learns to perform their work, providing results by certain subjectivity.

Table 1 shows the basic standards that can be used by a company to manage and control its economic security.

Standardization of risk management contributes to management in development and implementation of solutions that minimize the spectrum of the impact of random or programmed

**Tab. 1: Standards that can be used to provide company's financial and economic security**

Type of a standard	Names and developers	Content
Business Continuity Management (BCM)	BCI (Business Continuity Institute); DRI (Disaster Recovery Institute); Standards and Certificates of the British Standard Institute (BSI); Directions of the Australian National Audit Organization (ANAO)	Analysis of business processes; risk analysis; non-stop business strategy development; organizational and technical support.
Quality management standards	Standard ISO-9000 (International Organization for Standardization)	Managers' responsibility; resource management; sales; measurement, analysis and improvement.
Industry management standards (production)	Standards MRP/ERP APICS (American Production and Inventory Control Society)	Material requirements planning; production resource planning; enterprise resource planning.
Risk-management standards	Standard ISO 31000 (International Organization for Standardization)	The growth of brand and image value; company's costs management; its efficiency improvement, etc.
Standards of supplier evaluation	Initiative AIM progress; Standard ISO 28000 (International Organization for Standardization)	Financing, manufacturing, information management, packaging, storage and control of goods movement by different types of vehicles.
Stakeholders management standards	Standard AA 1000 SES (Stakeholder Engagement Standard) – Institute of Social and Ethical Reporting	Recommended regulatory framework for public use when planning, implementing, evaluating, informing and non-financial checking of stakeholders' interaction quality.
	Standard ISO-26000 Social Responsibility Guide (International Organization for Standardization)	Guidelines on the principles, main topics and problems that underlie social responsibility, ways of integrating socially responsible behavior in strategies, practices and processes of a company.

Source: [1; 5; 13]

events that can ultimately cause a significant material damage for a company and its image [10].

Standardization covers more and more company's processes with the aim of its formalization, providing a unified approach to management. For the past 5-7 years, standards in the field of corporate social responsibility have become especially popular. They include appropriate approach to the formation of strong communication with stakeholders (customers, suppliers, partners, investors) and stable production.

Statements prepared by standard AA 1000 concern management, business models and business strategy formation as well as operational management for sustainable development and cooperation with stakeholders [11]. Compliance with this standard involves the interaction of all stakeholders, i.e. owners, investors, creditors, staff, suppliers, customers, public organizations and governmental agencies, as well as taking into account their opinions and interests in the company's management [12].

Standards of corporate social responsibility in general focus on building of effective close contacts with external stakeholders. At the same time the managers of a company, in whose hands there is an operational management process, represent an important range of interests, the neglect of which may lead to a loss of profit, wastage of available resources and even to a bankruptcy. The basis of the standard is the concept of business sustainable development when a company should balance its economic, environmental and social activities [10].

The conciliation of corporate interests is a major component of financial and economic security management. Shareholders seek to increase dividend payments, which reduce the amount of financial resources in manager's hands and can be invested in both operation activity and strategic development. The most appropriate way to solve this problem is to form such a structure of company's capital that will encourage its managers to maximize efficiency and sustainable dividend payments. Thus managers can feel higher responsibility for business, money and property. They try to increase productivity, sales, repay debts, conduct effective innovative activity, and find new ways and opportunities for the development. As a result, a share price of a company at the Stock Exchange rises and the interest of potential partners and investor increases. So, all the participants win.

Table 2 shows the typical problems the emergency and existence of which can lead to the conflicts of interest.

Tab. 2: Typical problems that may lead to conflicts of interest in corporate management

Problem	Content
Problem of choosing investment horizon	Managers always have much narrower horizon for investment planning than owners and shareholders. Managers prefer short-term projects to long-term ones. It can lead to the loss of opportunities and as a result business security will suffer.
Problem of different attitudes to risk	Managers always intend to avoid risks. They are interested not only in high salaries, but also in preserving their image and good name, which can be ruined by collapse and bankruptcy. The probability of bankruptcy depends on a risk level of projects. Meanwhile shareholders don't worry about this aspect because their responsibility is limited by their share in the company's capital. In most cases they will prefer long-term projects with high risks and high potential profit.
Problem of ineffective assets usage	This type of problem is related to financial and managerial control when all the aspects of activity should be measured. The market price of a company doesn't depend on the results of assets usage. So economic security can suffer from too high expenditures, non-optimal depreciation policy, ineffective use of premises or equipment. At the same time salary of managers will stay the same.

Source: [14; 15]

In addition to the power to hire and fire managers, there are only two important instruments of influence on managers in the hands of shareholders. The first one is the remuneration. Firms often experiment with different schemes of compensation, including payment by results, bonuses, shares and options in order to encourage managers, make them be personally interested in shareholders' profit maximization. The second control mechanism is a discipline that is imposed by the stock market as the threat of mortgage. The waste of money and assets by the managers, their failures can lead to lower stock prices, making a company more attractive for acquisition [14].

The concept of the conflict of interest is closely connected with the information asymmetry, when owners and partners do not have enough or have irrelevant data about real results of a company and its financial state. It can cause a trust reduction to manager, lower attractiveness of dealing with a company.

Therefore, the sequence of interests may be gained by using both financial and non-financial methods. Financial methods include changes in capital structure. N. Rudyk (2004) provides an effective mechanism of influence that includes: increasing corporation debt burden, making reserves for projects in advance, issuance of bonds, giving the status of shareholder to management, increasing a manager's share in company's authorized capital, replacement of share capital to a debt one by its redemption through debt financing [15].

**5. Conclusion.** Management based on the measurement, standardization of management knowledge, and alignment of corporate interests with financial instruments – all these are an incomplete list of key factors which help to ensure the accountability and the effectiveness of measures in the system of financial and economic security management. Measurements of enterprise activities provide the rationality and focus on actions for financial and economic security, increasing effectiveness of financial and economic security system, the main function of which is control and audit of an enterprise's activity. The application of standards in management is the basis for the formation of corporate ethics as a fundamental set of rules and regulations of security culture of an enterprise. Conciliation of the interests as tools to overcome disputes and conflicts is extremely important because it allows eliminating possible financial and economic threats to an enterprise. And this list can be extended by approaches based on change management, knowledge and innovation in financial and economic security management and reduction of an enterprise activity risks.

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