

Chapter 6

Financial Security of Economic Activity: Analysis, Control, Risk Management

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ABSTRACT

Under the conditions of megarisks, the general level of the world economy's instability rises, the number of unprofitable organizations with overdue debts increases, thus, creating additional threats to the financial security of states. In this regard, presented here, research results have scientific and applied importance for risk management and financial security of economic entities on the basis of the control and analytical concepts which cover: monitoring, diagnostics, prevention of crisis situations, including bankruptcy, corporate fraud and various other financial irregularities in the economy. Accounting for the specifics of economic entities in the course of analysis, diagnostics, and control over their activities is aimed at the creation of effective corporate fraud prevention and bankruptcy management systems. The conceptual principles of information and analytical support, improved methods for analyzing, and evaluating and monitoring financial security contributes to the development of a common methodology for economic analysis and control activities, ensuring their effectiveness and transparency. The comprehensive toolkit for diagnosing financial security allows identifying the areas of increased bankruptcy risks, fraudulent actions or ineffective business management; and unifies the control process, thereby reducing labor intensity and improving the quality of control measures.

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INTRODUCTION

Public policies today are experiencing a series of problems due to increased macroeconomic, global and international risks. That's why strengthening economic security policy has to develop its own mechanisms, methods and tools.

Economic security in general is the set of conditions required for sustainable development. These conditions determine a quality status of the overall socioeconomic environment, which ensures sufficient independence of management, stability of the financial system, availability of reserves for further economic growth. Governments create and maintain their own resources, strengthen the comprehensive capacity and opportunities to reduce the negative effects from the crisis phenomena in the national, regional and global economies. The most important economic security factor is efficient functioning of businesses.

Financial security rests on strategic programs of increasing the investment attractiveness of the state economy and on financial security diagnostics system which aims to identify and increase the financial stability of reliable companies. For this, a complex of state measures would be needed to work with such companies. If companies have low level of financial transparency about their economic activities, industrial cooperation and establishing partner relationship would be difficult; investment processes overall would slow down in specific regions and maybe in the whole country. This means that financial security and protection of business entities from risks forms the foundation for future investment.

Analysis, evaluation, prediction, diagnostics and monitoring of companies' financial security forms the foundation for contemporary financial management needed for a changed economic situation. This newer economic situation can be characterized by: higher levels of financial risks, more frequent changes in the external and internal factors of the organizational environment, the growing threats to business financial interests.

BACKGROUND

Financial security is an important economic category, which is still not well-established and unambiguous in its definition. Different interpretations of the concept of company's financial security suggested by post-Soviet scientists and economists-practitioners are shown in Table 1.

Obviously, all these definitions differ from each other in depth and breadth, but, in our view, they all reflect the common key areas for assessment such as financial condition, resources' availability, development, counteraction to financial losses and threats. Some authors treat the concepts of "financial security" and "economic security" as the identical ones, but in our view, there is a big difference between them (See Figure 1).

MAIN FOCUS OF THE CHAPTER

The Concept of Financial Security of Business Entities

Financial security is one of the components of economic security, and it is so important that many authors tend to overlook the rest of the components and use financial security as a synonym for economic security. Economic security (in Greek means "governing the situation") was legitimize in the Russian

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