

PAPER • OPEN ACCESS

## Methodical and practical aspects of development of financial strategy of the industrial enterprise

To cite this article: N V Chaikovskaya *et al* 2019 *IOP Conf. Ser.: Mater. Sci. Eng.* **537** 042076

View the [article online](#) for updates and enhancements.



**IOP | ebooks™**

Bringing you innovative digital publishing with leading voices to create your essential collection of books in STEM research.

Start exploring the collection - download the first chapter of every title for free.

# Methodical and practical aspects of development of financial strategy of the industrial enterprise

**N V Chaikovskaya, I V Terentieva<sup>1</sup> and K A Lukashova**

Vladimir State University n.a. A.G. & N.G. Stoletovs, 23 Orlovskaya Street, Murom, Vladimir Region, 602264, Russia

<sup>1</sup> E-mail: terentieva-murom@yandex.ru

**Abstract.** The article considers the methodological and practical aspects of the financial strategy of the enterprise. The role and importance of financial strategy in modern economic conditions are disclosed. The main methodological approaches to the development of the financial strategy of the enterprise are presented. The main stages of formation of the financial strategy are given on the example of JSC «Murom mechanical repair plant», which is an enterprise of the engineering industry. Problems of the enterprise are revealed on the basis of the comprehensive analysis of its financial activity. Matrix analytic method and SWOT analysis were used to develop the financial strategy of the enterprise and measures for its implementation. Evaluation of the effectiveness of the measures of the developed financial strategy is given.

## 1. Introduction

Many external factors affect the financial condition of a modern organization. Each firm develops a financial strategy taking into account its economic potential and environmental conditions. The strategy allows you to make balanced decisions and minimize the risks of the organization. Financial strategy is a system of formation and implementation of the company's goals by effectively attracting and using financial resources based on changes in the internal and external environment.

Many scientific works are devoted to the development and implementation of the financial strategy of the enterprise. Thus, Blank I.A. focuses on the stages of financial strategy development, especially financial analysis of the enterprise and its external environment [1]. Ukolov A.N., Kostina R.V. consider financial strategy as an instrument of economic growth of the company [2]. The influence of the financial strategy on the sustainable development of the enterprise is revealed in the scientific works of Kytmanov A.V. [3]. Gerashchenko I.P. [4], Dorofeev M.L. [5], Heiberg T.V., Ivanova N.A., Polyakova O.V. [6] consider a methodology for the development of the financial strategy of the organization. The works of foreign researchers like Bandopadhyaya A, Callahan K. and Shin Yong-Chul [7], Pavlicek J. [8], Bender R., Ward K. [9], Svatosova V. [10] are of considerable interest.

This study is devoted to the methodological and practical aspects of the development of the financial strategy of the industrial enterprise on the example of JSC «Murom mechanical repair plant». The main activity of the company is the production of components for railway and road transport.



## 2. Main part

Analysis of financial activities of JSC «Murom mechanical repair plant» showed a low probability of insolvency. The company is financially stable according to the calculations of the balance sheet model and three-component indicator.

The working capital to equity ratio and the working capital to current assets ratio grew in the analyzed period. This dynamics can be characterized positively. The equity to total assets has decreased to the minimum permissible value (0.5). Accordingly, the financial independence of the company decreased. In the analyzed period, a high dependence on debtors is observed. In 2017, the share of accounts receivable was 56% of the balance sheet assets.

The company is solvent in the long term. The minimum liquidity requirements of the balance sheet are met. The company is also solvent in the short term. However, the company does not have sufficient highly liquid assets.

The dynamics of cash is negative. The investment activity of the enterprise has increased. However, investments in the renewal of fixed capital are insignificant. In 2017, JSC «Murom mechanical repair plant» attracted a large amount of borrowed capital.

Profitability indicators decreased in 2017. The product profitability was 4.8% in 2015, 4.5% in 2016 and 2.1% in 2017.

Financial analysis of JSC «Murom mechanical repair plant» revealed the following main problems of the company: decrease in product profitability, growth of accounts receivable, negative net cash flow on current operations and increase in credit dependence.

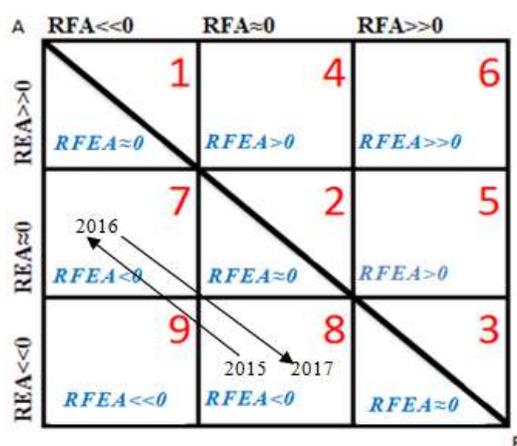
Development of financial strategy of the enterprise can become the solution of the revealed problems. There are many tools to develop a financial strategy of the enterprise. The Franchon-Romanee matrix is the most famous. It is a financial strategies matrix, which is based on three parameters: the result of financial activity (RFA), the result of economic activity (REA) and the result of financial and economic activity (RFEA). The position of the enterprise in the matrix is determined depending on the values of these parameters [5]. The model «Rating financial strategy» is a modification of the Franchon-Romanee matrix. It includes an additional parameter – rating of the organization [11]. The SOFIA model is a target function, the factors of which are: strategic decisions, operational decisions, financing decisions, investment decisions, and analytical decisions [12]. SWOT analysis is a well-known tool of strategic management. It allows you to determine the main directions of strategic development of the organization. The analysis is carried out on the basis of data on the strengths and weaknesses of the enterprise, its capabilities and threats [13].

We will use the Franchon-Romanee matrix and SWOT analysis to develop the financial strategy of JSC «Murom mechanical repair plant».

In the matrix of the Franchise and the Novel, the results of financial activities are shown horizontally. The results of economic activity of the enterprise are shown vertically [6]. Quadrants 1,2,3, delineate areas of success and deficits in the matrix. Successful organizations are in quadrants 4,5,6. Enterprises that do not have enough of their own funds are located in the quadrants of 7,8,9. The position of JSC «Murom mechanical repair plant» in the matrix is shown in figure 1.

In 2015, the company's position was in quadrant 8. This is a crisis zone in which the deficit of own funds is covered by borrowed funds. In 2016, the company moved to quadrant 7. This is a less critical situation, in which the company's own funds are growing and the need for borrowed funds is decreasing. In 2017, JSC «Murom mechanical repair plant» returned to quadrant 8. This increases the risk of insolvency and loss of financial stability.

The financial security strategy of JSC «Murom mechanical repair plant» implies an increase in the result of economic activity of the enterprise due to: a) EBIT growth and increasing economic profitability; b) reducing the current financial needs of the enterprise.



**Figure 1.** Franchon-Romancee matrix.

SWOT-analysis allowed to form a number of strategic decisions, such as: cost reduction, improvement of assortment policy, development of pricing strategy, improvement of the system of settlements with debtors.

A number of measures were developed to implement the financial strategy of the enterprise:

1. Improvement of assortment policy

Analysis of assortment groups of JSC «Murom mechanical repair plant» allowed to identify groups of products with the highest marginal income: knives for graders, locomotive components, spare parts for construction vehicles. Low marginal income is observed in the following groups: spare parts for municipal equipment and attachments. The marginal income of the group «Other» is negative.

Restructuring of the group «Other» and the withdrawal from production of unprofitable goods can increase the profitability of products by 5.8%.

2. Pricing strategy development

Pricing policy of JSC «Murom mechanical repair plant» is weak from the standpoint of maximizing the profit of the enterprise. Pricing methods need to be revised.

JSC «Murom mechanical repair plant» should be guided by a combination of variable cost method and full cost method in setting product prices. This approach will allow the company to increase profits from sales from 83 900 thousand rubles to 135 870 thousand rubles. This will reduce the dependence of the enterprise on additional borrowed funds.

3. Improving the system of settlements with debtors

The credit policy of the organization is one of the most important elements of accounts receivable management. It defines the conditions for granting commercial credit to counterparties. JSC «Murom mechanical repair plant» has a high amount of accounts receivable. Therefore, the company has to attract additional funding and actively use short-term credit lines.

The assessment of debtors should take into account such parameters as the period of cooperation, the volume of sales and the share of overdue receivables in the total amount of sales. The score of JSC «Murom mechanical repair plant» customers on these parameters allowed forming three groups of customers. A 30-day grace period may be granted to the Gold clients group (28% of the total number of clients). A delay of up to 20 days may be granted to the Reliable buyers group (36%). Deferral within 10 days can be granted to the Clients of increased attention group (36%). The ranking of buyers in terms of reliability will increase the degree of control of receivables. The company will be able to minimize the risks of non-payment.

The need for a loan can be reduced by factoring. Factoring can reduce the level of accounts receivable of JSC «Murom mechanical repair plant» by about 70%.

The implementation of these measures will allow JSC «Murom mechanical repair plant» to move to the quadrant 2 of the Franchon-Romancee matrix. This position in the matrix is characterized as

financially balanced. The value of the company's own funds generated and the value of operating costs are approximately equal. JSC «Murom mechanical repair plant» will need less borrowed capital.

### 3. Conclusion

Strategic financial model is characterized by such advantages as brevity, the possibility of a clear definition of problem areas and the development of specific measures. The disadvantages are: subjectivity in determining the position of the enterprise, ignoring the possible impact of the external environment, focusing only on the results of economic and financial activities, the lack of consideration of industry specifics and the enterprise life cycle. Quantitative matrix methods should be combined with other approaches to enterprise strategy development.

Expert-analytical techniques, such as SWOT analysis, are the best tool for making informed strategic decisions. They involve a comprehensive study of the company, various production and financial factors, human resources, organizational structure. The expected results justify the complexity of these techniques. They help to choose the right strategic course and appropriate measures for its implementation.

### References

- [1] Blank I A 2015 *Financial strategy of the enterprise* (Kiev: Elga, Nika-Tsentr) p 656
- [2] Ukolov A I and Kostina R V 2014 *Financial strategies of agro-industrial companies* (Moscow: Direct Media) p 741
- [3] Kytmanov A V 2005 *Financial strategy as a factor of sustainable development of the enterprise* (Perm: Institute of economics, the Ural branch of Russian Academy of Sciences) p 170
- [4] Gerashchenko I P 2010 *Theory and methodology of formation of optimal financial strategy of the company* (Omsk: Omsk state pedagogical university) p 454
- [5] Dorofeev M L 2009 Characteristic features of applying the Franchon and Romanee's financial strategies matrix in the company's financial analysis *Finance and credit*. **15(23)** 51-6
- [6] Heiberg T V, Ivanova N A and Polyakova O V 2009 Essence and methodical bases of development of the financial strategy of the company *Scientific notes of NSUEM* **9** 68-88
- [7] Bandopadhyaya A, Callahan K and Shin Yong-Chul 2012 Corporate financial strategy *Financial Services Forum Publications* 26
- [8] Pavlicek J 2009 Corporate Financial Strategy in SMEs *Proceedings of the World Congress on Engineering Vol II WCE 2009, July 1-3, 2009, London, U.K.*
- [9] Bender R and Ward K 2012 *Corporate Financial Strategy* (Oxford: Routledge) p 390
- [10] Svatosova V 2019 Proposal and simulation of dynamic financial strategy model *Future Studies Research Journal: Trends and Strategies* **11(1)** 84-101
- [11] Dorofeev M L 2008 Development of models of strategic financial management taking into account the requirements of modern economy *Finance and credit* **45** 21-9
- [12] Vorobyov A V 2014 Analysis of Russian approaches to developing a financial strategy designed to build matrices *Modern control technology* **39** 1-5
- [13] Safiullina E 2013 SWOT-analysis as an effective tool for assessing the enterprise environment in the process of developing a financial strategy *Risk: resources, information, supply, competition* **3** 47-56