



PAPER ID: 11A07B



FINANCIAL MECHANISM FOR COMMERCIAL ORGANIZATION DEVELOPMENT: VECTOR APPROACH

Lyudmila Zaporozhtseva ^{1*}, Victoria Malitskaya ², Maria Chirkova ³,
Yuliya Tkacheva ¹, Irina Kuznetsova ³

¹ Department of Finance and Credit, Voronezh State Agrarian University named after Emperor Peter the Great I, RUSSIA.

² Accounting and Taxation Department, Plekhanov Russian University of Economics, RUSSIA.

³ Accounting and Audit Department, Voronezh State Agrarian University named after Emperor Peter the Great I, RUSSIA.

ARTICLE INFO

Article history:

Received 30 July 2019

Received in revised form 06
January 2020

Accepted 16 January 2020

Available online 28 January
2020

Keywords:

Golden Economic Rule; Financial development vector, Strategy; Operational analysis; Sustainable development strategy; Enterprise financial strategy.

ABSTRACT

The assessment of modern ideas of the economic essence of the development of a commercial organization is carried out, by which we are invited to understand its irreversible change, under the influence of which qualitative and quantitative indicators are updated. There was revealed their dependence on the indicator of economic value added (EVA) and the Golden Economic Rule. As a result, it is proposed to understand the financial way to develop the commercial organization as the totality of changes in financial indicators that are formed under conditions of criteria-based compliance with the golden economic rule and the creation of economic added value. Based on a combination of interpreted results according to the criteria for the formation of the financial way, three scenarios are identified, each of which corresponds to a certain financial way of the development of the enterprise. A calculation is presented for the identification of Phoenix limited liability company (LLC) based on our proposed methodology for assessing the formation of the financial development vector. The second way is proposed, namely the adjustment of the strategy of Phoenix LLC in terms of profit management based on the application of operational analysis, sensitivity analysis, and the multivariate calculation method. The set course of the target financial way will allow Phoenix LLC to increase the scale of its activity, increase capacity and ensure an increase in competitive advantages.

Disciplinary: Economic and Management Sciences.

2020 INT TRANS J ENG MANAG SCI TECH.

1. INTRODUCTION

Maintaining and ensuring the competitiveness of a commercial organization in the face of

constantly increasing competition is possible only due to its continuous development. Because of this, it is of great importance to determine the factors that can guarantee the enterprise development to one degree or another, depending on the current situation. Also, when assessing the existing business environment for a commercial organization, a clear understanding of the onset of the moment from which development begins or continues is necessary (Adizes, 2007).

Operating with a certain idea of development and guided by its level at a particular moment in time, in the financial management system it is possible to achieve the most preferable degree of development of commercial structures through the application of certain tools that form a specific mechanism.

The theoretical foundations of the development of a commercial organization are defined in numerous publications of representatives and supporters of domestic and Western economic schools. The interest of Russian and foreign researchers and practitioners in matters of the essence of financial strategy, as the basis of the overall strategy of a commercial organization, is justified by its direct impact on the development of the enterprise (Grandi, 1996).

The works of scientific research of domestic and foreign scientists determine the specifics of the development of a commercial organization, its conditions, as well as assessment methods. However, the question of the importance of forming a financial vector in the trajectory of the life cycle of an enterprise to ensure at least a minimum level of development, under the influence of certain management criteria, has not been raised.

The existing level of scientific knowledge, the need for their further qualitative improvement served as a prerequisite for an in-depth study of nature, conditions, evaluation methods and allowed to justify the formation of the financial vector of the development of a commercial organization (Miller, 1984).

A sufficient degree of validity of scientific and applied provisions, conclusions and recommendations presented in this article is confirmed by the use of domestic and foreign scientists, reference materials and electronic media, financial statements of a commercial organization of the Voronezh region for several years in the process of research (Phoenix LLC). The reliability of the results is ensured by the application of general scientific and special methods of scientific knowledge.

The purpose of the study is to improve the development mechanism of commercial organizations.

2. MATERIALS AND METHODS

In the framework of the study of the theoretical foundations of enterprise development, and assessment of modern ideas of the economic essence of the development of a commercial organization is carried out, by which we are invited to understand its irreversible change, under the influence of which qualitative and quantitative indicators are updated.

It is established that in the development is very important the fact of the availability of constant financial support, as a guarantor of security of industrial and commercial activities. Therefore, it is proposed to consider the conditions for the development of the enterprise as the formation and implementation of an effective financial strategy and ensuring the financial security of a commercial

organization. In assessing the practical significance of these conditions for the development of the enterprise, we revealed their dependence on the indicator of economic value added (EVA) and the “golden” economic rule (Rotar, 2013).

As a result, it is proposed to understand the financial vector of the development of a commercial organization as the totality of changes in financial indicators that are formed under conditions of criteria-based compliance with the golden economic rule and the creation of economic added value.

Based on a combination of interpreted results according to the criteria for the formation of the financial vector, three scenarios are identified, each of which corresponds to a certain financial vector of the enterprise’s development (see Table 1).

Table 1: Financial vectors matrix of commercial organization development.

	$Trp > Trv > Tra > 100\%$	The golden rule of the economy is not respected, but the growth rate of its elements ($Trp > 100\%$)
EVA > 0 and growing	(1) Target	(2) Basic (moderate) financial vector
EVA > 0	(optimistic)	(3) Inertial (pessimistic) financial vector

The target (optimistic) financial vector is characterized by a combination of positive economic added value growth in compliance with the “golden” economic rule.

Basic (moderate) also implies compliance with the golden economic rule, while the economic value added is not characterized by a growth trend, but it should be greater than zero.

An inertial (pessimistic) financial vector is characterized by a violation of the golden economic rule, however, the growth rate of all components must exceed 100%, and one of the options for positive economic added value is growth or lack of dynamics.

One of the main problems that enterprises face is the lack of a proper financial development mechanism, in which its architecture and sequence of actions would be determined.

By the financial mechanism for the development of a commercial organization, we understand a holistic system that includes relatively independent and at the same time structural components that provide the enterprise with the consistent achievement of the most preferred direction of development. We have implemented the construction of such a financial mechanism based on the financial development vector (Raevneva, 2006).

The financial mechanism for the development of a commercial organization, from our position, should include the following main blocks (see Figure 1):

- information support for the process of evaluating the development of a commercial organization;
- assessment of the formation of the financial vector of development of a commercial organization, based on which the development strategy is evaluated;
- making decisions to support the identified level of development or to achieve the characteristics of the target vector;
- implementation of tools for adjusting the development strategy, to achieve the target vector;
- assessment of available results (Verkhoglazenko, 2014).

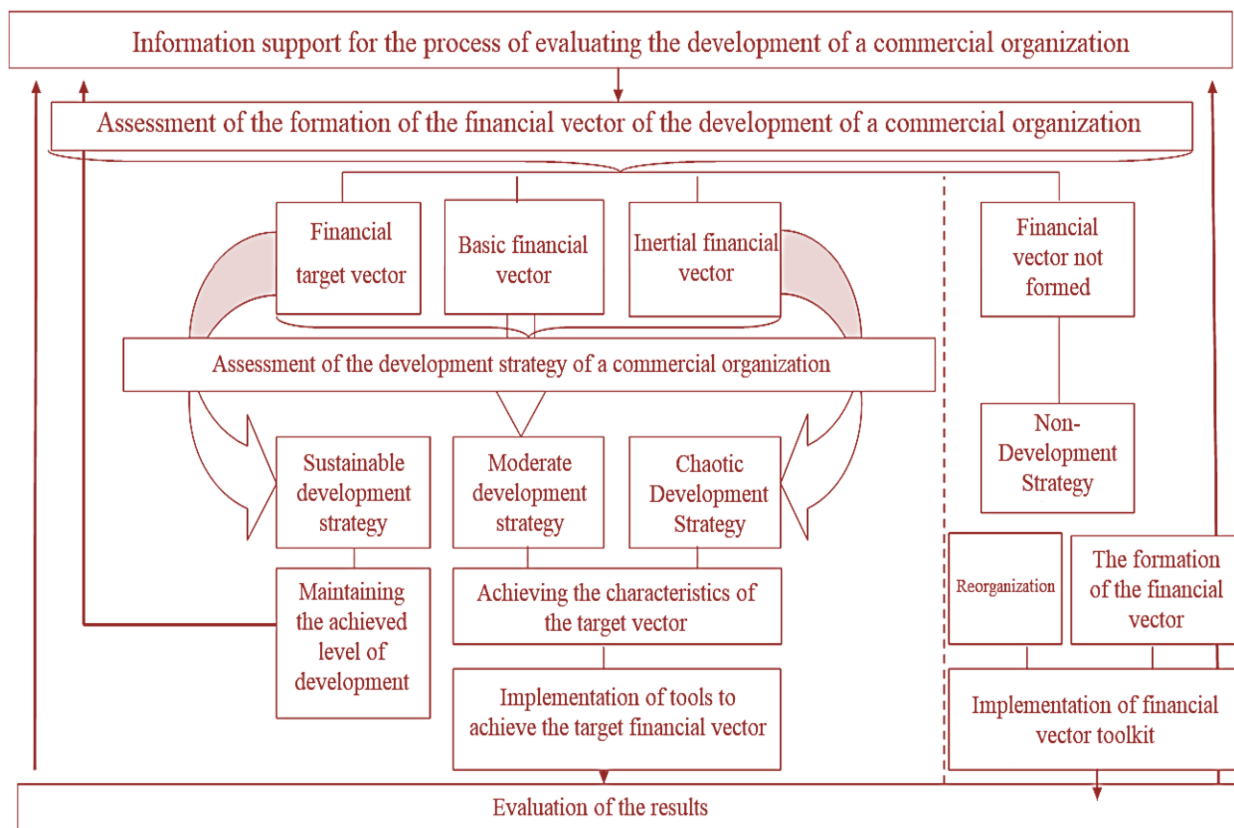


Figure 1: The financial mechanism for the development of a commercial organization based on a financial vector

Also, the financial mechanism for the development of a commercial organization should be implemented on an ongoing basis.

We propose three strategies for the development of the enterprise, based on which development support measures can be selected:

1. Sustainable development strategy - this is a development strategy that expresses the desire of a commercial organization to increase, from year to year, profit, revenue, and property in a qualitative ratio to each other, as well as to increase its value.

2. The strategy of moderate development represents the same desire for quality growth, as with the strategy of sustainable development, but in the absence of growth of the non-negative added value of a commercial organization.

3. The chaotic development strategy is a development strategy in which there is no focus on the quality and constant ratio of the growth rates of profit, revenue, and property of the organization, however, each of the selected indicators should have positive dynamics, combined with increasing or unchanged positive added value of the commercial organization (Ivanov, 2010).

It should be noted that each of the strategies corresponds to a certain financial vector. The target financial vector corresponds to the strategy of sustainable development, the base one is the strategy of moderate development and the inertial one is the strategy of chaotic development, respectively.

Having determined the affiliation of the activities of a commercial organization with one or

another development strategy, the following tasks should be solved:

- maintaining the achieved level in the strategy of sustainable development together with the analysis of the information block;

- with the achievement of the characteristics of the target vector in a strategy of moderate and chaotic development. This situation requires the preparation and implementation of tools for adjusting the development strategy to achieve the target vector. Then it is necessary to evaluate the results, together with the analysis of the information block (Gaponenko, 2006).

Also, if a commercial organization identifies a strategy that does not support development, the following tasks should be addressed:

- with reorganization;
- with the formation of a financial vector through the implementation of appropriate tools.

3. RESULT AND DISCUSSION

Table 2 presents the calculation for the identification of Phoenix LLC based on our proposed methodology for assessing the formation of the financial development vector.

Table 2: Financial vector assessment of LLC “Phoenix” development.

Criteria	Year			
	2015	2016	2017	2018
EVA (thousand rubles)	4188	5464	5940	5912
Profit growth rate (TRP), %	–	139.79	106.31	99.81
The growth rate of revenue (TRV), %	–	123.78	118.18	93.93
Asset Growth Rate (Tra), %	–	126.95	118.22	113.6
The Golden Rule of Economics, $Trp > Trv > Tra > 100\%$	–	$139.79 > 123.8 < 126.95 > 100\%$	$106.31 < 118.18 < 118.22 > 100\%$	$99.81 > 93.93 < 113.6\% > 100\%$
Financial vector	–	Inertial financial vector	Inertial financial vector	Not formed

It was established that in 2016-2017. The activities of Phoenix LLC were characterized by an inertial financial vector, and in 2018, the fact of the formation of a financial vector, i.e. the enterprise did not develop in terms of positive dynamics. Using the financial mechanism for the development of a commercial organization, presented earlier, we conclude that an enterprise has two functioning trajectories: reorganization and the formation of a financial vector.

We have proposed the second way, namely, the adjustment of the strategy of Phoenix LLC in terms of profit management based on the application of operational analysis, sensitivity analysis, and the multivariate calculation method, by performing the following measures:

- an increase in sales due to an increase in productivity by 3% with improved processing and insignificant introduction of high-yielding varieties of crop products;

- increase in the price of 1 centner of grain crops by improving grain quality with tightened control over the drying process.

Using our recommendations will enable Phoenix LLC in 2019 to achieve the target financial development vector and strengthen its position in the agricultural market (see Table 3).

Table 3: Financial vector assessment of LLC “Phoenix” development after applying the methods of financial management

Criteria	Report 2018 year	Plan 2019 year
EVA (thousand rubles)	5912	17624
Profit growth rate (TRP),%	99.81	258.1
The growth rate of revenue (TRV),%	93.93	131.56
Asset Growth Rate (Tra),%	113.6	124.24
The Golden Rule of Economics, Trp> Trv> Tra> 100%	99.81>93.93<113.6%>100%	258.1>131.56>124.24>100%
Financial vector	The company is not developing	Financial target vector

The set course of the target financial vector, while maintaining it, will allow Phoenix LLC to scale up its operations, increase capacity through the production and sale of new (for the enterprise) types of agricultural products and ensure an increment in competitive advantages.

4. CONCLUSION

Thus, we have developed a financial mechanism for the development of a commercial organization, which includes the following main blocks: information support for the process of assessing the development of a commercial organization; assessment of the formation of the financial vector of development of a commercial organization to identify development strategies; making decisions to support the identified level of development or to achieve the characteristics of the target vector; implementation of tools for adjusting the development strategy to achieve the target vector; assessment of existing results should act permanently. As a result, its use will allow a commercial organization to achieve the target financial development vector, strengthen its position in the market and ensure the growth of competitive advantages.

5. AVAILABILITY OF DATA AND MATERIAL

Data can be made available by contacting the corresponding authors

6. ACKNOWLEDGEMENT

The authors appreciate the financial supports from Double Twin Foundation. Helps from Mr.Sayyeses is fully acknowledged.

7. REFERENCES

- Adizes, I. K. (2007). *Life Cycle Management Corporation*. St. Petersburg, 383.
- Verkhoglazenko, V. N. (2014). *Criterial management of company development: Monograph*. M. 206.
- Gaponenko, A. L. Pankrukhin, A. P. (2006). *Strategic management: Tutorial for universities*. M.464.
- Grandi, T. Ward, K. (1996). *Financial Business Strategy: Translation from English*. M. 241.
- Zaporozhtseva, L. A. (2014). *Strategic economic security of the enterprise: methodology of providing: Monograph*. Voronezh. 261.

- Ivanov, Yu. V. (2010). Organization and its life cycle. Problems of the regional housekeeper. 12, 3-25.
- Miller, D. Frizen, P. (1984). Longyear study of the life cycle of a corporation. *Scientific management*. 10, 1161-1183.
- Raevneva, O. V. (2006). Management of business development: methodology, mechanisms: monograph. Kharkov. 493.
- Rotar, T. S. Niazyan, V. G. (2013). Sustainable development of the enterprise: the essence and methodology of calculating the integral index of sustainable development of the enterprise. *Bulletin of the Catherine Institute*. 2, 31-40.



Professor Dr. Lyudmila Zaporozhtseva is Professor at Department of Finance and Credit, Voronezh State Agrarian University named after Emperor Peter the Great 1, RUSSIA. She holds a Doctor of Economics degree. Her scientific research includes Enterprise Financial Development, Financial Vector, Financial Mechanism, Commercial Organization.



Professor Dr. Victoria Malitskaya is Professor of the Accounting and Taxation Department. She holds Doctor of Economics. Her scientific interests are Accounting, Analysis and Audit of Financial Assets, Consolidated Financial Statements.



Dr. Maria Chirkova an Associate Professor of the Accounting and Audit Department, Voronezh State Agrarian University named after Emperor Peter the Great 1, Russia. She has a Doctor of Economics degree. Her scientific interests are Accounting, Analysis and Audit in Trade, Accounting and Analysis of Bankruptcies.



Dr. Yuliya Tkacheva is an Associate Professor at Department of Finance and Credit, Voronezh State Agrarian University named after Emperor Peter the Great 1, RUSSIA. She holds a Doctor of Economics degree. Her scientific research is Entrepreneur Development, Financial Vector, Financial Mechanism, Commercial Organization.



Dr. Irina Kuznetsova is an Associate Professor at Accounting and Audit Department, Voronezh State Agrarian University named after Emperor Peter the Great 1, Russia. She holds a Doctor of Economics degree. Her scientific research encompasses Entrepreneur Innovation, Financial Vector, Financial Mechanism, Commercial Organization.

Trademarks Disclaimer: All product names including trademarks™ or registered® trademarks mentioned in this article are the property of their respective owners, using for identification and educational purposes only. Use of them does not imply any endorsement or affiliation.