

THEORETICAL AND METHODOLOGICAL PRINCIPLES OF THE STRATEGIC FINANCIAL ANALYSIS OF CAPITAL

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Abstract:

The article is devoted to the theoretical and methodological principles of strategic financial analysis of capital. The necessity of strategic financial analysis of capital as a methodological basis for study strategies is proved in modern conditions of a high level of dynamism, uncertainty and risk. The methodological elements of the strategic financial analysis of capital (the object of investigation, the indicators, the factors, the methods of study, the subjects of analysis, the sources of incoming and outgoing information) are justified in the system of financial management, allowing to improve its theoretical foundations. It is proved that the strategic financial analysis of capital is a continuous process, carried out in an appropriate sequence at each stage of capital circulation. The system of indexes is substantiated, based on the needs of the strategic financial analysis. The classification of factors determining the size and structure of company's capital is grounded. The economic nature of capital of the company is clarified. We consider that capital is a stock of economic resources in the form of cash, tangible and intangible assets accumulated by savings, which is used by its owner as a factor of production and investment resource in the economic process in order to obtain profit, to ensure the growth of owners' prosperity and to achieve social effect.

Key words: capital, asset financing policy, strategic financial analysis, strategy, structure of capital.

JEL classification: G31, G32

1. INTRODUCTION

The development of a market economy, dynamic changes in the external and internal environment increases the responsibility and autonomy of entities in the preparation and decision-making, including the size and structure of capital. The level of economic growth in the long term and competitive advantages increasing of any business entity depends on the choice and substantiation of an effective strategy for managing capital. All this shows the importance of strategic financial analysis of capital as a methodological basis for study strategies.

Issues of the strategic financial analysis of capital are considered in the works of many national and foreign scientists, including I. O. Blank, T. M. Kovalchuk, H. Yu. Kramarenko, V. O. Podolska, L. S. Sytnyk, O. O. Tereschenko.

Unsolved part of the problem is that in the scientific literature the theoretical and methodological principles of strategic financial analysis as a function of financial management are not justified, the nature of capital as an object of strategic financial analysis is not grounded.

The purpose of the research is to develop theoretical and methodological foundations of strategic financial analysis of the company's capital, to justify its methodological elements, to clarify the nature of capital as an object of analytical knowledge into consideration the achievements of world and national analytical science.

Methodological and information basis of the scientific research is the works of domestic and foreign scientists, materials of periodicals on the subject.

Methods were used: abstract and logical method, comparison, generalization.

2. RESULTS OF THE RESEARCH

Today there are different approaches to understand the essence of the capital of the company, which is one of the most important categories of economics. Transformation of socio-economic relations and development of economic science led to the existence of significant differences in the interpretation of this notion (table no. 1).

We have established that there is no consensus about the category of "capital" in the scientific literature nowadays:

- in financial management capital is viewed as a combination of means in monetary, tangible and intangible forms, invested in the company for financial and economic activity and obtaining profit, that is capital is identified with enterprise's assets [3; 4; 5; 10];

Table no. 1. The approaches to the definition of company's capital by various authors

№	The author	The definition
1	2	3
1	I. T. Balabanov	Capital is the part of financial resources. Capital is money in circulation and revenues they bring from this circulation [1].
2	O. I. Bidnyk	Capital is the property belonging to persons or entities in the moment and clearly separated from the income derived from that property for a certain period [2, p. 134].
4	I. O. Blank	Capital is a stock of economic goods obtained by savings in the form of cash and real assets, attracted by its owners in the economic process as an investment resource and factor of production for profit, its operation in the economic system is based on market principles and associated with factors of time, risk and liquidity [3, p. 277].
5	I. V. Ziatkovskij	Capital is an investment in assets that are held by the company and which is sufficient for the economic and financial activities and profit obtaining [4, p. 33].
6	L. O. Kovalenko, L. M. Remnova	Capital is material means and the money invested in the company for the purpose of business activity [5, p. 248].
7	H. Yu. Kramarenko, O. Ye. Chorna	Capital is the financial resources of a company needed for the organization of its business activity and used in economic exchange to produce revenues and profits [7, p. 333].
8	V. O. Podolska, O. V. Yarish	Capital is money available to the company for its activities in order to gain profit [8, p. 202].
9	V. V. Seleznev	Capital is a mutually increasing value, which serves as a certain amount of money spent on means of production and wages, and then during the sale of manufactured goods again turns into money, but in increasing number [9].
10	L. S. Sytnyk	Capital - the total value of assets in cash, tangible and intangible forms, invested in the formation of its assets in order to gain profit [10, p. 132].
11	H. V. Telnova	Capital – the sources of assets, i.e. by its economic content the capital makes it clear from which sources (own or borrowed) generated assets of the company and how the company depends on external funding [11, p. 143].
12	O. O. Tereschenko	Capital is requirements of property displayed in the assets certified by passive side of the balance; it shows the sources of assets acquisition financing [12, p. 22].

Source: Own elaboration

- capital is viewed as the sources of the business assets formation in accounting [11; 12];
 - from a legal standpoint capital is the property that defines the limits of material liability according to company's obligations [2];
 - some scholars identify capital as the financial resources necessary for the organization of business activity, which are used to produce revenue and profit [1; 7; 8];
 - supporters of the value approach consider that capital is value which is capable to create a new (added) value [9].

Analyzing in detail the definitions of capital we consider that capital is a stock of economic resources in the form of cash, tangible and intangible assets accumulated by savings, which is used by its owner as a factor of production and investment resource in the economic process in order to obtain profit, to ensure the growth of owners' prosperity and to achieve social effect.

Thus, capital is a complex economic category, its investigation requires the introduction of a systematic approach, which provides that strategic financial analysis should be a continuing process at all stages of the capital circulation (the formation of the required amount of capital for the effective strategies implementation; the optimization of the capital structure in the process of its using; the identification and elimination of defects in the enterprises' activity, the substantiation of the areas of capital reinvestment to ensure the effective functioning of business in the long-term perspective).

The strategic financial analysis of capital includes following interrelated elements: object of investigation, the indicators, factors, methods of study, the subjects of analysis, sources of incoming and outgoing information.

The object of strategic financial analysis of capital is its composition and structure, sources of formation and the level of efficiency.

In order to study the objects of strategic financial analysis of capital a system of indicators is used. Since there are different approaches to define the essence of capital in the scientific literature, a single methodological approach to the development of a system of indicators of strategic financial analysis is not produced by economists. This led to the fact that a system of indicators adequately characterizes this complex object analysis is not formed. Therefore, different methodologies allocate various number of indicators, some of which are overlapped or reversed. There is no consensus about titles of specific indicators (the same indicator has different titles or for the same title different methods of calculation are offered), which complicates the interpretation of the analysis' results in practice.

The research of different techniques of capital analysis allowed to distinguish the following main areas of building the system of indicators of capital's strategic financial analysis:

- the dynamics of correlations among the groups of financing sources of economic resources and the assessment of financial risk;
- the assessment of average value of capital and value of its parts;
- the determination of efficiency of capital which is grounded on indexes of the profitability and turnover;
- the justification of optimal balance among the individual components of economic resources and sources of funding (it is based on the choice of assets financing policy, assessment of liquidity and solvency, confrontation of components of company's capital and size of current and non-current assets).

During the research it is found that for a comprehensive study of capital the following system of indicators is used, which can be structured into the subsequent units (figure no. 1).

The strategic financial analysis involves a comprehensive and organically interrelated consideration of all main blocks of indicators, but the final assessment of the success of the company will be focused on indicators selected as the key.

Any indicator is influenced by the factors that constitute it and stay with it in a certain dependence (functional or stochastic). Factors are the elements or causes that affect the indicator or indicators [6, p. 154]. The system of factors affecting the size, structure and efficiency of the enterprises' capital is classified by place of occurrence (the internal factors, the factors of microenvironment and the factors of macroenvironment) and by the economic substance (the commercial and legal factors, the economic factors, the organizational and managerial factors, the market factors, the social factors) (table no. 2).

Researching and measuring the impact of factors on the size of the studied index is an important issue of strategic financial analysis methodology.

The more detailed is the investigation of the factors influence on rate of a indicator, the more accurate are the results of the analysis and evaluation of the quality of the company performance.

In the process of strategic financial analysis of capital the following methods are used:

- the traditional methods (allow to determine the current level, the state and structure of economic phenomena);
- the methods of the determined factor analysis (they are used for quantitative measurement of factors' impact on the change of indicator's rate in the presence of strictly-deterministic communication between them);
- the stochastic factor analysis methods (they are used to determine the influence of factors on the indicator in the presence of stochastic dependence);

- the forecasting methods (used to establish future trends and patterns of the company’s activity, predictions of future events in view of the influence of factors both internal and external environment);
- the performance optimization techniques (used to select financial strategy of the company in a high degree of uncertainty and risk, to find the best ways of the implementation of strategic objectives, to select the best variant of alternative actions);
- the methods of positioning and environmental analysis (used to diagnose the influence of external and internal factors on the capital efficiency of the company, to determine competitive positions, to select priority areas and activities, to assess the effectiveness of strategic decisions regarding capital structure of the company).

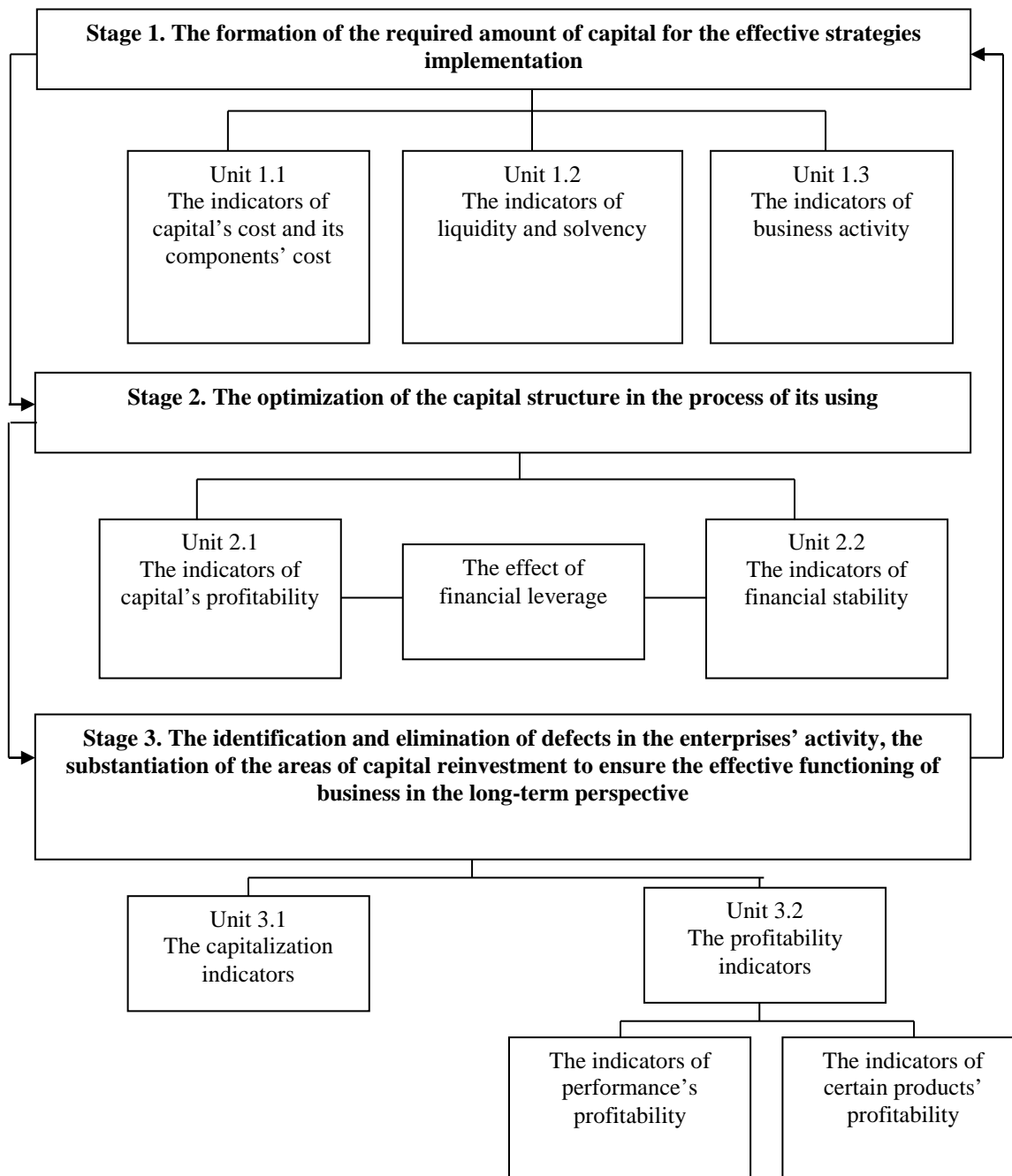


Figure no. 1. Block diagram of the strategic financial analysis’ indicators based on the stages of capital circulation

Source: Own elaboration

Table no. 2. The classification of factors determining the size and structure of the capital of the company

The internal factors		
The commercial and legal factors	Requirements of the minimum amount and the order of formation of own capital; requirements regarding loan capital.	
The economic factors	Company size; form of ownership; economic sector; types of economic activities; stage of the life cycle; level of profitability.	
The organizational and managerial factors	Level of enterprise activity's organization; financial mentality of owners and managers; informational support of enterprise activity; promptness and efficiency of decision-making; relationships among managerial levels.	
The external factors		
The factors of micro-environment	The market factors	Commodity market conditions; financial market conditions; treatment of creditors to the enterprise; availability of financial market resources.
The factors of macro-environment	The commercial and legal factors	Organization of state administration in business; application of standards and limits; creation of investment, tax and other privileges; the provision of grants, compensations and subsidies.
	The economic factors	Rate of inflation; unemployment rate; stability of national currency; phase of the economic cycle; the refinancing rate of central bank; country's investment attractiveness.
	The social factors	Social stability; level of criminalization and corruption; purchasing power of the population.

Source: Own elaboration

The subjects of strategic financial analysis are managers of different hierarchical levels of an entity.

The correctness and effectiveness of the conclusions based on the results of strategic financial analysis of the company's capital directly depend on the quality of its information support – optimal set of accurate, relevant, internal and external information about the subject that is the object of collection, registration, transfer and conversion for the purpose of qualitative analysis and development of effective managerial decisions.

All information sources for strategic financial analysis are divided into regulatory and planning, accounting and external accounting.

The regulatory and planning sources of information include all types of plans that are developed by the company (strategic, prospective, current, operational, financial plans, business plans) and regulatory materials, estimates, contracts, wage rates. The information obtained from regulatory and planning source in comparison with the accounting information provides quantitative confirmation of the achievement of the entity's objectives.

The accounting sources of information – all the data contained in the accounting documents (including source documents, registers, ledger), statistical and operational accounting and reporting of all kinds (financial, statistical, tax and internal).

The external accounting sources of information – documents regulating economic activity (at the national level – laws, codes, orders, regulations, instructions; at the enterprise level – the founding documents, staffing, organizational structure of management, order on accounting policies, job descriptions) as well as the data that characterizes environmental conditions (data from State Statistics; information published by specialized periodicals, publishing houses, trading houses, stock and currency exchanges, unions; information provided by consulting firms, information desk and other specialized organizations, exhibitions, fairs, exhibition catalogs, advertising competitors and suppliers; financial statements of providers and competitors; electronic information sources, materials of marketing surveys; personal contacts). Because of the complexity and instability of the environment, its principal influence on the formation and development of the financial capacity of entities in market conditions, increases the importance of timeliness and completeness of the

information about macro factors and factors of immediate environment for the implementation of business strategy.

Comprehensive investigation of all sources of information will eliminate the separation of analytical conclusions and provide effective decision-making.

3. CONCLUSIONS

The theoretical generalization and new problem solving of the strategic financial analysis of capital is performed in the article. It allows to improve its theoretical and methodological principles. Methodological elements of strategic financial analysis of capital are theoretically grounded on this basis. This will contribute to its integration with the requirements of strategic management and create preconditions for its implementation in enterprises' practice.

It is proved that the strategic financial analysis of capital is a continuous process, carried out in an appropriate sequence at each stage of capital circulation.

On the basis of the generalization of approaches to determine the essence of company's capital we tried to form own approach to understand this notion according to the needs of strategic financial analysis.

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