

Research Paper

# Financial Strategy of Economic Entities in the Conditions of Transforming Economic Systems

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Received: 29-11-2022

Revised: 28-01-2023

Accepted: 06-02-2023

## ABSTRACT

Ensuring the country's sustainable social-economic development is one of the priority areas of the state's policy. It requires the formation and implementation of effective mechanisms for financial support and regulation of social-economic processes. In the conditions of strengthening the latest challenges and dangers, the issue of transformational conversions, the urgent necessity of which is the formation of a financial strategy for the social-economic development of economic entities, is being actualized. The purpose of the academic paper is theoretical and applied research on the features of forming and implementing the financial strategy of economic entities in the context of transforming economic systems. The methodological basis of the research is based on general scientific and special methods of economic analysis and scientific knowledge. In particular, the method of system analysis, synthesis and scientific abstraction, analogies, comparison, statistical analysis, functional analysis, graphic method, generalization and systematization were used in the research. The results of the conducted research make it possible to establish that the formation and implementation of economic entities' financial strategy in the conditions of transforming the economic systems at the current stage is under the influence of significant destabilizing external and internal factors of developing the state and society. It is aimed at ensuring the sustainable social-economic development of the country. The main stages of development and formation of economic entities' financial strategy have been identified. They provide for the formulation of the goals, objectives and tasks of the financial strategy, monitoring the external and internal environment, comprehensive assessment of the financial sphere, selection of tools for its implementation and ensuring control over the process of formation and implementation of the financial strategy. The need to strengthen the financial potential of implementing the financial strategy was proven using the example of Ukraine. Directions for counteracting the destabilizing factors of forming and implementing the financial strategy to ensure the country's sustainable social-economic development were proposed.

## HIGHLIGHTS

- Ensuring the country's sustainable social-economic development is one of the priority areas of the state's policy. In the conditions of strengthening the latest challenges and dangers, the issue of transformational conversions, the urgent necessity of which is the formation of a financial strategy for the social-economic development of economic entities, is being actualized.

**Keywords:** Social-economic development, financial system, financial strategy, transformational restructuring, economic systems, financial resources, financial potential

**How to cite this article:** Kibik, O., Slobodianiuk, O., Kotlubai, V., Nesterova, K., Prymachenko, I. and Kornilova, O. (2023). Financial Strategy of Economic Entities in the Conditions of Transforming Economic Systems. *Econ. Aff.*, 68(01s): 107-114.

**Source of Support:** None; **Conflict of Interest:** None



Strengthening financial and economic instability and the emergence of the latest problems and challenges of the country's social-economic development determine the need to search for effective methods of countering destabilizing factors intensifying their effect in the state and society. The emergence of crisis situations and aggravation of the risks of the financial sphere's functioning make it necessary to change the financial architecture. It should be done to stabilize processes and phenomena in the financial sphere and ensure the optimal level of its economic security. All the outlined requires the improvement and modernization of financial policy tools, as well as the formation of an effective financial strategy, as an important component of the state's social-economic policy. The importance of deepening studies in the direction of the formation and implementation of economic entities' financial strategy in the conditions of transforming economic systems lies in the complexity and, at the same time, in the necessity to stabilize macroeconomic indicators. Along with this, tools for using the available financial and budgetary potential should comply with the priorities of social-economic development in the strategic perspective. After all, establishing a close interrelationship between the volumes of state financial resources and the results of their use is an extremely important task. Taking into account the outlined tendencies, the issue under consideration acquires special relevance and requires in-depth study.

The purpose of the academic paper is theoretical and applied research on the features of forming and implementing the financial strategy of economic entities in the context of transforming economic systems.

## LITERATURE REVIEW

The transformation processes of economic systems imply their development and changes aimed at the qualitative target object conversion in order to quantitatively and qualitatively modify their parameters and components. Chmeruk & Storozhenko (2019) consider the transformation of economic systems as a set of changes occurring in the state and society under the influence of objective and subjective factors. These changes are aimed at achieving a new qualitative and quantitative state, goals, tasks and results of the economic system. In

this context, Petrunenko & Podtserkovnyi, (2020) claim that the processes of modern transformative conversions take place under the influence of crisis phenomena of a social-economic nature caused by social-political and financial-economic instability. They require the state's intervention, as there is a need for clear regulation of the system of social, economic and financial management. At the same time, scientists emphasize the need to form a financial strategy of economic entities. After all, the solution of social problems depends significantly on the state's capabilities and clear planning and distribution of available resources and possibilities.

Melnyk *et al.* (2019) believe that the factors of changes in economic formations determining the directions of modern social-economic development, among which industrial revolutions are distinguished, have a significant impact on the processes of transforming the economic systems and forming the financial strategy of economic entities. Concurrently, Qureshi (2022) recognizes technological innovation and digital technologies as drivers of transformative change, which have an equally positive impact on both the macro and micro levels. Consequently, as noted by Gherghina *et al.* (2020), when forming a financial strategy, it is necessary to take into account the tendencies in the financial development of economic entities and their performance indicators.

In this context, the remark of Manzhura *et al.* (2022), is sharp. The scholars position the formation of the economic entities' financial strategy in the context of transforming the economic systems based on implementing the concept of digital transformation. They are convinced that the financial strategy should provide for the construction of a new high-quality economic system capable of effectively responding to modern challenges such as virtual mobility and financial technology. Moreover, scientists prove the urgent need to intensify the development of digital financial instruments, digitize the activities of financial institutions and provide intellectual services in a virtual environment.

Vinichuk (2016), studying the issues of transforming social-economic systems, concluded that economic systems' development is accompanied by macroeconomic destabilization, and the transformational restructuring of society requires a balanced financial strategy for developing economic entities. After all, the success of the economic

systems' transformation depends significantly on economy growth and society's sustainable development. It was proved that the decrease in social-economic development indicators and the violation of the normative values of the financial support parameters of social processes cause an increase in the action of destabilizing factors. In addition, Kopytko *et al.* (2018) established that the current state of the country's social-economic development requires improvement of the institutional fundamentals of forming financial policy's strategic priorities and consolidating resources to regulate social-economic processes. Therefore, scientists believe that there is an urgent need to develop a financial strategy of economic entities, as well as a set of measures for its effective implementation, taking into account the cyclicity of transformational changes.

According to the standpoint of Adamenko (2021), the financial strategy in the context of transforming the economic systems is interpreted as a significant component of the state's social-economic policy, and it is a factor in ensuring macroeconomic stability. At the same time, the financial strategy development is aimed at harmonizing the financial and budgetary tools with the strategic priorities of social-economic development in order to create favorable conditions for the growth of the country's real GDP.

On the other hand, Štimac *et al.* (2020) consider the financial strategy through the prism of developing complex and long-term planning of the system activities' organizational fundamentals aimed at achieving the set financial goals through the distribution, redistribution and use of available financial resources. In this process, a significant factor is the activity of state institutions in the direction of ensuring effective management of financial and economic processes, the strategic priorities for the implementation of which, according to the viewpoint of Oneshko *et al.* (2022), should be systematized and structured in a strategic document – the financial strategy. At the same time, scientists are convinced that strategic management of the economic systems' development should be based on innovations and given the challenges of the modern global environment. In particular, Bezpartochnyi *et al.* (2020) focus on the global challenges of spreading the COVID-19 pandemic, which caused significant structural changes in the financial and economic

systems of the world countries. They require the formation and implementation of new management models of social-economic processes taking into account strategic risks, and trends in developing innovative activities and mechanisms for ensuring the state's financial security.

Along with this, Zaitseva (2021) sees the importance of forming a financial strategy in ensuring the main vectors of the country's social-economic development, including both macro- and micro-level subjects. The scholar also determines the directions of financial relations aimed at achieving strategic goals, choosing optimal methods for their achievement, and searching for financing sources. Goncharenko (2015), adheres to a similar opinion. The scientist notes the paramount importance of the problem of forming and implementing a financial strategy in the conditions of transforming economic systems. After all, the necessity to quickly respond to constant changes causes the need for long-term planning.

It becomes evident that in the process of transformation of economic systems, the issues of forming and implementing the financial strategy of economic entities become particularly acute and require in-depth research. The current scientific views on developing and implementing financial policy are limited to the need to improve the mechanism of managing financial resources aimed at achieving optimal indicators of the country's social-economic development.

## MATERIALS AND METHODS

The methodological basis of the research is based on general scientific and special methods of economic analysis and scientific knowledge. In particular, the method of system analysis, synthesis and scientific abstraction was used to determine the essence of the economic categories "financial strategy" and "transformation of economic systems". The study of the features of forming and implementing the financial strategy of economic entities in the conditions of transforming economic systems was carried out using analogies, comparisons and statistical analysis. The method of functional analysis was applied to determine the current state and trends of changing parameters of the process of forming and implementing the financial strategy of

economic entities in the conditions of transforming the economic systems. The graphic method was used to display the results of empirical research. The method of generalization and systematization was applied to form the conclusions based on the results of the conducted research.

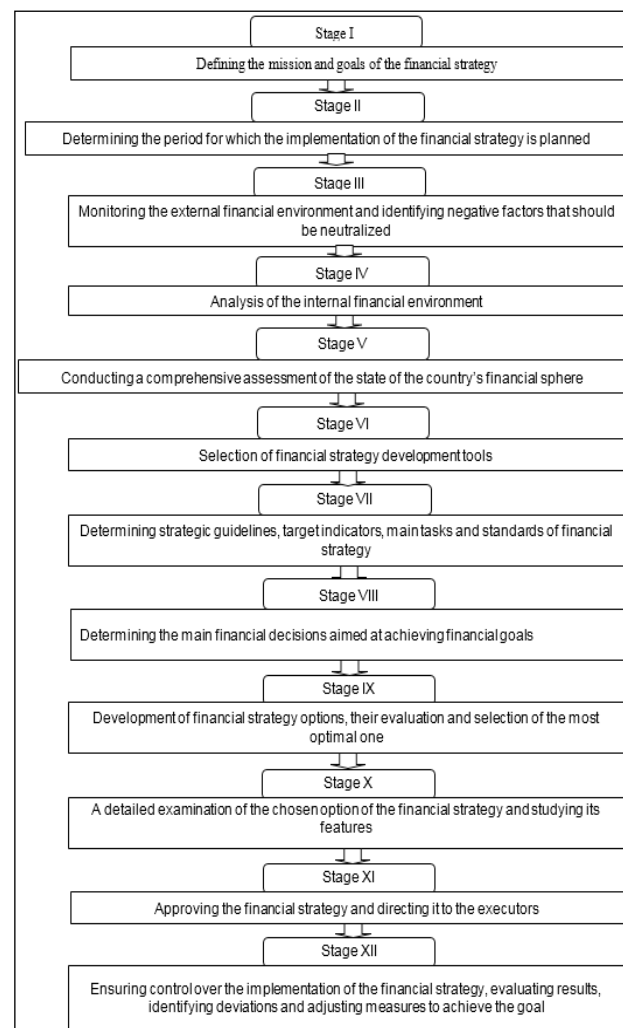
The information base of the research consists of the reporting data of domestic and international organizations for 2017–2022, in particular: Revenues of the consolidated budget of Ukraine by the indicator of revenues to the consolidated state budget of Ukraine; Statistical Yearbook of Ukraine for 2021 and Europe and Central Asia Economic Update 2022 based on the indicator of changes in the volume of real GDP in Ukraine.

## RESULTS

The processes of transforming the economic systems make significant adjustments to the country's financial system's existence and ensure its social-economic development. The irreversibility of making changes in the economic system determines the need to review the goals and vectors of developing the state and society and considering the influence of the latest factors, risks and challenges. It is obvious that financial strategy formation is an urgent necessity, which requires the development of a set of specific measures aimed at achieving strategic goals. Currently, considerable attention is paid to scientific and applied principles of financial strategy formation, taking into account the transformational changes that economic systems are undergoing.

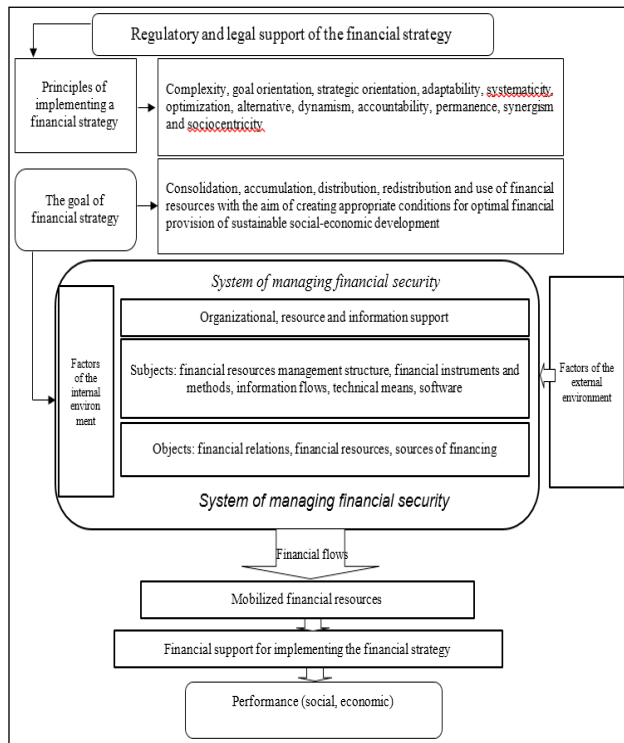
There are various approaches to considering the problems of forming and implementing a financial strategy in the scientific discourse. However, the majority of scientists are inclined to the opinion that the financial strategy is part of the country's social-economic development strategy, the main emphasis of which is on developing the country's financial system and the search for financial resources necessary to ensure sustainable social-economic development. At the same time, the process of developing and forming the financial strategy of economic entities involves the passage of successive stages (Fig. 1), each of which is based on the results obtained at the previous stage.

Needless to say that the determination of the algorithm for forming a financial strategy is an extremely difficult task. The final results of its implementation significantly depend on the quality of its execution. At the same time, the financial strategy is focused on achieving sustainable social-economic development. Consequently, the process of its formation and implementation has a systemic nature, oriented towards achieving priority financial goals, ensuring the process of effective distribution and use of financial resources, coordination of their flows and optimal parameters of financial security. Fig. 2 reflects the methodological principles of forming and implementing the financial strategy of economic entities in the conditions of transforming economic systems.



Source: Author's development.

Fig. 1: The main stages of developing and forming the financial strategy of economic entities



Source: Author's development.

**Fig. 2:** Methodological principles of forming and implementing the financial strategy of economic entities in the conditions of transforming economic systems

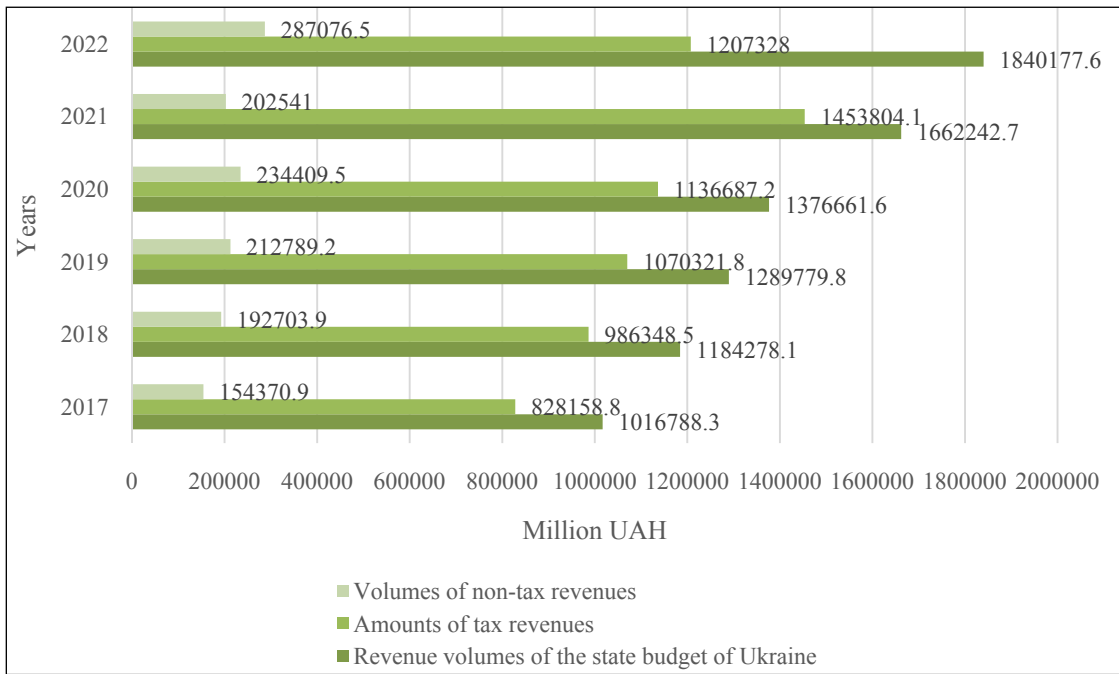
The issue of consolidating financial resources is actualized as one of the key aspects of financial strategy implementation in the crisis conditions of instability and uncertainty. It is obvious that within the framework of state policy, the consolidation of financial resources for the purpose of social-economic development takes place mainly at the expense of budget revenues. We consider it expedient to investigate the features of forming and implementing a financial strategy using the example of Ukraine, which is in a state of deep social-economic crisis, aggravated by the factors of military confrontation against the unprovoked military aggression on the part of the Russian Federation. Therefore, it is justified to conduct analytical assessments of the volume of tax revenues to the consolidated state budget during 2017–2022, the dynamics of which are shown in Fig. 3.

The results of the studies in the outlined direction indicate that during the analyzed period there is an increase in the total revenues of Ukraine's state budget from 1 016 788, 3 million UAH in 2017 up to 1 662 242, 7 million UAH in 2021 (by 63,48% compared to 2017). This proves the growth of the

country's financial potential and opportunities for implementing the financial strategy. At the same time, the specific weight in the structure of revenues of Ukraine's state budget is made up of tax revenues, which proves the hypothesis, put forward by us about the need to take into account the financial potential and stability of business entities. The crisis of 2022 also positions the growth of the total volume of revenues of Ukraine's state budget to 1 840 177,6 million UAH, which is 10,70% more than in 2021. However, analyzing the structure of the state budget's revenue part, it can be stated that the volume of tax revenues has significantly decreased compared to 2021, while the volume of non-tax revenues has increased.

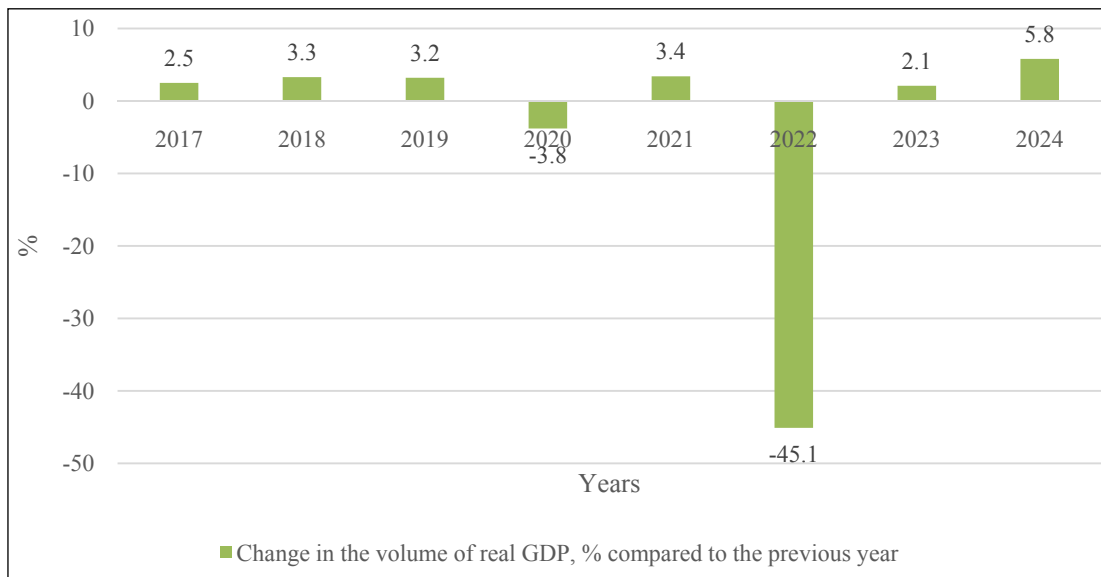
Considering the fact that one of the main goals of the financial strategy is to ensure the strategic priorities of the country's social-economic development with the use of financial and budgetary tools, it is expedient to study the possibilities of the public finance system to ensure the proper conditions for the growth of real GDP. The conducted analysis of the current state and tendencies of changes in the volume of real GDP in Ukraine in 2017–2022 (Fig. 4) allow us to state that there are significant obstacles to achieving the desired economic effect in the country, which deepen their effect in the period of exacerbation of crises.

The tendencies of changes in one of the main macroeconomic indicators, the country's real GDP, give reasons to state that Ukraine's national financial and economic system is subject to a significant destabilizing influence of negative factors caused by the crisis phenomena of social-economic and social-political development. As a result, the decrease in the country's GDP is observed, which was particularly significant during the period of military confrontation in 2022, down to -45,1%. Moreover, forecast assessments of the main tendencies regarding changes in the volume of Ukraine's real GDP in 2023–2024, conducted by World Bank specialists, made it possible to establish that the value of the analyzed indicator will have a slight improvement and its growth in the following years: in 2023 – to 2, %, and in 2024 – up to 5,8%, respectively. It becomes obvious that these factors have an adverse effect on ensuring the principles of effective implementation of the financial strategy. They prove that in the conditions



Source: Calculated based on: Revenues of the consolidated budget of Ukraine, 2017–2022

Fig. 3: Dynamics of revenues to the consolidated state budget of Ukraine in 2017–2022, million UAH



Source: Calculated based on: Statistical Yearbook of Ukraine for 2021; Europe and Central Asia Economic Update 2022.

Fig. 4: State and trends of changes in the volume of real GDP in Ukraine in 2017–2024 (2023–2024)– forecast data calculated by the World Bank)

of transforming economic systems, the formation and implementation of the financial strategy is less effective than during the period of the country’s stable social-economic development.

Under such circumstances, the need to stabilize financial and economic processes becomes of

paramount importance. This can be achieved by creating a reliable basis for ensuring the sustainable development of the economy and society, as well as, no less important, by ending active hostilities on the territory of Ukraine and stabilizing the state administration system at various levels.

## DISCUSSION

The financial strategy of economic entities in the conditions of transforming economic systems in the modern scientific discourse is positioned as a vector of financial policy in the long term. It involves solving the priority tasks of the country's development, declared in the economic and social strategies. It is obvious that the financial strategy formation is based on determining forecast indicators of developing finances and their use for the purpose of the country's social-economic development and involves the passage of the following stages, namely: (1) conducting a comprehensive analysis of the financial sphere's current state; (2) determining strategic priorities, forming goals, developing long-term plans and standards; (3) a financial strategy formation; (4) outlining the terms of implementing plans and achieving set goals.

The results of the conducted studies confirmed that in the pre-war period, Ukraine had financial potential and opportunities for effectively implementing the financial strategy; however, they were partially used. As for the period of the Russian-Ukrainian war, the negative impact on the country's financial system was recorded by significant destabilizing factors of a social-economic and military-political nature in 2022, causing an unprecedented drop in real GDP volumes to a record level of -45,1%. The consolidation of financial resources under such circumstances for the strategic goals of forming and implementing a financial strategy is highly questionable and cannot be fully implemented. After all, strengthening the country's defense capabilities is a strategically important task, where the lion's share of available financial resources is directed.

The cessation of active military operations on Ukraine's territory, the de-occupation of the country's significant territories, enhancing the effectiveness of activities of financial institutions, institutions of state power, and local self-government, as well as the promotion of entrepreneurship are crucial for getting out of the crisis situation. This will make it possible to accumulate additional financial resources that can be directed to developing the financial sphere and society. It is obvious that the financial strategy in the conditions of severe destabilizing influence of negative factors should be oriented towards forming financial and economic

potential in future periods in order to ensure the country's sustainable social-economic development.

## CONCLUSION

Thus, the conducted studies of the features of forming and implementing the financial strategy of economic entities in the conditions of transforming economic systems give grounds for asserting that the process of the financial strategy formation and implementation is complex. It is exposed to a significant destabilizing influence of negative factors of the external and internal environment, the effect of which is especially intensified in conditions of social-economic and social-political crises. In the process of conducting theoretical and applied studies, it was found that the forming and implementing the financial strategy of economic entities involves particular stages. At these stages, the goals, objectives and tasks of the financial strategy are formulated; the external and internal environment is monitored; a comprehensive assessment of the financial sphere's state is performed; the tools for implementing the financial strategy are selected, as well as control over the process of its formation and implementation is conducted. The need to strengthen the financial potential of Ukraine in the direction of implementing the financial strategy was proven. After all, significant destabilizing factors in developing the country's financial system and significant problems of mobilizing financial resources necessary to ensure sustainable social-economic development were identified. The main directions of counteracting the destabilizing factors of the financial strategy implementation in the context of ensuring the sustainable social-economic development of the country have been proposed. The most significant ones are as follows: the immediate cessation of active hostilities on Ukraine's territory, the need to de-occupy the territories of the eastern regions, enhancing the effectiveness of activities of financial institutions, institutions of state power and local self-government, as well as the creation of favorable conditions for developing entrepreneurship.

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