Leading approaches for monitoring financial security and maturity of business companies

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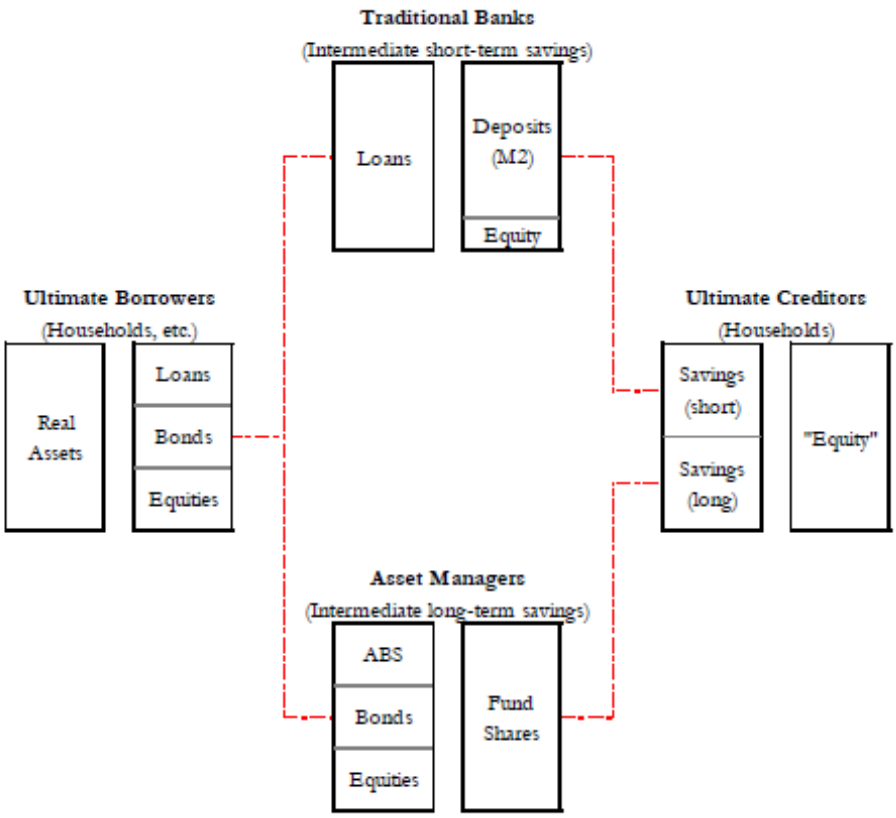
Abstract This paper concentrates on the leading approaches for monitoring the financial soundness of organizations represented by business companies in the context of their financial security. Financial security and maturity of business companies largely rely upon the financial control systems that are envisaged to provide sufficient protection for any company's finances and assets. Generally, financial management involves planning, organization, control, monitoring, and evaluation of an organization's financial resources to achieve its overall goals. In addition, there are a variety of tools to manage organization's financial resources and create a solid financial management system that includes collecting the data, assessment, analysis and learning in order to improve the subsequent iterations

Our results demonstrate that financial examiners usually work in one of the two main areas for ensuring maturity and financial security of firms: risk assessment or consumer compliance. We show that financial examiners need a strong analytical ability to assess the risk management efficiency of financial institutions and the safety of individual loans that the institution provides.

1 Introduction

Financial systems worldwide typically include a risk management mechanism for monitoring systemic risks and require that authorities be subject to increased capacity and regulatory reactions. The risk management tools have typically two goals: to study and treat risk of specific activities and to conduct the specific research for future development in order to be prepared and govern the current and future risk events and mechanisms (Aven and Zio 2014). In simplified way field of risk assessment is about understanding and managing the world as related to risk (Aven 2016). For example, risk management practices include the possibility of the consumer financial protection office to supervise and investigate financial institutions, as well as the agency's regulatory and enforcement authorities in relation to dishonest, misleading and offensive behaviours and practices.

In relation of business companies and their activities outside the traditional financial sector, regulation is necessary because of the risk level of such activities (e. g. credit delivery and maturity change), which contributes to the stability of the financial system and the economy as a whole (Pozsar and Singh 2011; Janda et al. 2013; or Bialowas 2018). Here, the financial intermediation (see Figure 1) may enable and facilitate shadow economy activities of banking sector and increase risks for the banks, intermediaries and the customers. Figure that follows 1 shows the simple financial intermediation framework.



Source: Own results, adapted from Pozsar and Singh (2011)

Similar risks maybe caused by cooperation of bank and non-bank intermediary institutions (Pagliari and Young 2013). Though the financial industries were responsible for the last economic crisis they also played an important role in post-crisis regulatory reforms (ibid).

Proper management or regulation of shadow economy might help to determine the nature of the social protection that customers invest in the event of adverse or unfavourable events. The regulatory authority needs to ensure that adequate regulation is extended to the shadow banking sector in order to strengthen public confidence and ensure stability of the financial system. The digital shadow economy including banking activities is the other source of systemic risks in financial and fiscal space (Koudelkova and Svobodova 2014; Gaspareniene and Remeikiene 2015; or Strielkowski and Cabelkova 2016). The factors responsible for the growth and success of the shadow banking sector can be attributed to the loss suffered by the banking sector during the financial crisis and the tight regulation.

In order to study the systemic risk management of economic and financial subjects one needs to study various sectors economic and non-economic life such as education economy, financial economy and financial stability analysis, and the natural resource economy (energy, water or forestry). Though the last one is not primarily related to the financial sector, it does play a substantial role in international relations which, in turn influences the economies and financial risks in developed economies such as EU countries.

An analysis of the Eurozone system's interrelationship between the Eurozone, based on new data on high - risk exposure, suggests that the system may be more vulnerable to financial infection by long - term bank exposure than studies have shown (Aizenman et al. 2016). Similarly, the sovereign debt crisis of Eurozone may serve as a source of contagion for the developing markets and for the whole world globally (Aizenman et al. 2016)

One of the sources of possible sources of financial instability in Europe is the increasing role of exchange-traded funds (ETFs) in market operations. While ETFs continue to account for only a small fraction of mutual fund shareholdings, their growth has been strong, which suggests that financial stability and regulatory scrutiny is necessary, including future interactions with other parts of the financial system. Due to their low trading costs they are very attractive for the traders. However, the overuse of these assets increases the negative autocorrelation in stock prices, thus increasing non-diversifiable risks (Ben-David et al. 2018) .

Repo markets is another source of systemic risks in financial sector. The effective functioning of repo markets is crucial for both financial stability and monetary policy, but excessive use of repos can also pose a systemic risk, as evidenced by the recent financial crisis. The elusive liquidity and financial stability of collateral markets and deregulated repo markets were recognised by the Central banks and Financial Stability Boards as systemic source of financial crisis and shadow banking (Gabor 2016). In addition, repo crises is linked to be related

to the crises of clearing houses and sovereign debt crisis in Europe (Boissel 2017). Regulatory reforms, which have been carried out since the crisis since the beginning of the crisis, have aimed at curbing systemic risks associated with the accumulation of leverage and volatile financing, but have recently raised concerns about their potential impact on the repo market. Therefore, the low volatility of the financial markets is closely monitored by the financial stability authorities, as it can conceal an under-pricing of risk and the accumulation of financial imbalance.

In 2016, various high - risk asset prices rose sharply, and the volatility of the financial markets rose to a low level, while economic uncertainty measurements rose sharply, which was partly due to the results of the British referendum on EU membership and the U.S. presidential elections (Belke et al. 2018; Wagner et al. 2018). In retrospect, other political clashes may raise national financial conditions, increase risk forecasting and potentially raise concerns about debt sustainability, in the absence of offsetting factors.

Excessive credit growth and leverage have been the main drivers of previous financial crises, particularly the recent global financial crisis (Alessi and Detken 2018). Nowadays, cyber-attacks on governmental and financial institutions as well as general infrastructure became so sophisticated and elaborate that their solid protection requires massive investments into security (Xie, et al. 2011; Eling and Schnell 2016). All of this makes financial security a very expensive business. Therefore, monetary stability authorities are worried about how institutions and markets may disperse and strengthen consequences independently of their origin.

In addition to these efforts, the fiscal industry, authorities and federal authorities have worked to enhance general stability and durability in the hope of averting a repeatable fear like the fiscal meltdown of ten decades back. The dynamics - also called vulnerabilities - are of remarkable significance - that may result in financial crises (e. g. operating in banks and throughout the funding marketplace, burning resources, losing hope). With higher leverage, even just a moderate drop in asset values may cause a sharp fall in monetary institutions' equity and the capacity to absorb losses, resulting in financial hardship or inability (Mendoza 2010; Kumhof et al. 2015).

2 Financial security of business companies

Financial advisory services have grown dramatically, as investment banks have worked with the large number of private funds - hedge funds and private equity funds - which have accumulated hundreds of billions of dollars in recent years. While in some cases and time periods, the investments in stocks and bonds yield abnormal returns (Barber at al. 2001) in other cases the funds sold through brokers bring inferior returns even before the distribution fee (Bergstresser et al. 2004). Yet other authors question the efficiency of such services and point out the agency problem and the problem of adverse selection (Inderst and Ottaviani 2009, Hackethal et al. 2012). In addition, investment banking employees are not allowed to discuss research reports with analysts prior to distribution, unless employees of the legal and compliance department monitor such communications which creates the delays in information distribution and increase the reaction span.

Despite the questionable returns, many investment banks have used the reputation of their investment analysis expertise to develop subscription and money management companies. Investment banks are competing with each other, as well as with large commercial banks and specialised money management companies, in order to build up assets. Growth is highest in emerging markets, investment opportunities, insurance and development opportunities are wide, and all major investment banks are well established in many countries (Cavusgil, et al. 2012).

The securities of the companies should be also sufficiently managed. The company's research reports must indicate whether the securities company (or its subsidiaries) has a favourable share of one percent or more of the company's share classes. For example, it is customary for a company to offer brokerage services to clients who manage assets independently, even for joint customers. It is also common practice for counselling to focus on portfolio management rather than on giving consumers a holistic view of their finances, which covers the entire spectrum of assets, liabilities and objectives. One way to enable holistic financial planning, including pension planning, is to provide a central financial management platform for companies (Hall and Hagen 2014). Guest analysts will have indicated whether they or their company has a stock position, whether the company is a customer of the company's investment banking, whether the analyst or a member of the analyst's household is an official, director or advisor to the recommended issuer, and other significant conflicts.

In many financial service providers, the offer of counselling is distributed among the various branches of the organisation. Each branch typically deals with a particular financing scheme and provide essential services. The organisation can than benefit from the uniquely designed holistic financial service that may move its financial returns to higher levels. They are important in overseeing the group's daily operations, including investment management, customer relationships, product development, marketing, operations and administration.

The benefits and risks of financial investments are also applicable to the sector of consumers. The risks are threefold. The first one deals with the risk of excessive debt, which, in times of economic recession can support systemic downfalls of the particular industries and of the countries. The second risk is the risk of investing to financial assets with the vision of short-term revenues. The downfalls of financial markets, the excessive fees of

the brokerage agencies and the inadequate strategy of investment may cause substantial risks in losing the financial capital. The third type of risk is related to the overall life financial strategy and, most importantly, the retirement savings. Here, besides the strategic, economic and market risks, the customer may also drive the risk of not taking into account the financial needs of the old age (Foster 2012).

Recently, financial advisors are almost unanimous in the suggestion that consumers face important challenges to start and stay on track with pension planning. But even with the perfect financial plan for the old age, the last financial crisis in the USA has shown the risks of investing in the particular long term assets that may, eventually fall in value. In addition, it is natural that people who have conflicting priorities do not trust third parties to help manage their money or are not familiar with their retirement investment options to delay meetings with an advisor, much less to commit to a formal plan and invest to implement one.

In September 2014, the Deloitte centre for Financial Services commissioned its associates to conduct an online survey of U.S. consumers, which aims to provide insight into the factors that affect the sense of security of retirement finance. The results of the survey were used for assessing the investment and banking sectors abilities to fulfil these needs and to find new areas of generating revenues. The results of these studies suggested that one of the risks and opportunities the banking sector needs to endeavour is to find new areas to compete and to react to the possible regulatory changes (Deloitt 2014)

The internationalization and globalization of economic and financial activities bring new risks to the business sectors. The position of China which grows stronger on international arena and Chinese investments into production assets in developed markets pose new challenges in management and organisation of production. Leading multinational corporations' executives should concentrate on formulating and implementing Chinese strategies in various industries, including science and technology, energy and resources, industrial, media and entertainment, medical and pharmaceutical products, consumer goods and financial services.

Similarly, as multinational firms start to operate in less developed markets, they have to adopt new strategies that comply with the legislation, culture and audit standards. Microsoft is one of the examples of such.

For the U.S. financial institutions and multinationals with U.S. offices, Microsoft offers both compliances offer approved by independent audit firms in accordance with u. s. standards and point - by - point guidelines to help companies meet cloud outsourcing requirements and regulations. Microsoft helps clients with Financial services to meet the requirements of the Federal Financial Institutions review board. Microsoft provides financial services customers with specific obligations to ensure that their contract framework complies with the regulatory requirements, including the express obligation to support any regulatory authority for financial services that requires a direct review of the operations and controls of Microsoft cloud services. Microsoft's corporate cloud services help banks and insurers to meet stricter regulatory requirements for data protection.

The separate category of companies with respect to risk management is the category of Start –up. Start - up companies and businesses can have many attractive investment opportunities in business security, but few current returns to invest. However, they may be responsible for the management of the company's financial, treasury, technology and development functions.

3 Company maturity in the 21st century

Business development in a company is achieved by a set of operation, departments and individuals that are responsible for strategic decisions aimed at growing and restructuring its operations, building strategic partnerships, entering into mergers and acquisitions and or achieving organizational excellence. Today, many companies have countless partnerships, but no strategic approach to exploit them for new growth. In general there are four stages of business development: start up, growth, maturity and decline. At the last fifth stage the company is closed. Furthermore, the growth of the companies follows four stages: start up, establishment, adulthood, and the turning point.

Existing research on the maturity of the organizational project has shown that most organizations are usually at the second level, with almost all other organizations ranked first or third, while an almost insignificant number of organizations ranked fourth or fifth (Grant and Pennypacker 2006). In of 126 organization analysed the median level of maturity of project management was 2 out of maximal 5. The maturity did not differ significantly across the four major industries: scientific and technical services; information; finance and insurance; and manufacturing (Grant and Pennypacker 2006).

In addition, Pennypacker and Grant (2003) conducted research on 123 union centre Business Practices to determine the maturity level of project management between companies, in relation to the size of the industry and the company. The results showed, that 67% of the firms are at an overall project maturity of level 2 (out of 5) or below. These results were consistent with respect to industry of the firm size.

Similar research conducted by Supic (2005) has focused on Croatian organizations to assess the average maturity of project management and to link the findings to the core features of organizations, such as industry and size. The findings suggest the levels of maturity to be even lower than in previous study: most of the organisations were on the first or second level of maturity out of possible five with the average of 1,75. One of the reasons for

such a low number was declining budgets though there is and overall understanding that project developing practices should develop within the organisations.

Mature companies need to move away from fast - growing strategies and adapt to built-up strategies around the maintenance of reasonable growth and profitability sustainable in the long run (Hynds, et al. 2014). Various types of sustainability can be considered including people, environment, profits, opportunities of R&D, and new product development. In addition, as mature companies have a large customer base, new products and services can be offered through cross - selling techniques within the organisation.

One of the signs of developing companies nowadays is the extensive use of information and communication technologies. Information and communication technologies are changing the traditional way of "doing business" and "outrunning the competition". The audience becomes enormous but in order to be heard, companies should learn how to make their customers interested in their products and services. The "information overload" is too large, so the processes and mind sets should be changed while new business opportunities should be explored and used quicker than the competition might get hold of them. The speed of changes and doing business in the 21st century is enormous.

Internet and sharing services are the other external factors the companies need to react upon. We are now living in an era of "gig economy" and sharing services. Internet enabled many people to work remotely and for multiple employers. Even large companies can consist of a core team and then peripheral staff and projects around it rather than full-time employees working for one company. It is in business environments where the role of individuals is crucial to building a competitive advantage for a company based on foresight as one of its core competencies. They help to find out if the company and the current team have pioneer other products for full commercial acceptance

Companies need to quickly create value thanks to digital initiatives, which always keep their customers first - e. g. when designing digital journeys for customers. Digital teams work with brand teams to create new ways of doing business - through mobile applications and e - commerce sites, for example - to increase customer acquisition and retention. For example, organizations may already have an innovation culture or employ Agile work processes, and they may be able to leverage such areas, show success, and build momentum across the organization before making further changes. Particularly well - established companies usually face significant challenges in terms of digital transformation - and one of the biggest ones is their past success. Marketing leaders can help build the digital maturity of their organizations by creating an environment in which they perceive failure as part of the learning process.

Data management and monitoring carried out at an enterprise - wide level can enable mature companies to improve efficiency, manage costs and boost sales organically. For example, a multinational biopharmaceutical company has launched a digital initiative to integrate data sources, improve visibility into the supply chain and generate data beyond traditional enterprise resource planning (ERP).

4 Conclusions

One can conclude that financial security and sustainable development of business companies is one of the most challenged issues in modern business world. Last economic crisis put many of the major financial companies to the edge of survival and shifted the monetary policies of the major central banks to the more expansionary modes. They also created major precedents of saving the biggest financial institutions from the pockets of the tax payers thus providing more intentions for loose risk assets managements. On the other hand, the additional regulatory policies tightened the process of creating new financial assets on the financial markets hopefully stabilizing the situation in the future.

The financial risks, initiated by the financial sectors are than projected to the level of corporations, business companies and individual level. Besides the risks appearing in production lines or chains the business companies have now take into account the risks from financial downfalls, risks of globalization and operation in the economies with different business ethics. China is one of the major examples of the countries which can change the ways of doing businesses in international corporations as it invests heavily abroad.

On the level of individual, the financial crisis questioned the soundness of current retirement and saving systems and diverted party of the population from their retirement plans thus increasing the risks of being financially unstable in the old age. On the other hand, on the country level and in some countries but not in the others it increased the propensity to save as opposed to spend, which provided deflationary shocks and lowered down business development.

The upraise of informational technologies (IT), new business models and work processes (Agile, ERP) and extensive outscoring of business, controlling, planning and financial capacities bring both new challenges and possibilities for financial control and business development. Some of the functions of financial management such as planning, organisation, control, monitoring and evaluation of an organization's financial resources and then outsourced from external accounting and audit agencies or made more efficient by the use of IT technologies and new models for work processes.

Our results and findings suggest that nowadays the financial analyst look at the two before mentioned areas-financial security and maturity levels as ones of the main factors ensuring the long-term sustainability of the firms. Because of the processes mentioned above, they also need strong analytical skills to assess the risk management practices of the financial and real sector institutions, efficiency and maturity of operation and safety of the loans the institution may provide.

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