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Article

Formation and Development Stages of Approaches To Assessing Financial Security In Joint Stock Companies

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Abstract: This article analyzes the necessity of assessing financial security in joint-stock companies in Uzbekistan, its formation stages, scientific approaches, and the evolution of practical implementations. The theoretical foundations of the concept of financial security, the internal and external factors influencing it, the system of evaluation indicators, and the impact of these indicators on the activities of joint-stock companies are extensively discussed. Furthermore, special attention is given to the early identification of financial threats and the mechanisms for their effective management under modern corporate governance conditions. The research findings also include recommendations for identifying and addressing the problems existing in the practice of Uzbekistan.

Keywords: Financial Security, Joint-Stock Company, Assessment, Indicator, Development Stages, Risk, Methodology, Monitoring

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1. Introduction

In a market economy, strengthening the financial condition of enterprises, especially joint-stock companies, and ensuring their economic stability is of great importance. One of the key factors in achieving such stability is the effective management of financial security and the accurate assessment of its level. Financial security is the ability of an entity to maintain its financial balance, ensure financial stability, and remain resilient in the face of unexpected financial threats [1].

In recent years, new methods, indicator systems, and approaches for analyzing and monitoring the financial security of joint-stock companies have been emerging against the backdrop of global financial crises, economic instability, and digital transformations. In particular, determining a company's financial potential through financial analysis, risk assessment, liquidity, and profitability indicators plays a crucial role in making strategic decisions today [2].

In the context of Uzbekistan's economic transformation, developing scientifically grounded approaches to assessing financial security for joint-stock companies and applying them in practice is an urgent issue [3]. The main goal of this article is to deeply explore the emergence of approaches to assessing financial security, their historical development stages, and their role and significance in the activities of joint-stock companies.

Literature Review

Scientific views on assessing financial security have been developing globally since the second half of the 20th century. Internationally, a group of scholars led by R. Martini emphasizes that some companies operating for a certain period may fail to meet their obligations or may be forced to cease operations due to financial difficulties [4]. The reasons for a company's cessation of operations can vary. One of the most common reasons is financial distress, which manifests itself as an inability to pay and may later lead to bankruptcy. If a company cannot ensure its operational stability, bankruptcy may become an issue that arises within the company.

Additionally, the concepts of risk management developed by J. F. Weston and T. Copeland emphasize that financial security should not only be based on financial statements but also take into account external economic factors, political stability, and the quality of internal governance [1].

The practice of assessing financial security has gone through several stages, with financial analysis and monitoring methods improving at each stage. The first studies on forecasting business difficulties and creating a model that can predict financial distress with sufficient probability began in the 1930s by American economist Paul Fitzpatrick (Fitzpatrick P.J.), who conducted research to assess creditworthiness for banks in 1932 [6]. Later, in 1942, Charles L. Mervin published a study on forecasting financial distress, which remained dominant in this field until 1966. In 1966, William H. Beaver published a new study on assessing corporate bankruptcy. This study was based on a sample of 79 companies that went bankrupt between 1954 and 1964. The primary goal of these early studies was to analyze financial ratios in order to identify financial indicators that could predict business failure.

Scientists from Russia and CIS countries have also conducted research in this area. For example, in Russia, V.V. Kovalev [7], in his work "Financial Management of the Enterprise", thoroughly examined the criteria for financial stability and security. A.M. Kogdenko [8] developed a methodology for assessing financial security through an indicator system in the context of monitoring financial security. Kazakhstani scientist S. Yessenov [9] proposed the use of economic volatility indices to assess the financial security of joint-stock companies.

It is worth noting that in recent years, there have been extensive scientific and practical studies aimed at ensuring the financial security of corporate structures in our country as well. R. Rakhmonkulov, by systematically studying the factors affecting financial stability in joint-stock companies, developed an indicator system to assess the financial security level of enterprises. In his work, he also addresses the challenges of adapting foreign analytical models to the national context [10]. Furthermore, the Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of Shareholders' Rights" [11] serves as a crucial foundation for ensuring financial transparency, information security, and investment protection in joint-stock companies.

Taking into account the significance of the aforementioned studies and building upon them, it must be acknowledged that research aimed at increasing the financial stability of joint-stock companies operating in our country remains highly relevant. In this regard, it is important to study the practical use of modern models for assessing the financial stability of companies in international practice and widely assimilate this experience, adapting it to our conditions.

2. Materials and Methods

The article uses systematic analysis, historical approach, comparative analysis, empirical observation, and statistical methods. Content analysis was conducted based on scientific sources, foreign and national experiences, and normative-legal documents. To

ensure a comprehensive analysis, both qualitative and quantitative research methods were integrated.

3. Results and Discussion

The main objectives of financial stability are to protect the company from insolvency and liquidity problems, minimize investment risks, and ensure long-term financial stability. For this reason, a successful financial management system plays a crucial role in enhancing the financial stability of the enterprise. Effective corporate finance management and the role of financial management in achieving the above goals are considered significant. In explaining the stages of formation and development of financial security, it is appropriate to study the initial theoretical research on financial stability and explain their practical significance.

The system of assessing financial security has undergone several historical stages, with each stage improving conceptual approaches, evaluation criteria, and practical instruments. This process can be divided into the following stages, se Table 1.

Table 1. Formation and Development Stages of Financial Security Approaches[1]

Stage	Main Approach	Key Characteristics
Stage 1: Until early 20th century	Assessment based on solvency (intuitive approach)	Lack of financial concepts, information scarcity, intuitive decision-making
Stage 2: Mid-20th century	Centralized financial management and statistics	State planning, balance sheet liquidity, stability through control and subsidies
Stage 3: Late 20th – early 21st century	Indicator systems and strategic financial analysis	Risk indicators, international methodologies (Z-score, due diligence, ratings), assessment of external risks
Stage 4: Present day	Artificial intelligence, ESG, and real-time monitoring	Big data, machine learning, ESG criteria, compliance and rapid reporting systems

Stage One (Until the early 20th century): During this period, the concept of financial security had not yet been formed. The financial stability of enterprises or organizations was mainly assessed based on their ability to meet short-term financial obligations—that is, their solvency. Concepts such as financial management, strategic approaches, and supporting mechanisms did not exist. The management system was largely based on intuitive decision-making, and there were no clearly defined indicators or control mechanisms to ensure financial security. Moreover, since the economy was primarily in an agrarian or early industrial stage, and financial information was insufficient, the possibilities for analyzing financial stability were significantly limited [12].

Stage Two (Mid-20th Century): During this period, in the Soviet Union and other centrally planned economies, the issue of financial security was regulated directly through state planning and centralized financial management systems. Enterprises' financial conditions were assessed through strict adherence to financial discipline, balance sheet liquidity, profitability, and rigorous control over fund flows [13]. Although financial risks were minimized due to budget planning and state control over prices, these approaches were mainly based on reporting and statistical indicators and were less responsive to changes in the external environment. Additionally, the financial stability of enterprises was artificially ensured by the state through subsidies, preferential loans, and the redistribution of resources.

Stage Three (Late 20th Century – Early 21st Century): In Western countries, a comprehensive system of indicators—such as financial ratios, risk indicators, and key

financial outputs (KFO)—was developed to assess financial security. During this stage, economic stability was evaluated not only through balance sheet figures but also through strategic financial analysis, internal and external risks, and the enterprise's resilience to unexpected financial crises [14]. Tools like credit ratings, scoring models, due diligence processes, and financial soundness indicators (e.g., Z-score) became widely used. Methodologies developed by major consulting firms such as Deloitte, PwC, and KPMG became key instruments for assessing the financial stability of joint-stock companies on an international scale.

Stage Four (Present Day): Financial monitoring and forecasting tools are evolving based on digital technologies, artificial intelligence, and big data. The financial security of companies is now being assessed using ESG (Environmental, Social, and Governance) criteria. In addition, financial stress testing based on big data and machine learning, as well as real-time monitoring through rapid reporting systems, have become possible. In many developed countries, within the framework of corporate security policies, financial security has been developed as a separate module and integrated with audit and compliance systems [15].

The amount of authorized capital, asset size, and investment policy of a joint-stock company are considered indirect factors influencing its financial stability. However, the state of these financial indicators plays a direct and significant role in ensuring solvency and liquidity ratios. One of the key indicators that characterizes the financial stability of joint-stock companies is capital adequacy and the coefficients used to assess the likelihood of a financial crisis. In this regard, the following section of the article presents an analysis of these financial stability indicators using the example of "Uzagrolizing" Joint-Stock Company.

During the financial analysis process, several coefficients are used to reflect the value and volume of the joint-stock company's equity. These include:

1. **Equity Adequacy Ratio**. This indicator reflects the share of a company's own funds within its total assets. It is one of the key metrics used to assess financial stability and security. According to financial analysts and creditors, a higher ratio is generally considered favorable. The ratio is calculated as follows: private equity / total assets.

For a large state-owned enterprise such as Uzagrolizing Joint-Stock Company, it is difficult to set a specific normative benchmark for the equity-to-total-assets ratio, as it depends on the company's industry, financial strategy, risk profile, and other factors. However, general recommendations suggest that for large state-owned companies and those operating in the energy sector, the equity-to-total-assets ratio should typically range between 20% and 30%.

This figure represents the minimum level required to ensure financial stability by efficiently balancing internal funding with debt when financing assets. The evaluation of this indicator is presented in the following table, see Table 2.

Table 2. Quantitative Indicators of Adequacy of Companies Equity Capital[2]

No	Capital Adequacy Ratio	Evaluation indicators
1	> 20%	Insufficient
2	20% to 30%	Normal
3	31% to 50%	Good
4	51% to 75%	Reliable
5	< 75%	High

2. The Capital to Liabilities Ratio is a key indicator used to measure a company's financial stability. This indicator shows the ratio between the company's own capital (i.e., shareholder equity, profit, and reserves) and its liabilities (debts). The formula is as follows: private equity / liabilities.

The minimum threshold set for this indicator is 1, with results higher than this indicating a higher ability of the company to meet its obligations, meaning a greater ability to fulfill its liabilities using its own funds.

3. The Equity Turnover Ratio is an indicator that shows how effectively a company uses its own capital and how much activity it generates to earn income. It helps measure the activity of the company's equity and its efficiency in business. The formula is as follows: total income / average value of private capital in the reporting period.

Based on the trend of this indicator's changes, shareholders can assess the effectiveness of the investments made by the owners. In this process, not only the capital owners but also the company itself can evaluate the effective use of capital formed during its operations. In turn, when discussing the threshold values of this indicator, if the result is high, it can be said that the insurance company's development trend is strong.

On the contrary, as the value of this ratio decreases, the turnover of equity slows down. In such a case, the capital owners will have to make a decision to implement high profitability in another alternative direction.

4. The Return on Equity (ROE) for Shareholder Capital is a financial indicator that shows the percentage of profit the company generates in relation to the capital invested by its shareholders. This indicator is used to assess the profitability of the company's shareholder equity and demonstrates how much profit the company is generating for its users (shareholders). The formula is as follows: profit before tax / average value of private capital in the reporting period

The result determined based on this ratio allows investors to compare the returns they have earned from alternative options or investments in securities of other joint-stock companies. It is important to note that, in market conditions, most companies carry out their activities by forming external funds alongside their own funds. While forming additional resources through external sources increases investment opportunities, it also leads to a higher level of risk associated with liabilities for the company. In our opinion, it is preferable for insurance companies to have equity capital exceeding debt obligations, i.e., the amount of equity capital should be greater than debt capital. It should be noted that in insurance companies, their rating is one of the key factors when assessing capital-related indicators in national and international practices. The effective use of debt capital is not as important as the amount of equity capital. In our view, when determining the rating of insurance companies based on financial management concepts, it is necessary to implement practices not only for evaluating the amount of equity capital but also for assessing the effective use of debt capital.

From the above capital adequacy indicators, we will analyze the case of Uzagrolizing Joint-Stock Company, see Table 3.

Table 3. Analysis of the Equity Capital Adequacy Indicators of Uzagrolizing Joint-Stock Company[3]

No	Indicators	2019-yil	2020-yil	2021-yil	2022-yil	2023-yil	change (+,-)
1	Equity capital (million soums)	133 656.3	143 132.0	152 001.0	157 791.2	444 123.2	286 332
2	Total assets (in million soums)	1 861 821.4	2 091 441.0	2 108 510.5	2 007 546.1	1 818 160.0	-189 386.1
3	Liabilities (in million soums)	172 836.0	324 643.0	381 053.6	260 048.8	166 738.6	-93 310.2
4	Total income (in million soums)	165 373.5	261 314.1	283 178.3	277 571.1	205 807.4	-71 763.7

5	Average amount of capital (in million soums)	138 394.2	147 566.5	154 896.1	300 957.2	445 591.9	144 634.7
6	Profit before tax (in million soums)	11 537.7	16 787.6	23 206.6	26 121.2	18 130.6	-7 990.6
	Appropriate coefficients						**Normal range**
7	Coefficient representing the level of capital adequacy	0.0718	0.0684	0.0721	0.0785	0.2443	0.2 to 0.3
8	The ratio of equity capital to liabilities	0.7733	0.4409	0.3989	0.6068	2.6636	1
9	Equity turnover ratio	1.1949	1.7708	1.8282	0.9223	0.4619	economic growth
10	Return on equity	0.0834	0.1138	0.1498	0.0868	0.0407	economic growth

From 2019 to 2023, it is evident that the average capital of Uzagrolizing Joint-Stock Company has achieved steady growth each year. In 2019, this indicator amounted to 138,394.2 million UZS, and by 2023, it increased to 445,591.9 million UZS. This means that over five years, the average capital grew by 3.2 times.

The following factors have positively impacted the growth of capital:

1. Increase in equity capital – From 133,656.3 million UZS in 2019 to 444,123.2 million UZS in 2023, representing a 3.3-fold increase.
2. Capital adequacy ratio – In 2023, it reached 0.2443, approaching the normal range (0.2–0.3). If we consider the ratio of equity to liabilities, this indicator increased from 0.77 to 2.66 between 2019 and 2023, strengthening the company's financial stability.
3. Profit and revenue – Every year, the company has strived to maintain pre-tax profit, which has contributed to the replenishment of capital.

At the same time, considering the decrease in the total assets amount in 2023 (from 2,007,546.1 million UZS in 2022 to 1,818,160.0 million UZS in 2023), it indicates that the company is pursuing a policy of optimizing and reducing assets within its portfolio.

4. Conclusion

The analysis of the financial condition of Uzagrolizing Joint-Stock Company for the years 2019–2023 shows that the average amount of capital has increased steadily year by year. This growth has contributed to enhancing the company's investment attractiveness and financial stability. The increase in capital volume has ensured the sustainability of the company’s operations and strengthened its competitiveness in the market. Therefore, the effective formation and management of capital remains one of the key strategic priorities in the company’s governance.

Assessing the financial stability of joint-stock companies is an important issue for all participants in the financial market. It is a complex process to evaluate the financial stability of joint-stock companies based solely on a few indicators. Although a regulatory framework has been developed to assess the performance of joint-stock companies with a state share in their charter capital, this regulation does not apply to commercial banks and insurance companies.

It has been identified that the existing analysis methods in Uzbekistan's joint-stock companies do not meet modern requirements, as digital technologies, artificial intelligence, and forecasting systems have not been sufficiently implemented. Therefore, achieving financial stability is possible through the development of a comprehensive system of financial security indicators, adaptation of advanced international practices to local conditions, enhancement of information transparency, and improvement of management competencies.

In conclusion, the scientific substantiation and wide practical application of approaches to assessing financial security are of strategic importance in improving the efficiency of joint-stock companies. In the future, the effectiveness of reforms in this area can be ensured through the development of more in-depth analytical models and the improvement of the regulatory and legal framework.

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