

Study of Factors that Influence the Financial Stability of a Company

Valentina BUTMALAI*, Nicoleta CRISTACHE, Alina-Florentina SĂRACU, Irina-Olimpia SUSANU

"Dunarea de Jos" University, Galati, Romania

* Corresponding author: valentina.butmalai14@gmail.com

Received on 1 September 2025

Accepted on 25 October 2025

Abstract

This article analyses and systematises the factors influencing companies' financial stability amid increasing economic turbulence. The relevance of this study stems from the fact that companies are increasingly faced with market fluctuations, unstable financial flows, and rising external risks, which require a deeper understanding of the nature of the factors affecting their financial situation. The authors note that existing approaches to studying financial stability are often fragmented: the identified factors differ in content, level of detail and grouping logic. Therefore, the main objective of this article is to develop a comprehensive classification of factors that can serve as a reliable basis for theoretical analysis and practical management.

Particular attention is paid to the fact that mere classification does not guarantee a company's stability. The conclusion emphasises the crucial role of managerial competence, which includes the ability of management to correctly interpret the selected factors, to anticipate their consequences and to formulate effective managerial measures promptly. Thus, the article not only systematises the factors of financial stability but also demonstrates that the professionalism of the management team remains a key condition for its maintenance.

Keywords: financial stability, factors, business, managerial competence, management.

Introduction

In the modern market economy, the economic activity of each individual company is subject to constant control by other participants in market relations. Each of these participants is interested in satisfying the needs that arise during the process of cooperation with the company. In order to assess the company's ability to assume responsibility for its economic obligations to other participants in market relations, namely suppliers, the state,

investors, and banking organisations, each of them conducts an analysis of financial stability, based on coefficients that characterise the prospects for cooperation for each participant individually. The financial stability of a company reflects, first of all, the degree of dependence or independence of the company from external market conditions, the effectiveness of the company's financial policy, the profitability of its economic activities, competitiveness, and creditworthiness. In the harsh conditions of market relations, the role and importance of financial analysis of the company's economic activity increase. The basis for each company's survival is its financial stability.

Results and discussion

The financial condition of a company is a set of indicators that reflect the ability to repay payment obligations (Shikhalieva, 2016). Financial stability is one of the criteria for assessing a company's financial condition. The financial stability of an economic entity is the state of its financial resources that ensure the company's development primarily through its own funds, while maintaining solvency and creditworthiness at a minimum level of entrepreneurial risk (Slepov, 2015). Based on these definitions, a company can be considered financially stable if it can conduct business effectively despite unfavourable internal and external economic conditions. This activity results in the company's ability to fully exercise its economic responsibility to shareholders, employees, banking and credit institutions and suppliers, as well as to competently and efficiently implement short, medium and long-term plans.

Each company has limited financial capacity. Therefore, the main objective of financial stability is to ensure that these restrictions do not exceed the limits that would compromise the principles of efficient production and commercial operations. The foundation for financial stability in a commercial company is a sufficient volume of sales. This means that the total revenue from products or services sold must be sufficient to cover the costs incurred during commercial operations. A company whose sales volume does not cover its economic responsibilities to suppliers, employees, banks, and budgetary and extrabudgetary funds is not considered financially sustainable. This financial situation can lead to bankruptcy or liquidation if managerial decisions aimed at increasing sales volumes and finding investors or borrowed funds are not developed and implemented in a timely manner. Financial instability makes it impossible to compete within an industry, disrupts the basic functions of the business and reduces sales volumes, thereby reducing the company's productivity (Belyaeva, 2016).

Based on the information above, we can conclude that the essence of financial stability lies, first of all, in the ability of a company to consistently conduct business activities, the results of which contribute to the development of its potential in the long and medium term, regardless of the impact of internal and external factors. Secondly, it is about the company achieving a financial position that minimizes the risks of non-fulfillment of economic obligations to founders and co-founders, investors, banking institutions, suppliers and contractors, employees and the state. Types of financial stability are determined depending on the perspective from which it is assessed. Let consider each type of financial stability in more detail (Figure 1).

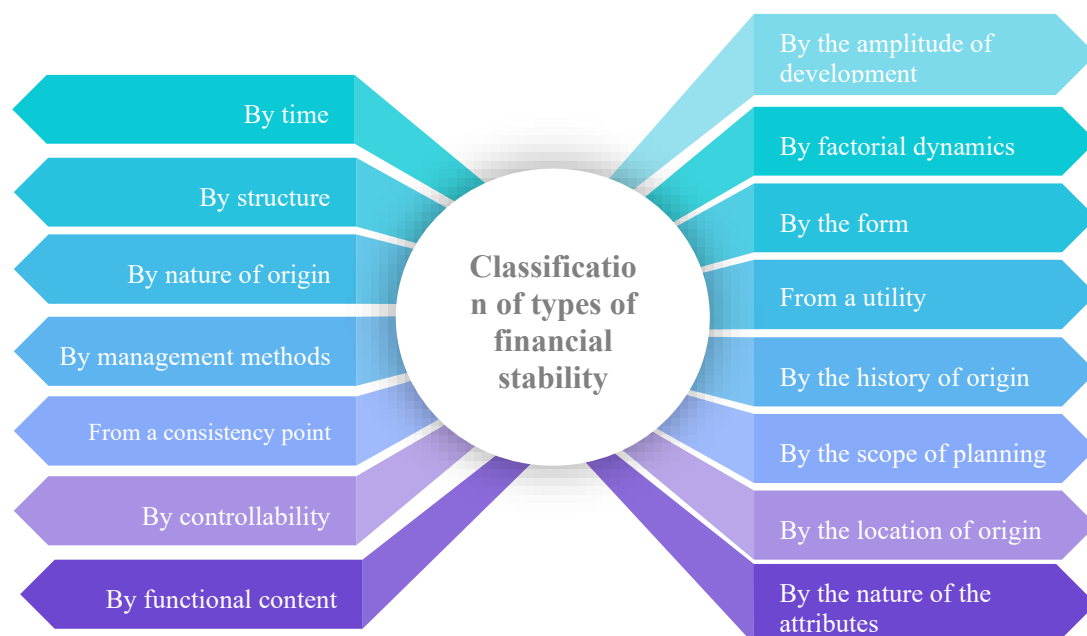


Figure 1. Classification of types of financial stability

Source: drafted by the authors

When analyzing financial stability over time, a distinction is made between the short term, the medium term, and the long term. Based on the definition of time, it can be concluded that short-term financial stability manifests itself over a relatively short period of time. Medium-term financial stability is achieved at a given point in time, under the influence of internal and external factors. Long-term financial stability manifests itself over an extended period and does not depend on changes in the business cycle and management (Belyaeva, 2018).

Structurally, financial stability is divided into formal and competitive. Formal financial stability is formed and stimulated artificially, by the state from the outside. Competitive financial stability involves the conduct of economically efficient economic activities in a competitive environment, which subsequently leads to an expansion of production capacities. By the nature of its occurrence, financial stability is divided into absolute and normative. Absolute financial stability is effectively achieved in the current period and in the future, if there are no deviations from the planned pace of development of the company. Absolute financial stability maintains balance regardless of the impact of internal and external factors. Normative financial stability is the level of financial stability at the beginning of the period or as stipulated in the financial plan for the relevant year.

Based on management methods, financial stability is divided into conservative and progressive. If a company implements economic activities according to the principles of a conservative policy (more prudent, based on time-tested methods), then a conservative type of financial stability is formed. If a company carries out economic activities based on a fierce competitive position, conquering new markets, striving for constant renewal and improvement, then this type of financial stability is progressive. Progressive financial stability can contribute to achieving high results, reinvesting profits, and policy principles must be sufficiently flexible in relation to trends in the modern world (Boronenkova, 2016).

From the point of view of constancy, financial stability is divided into variable, i.e. characterized by the absence of constant stability over a long period of time; constant - financial stability indicators are stable over a long period of time; and complete - a stable increase in all financial stability indicators is achieved through economic activity.

Based on its functional content, financial stability is divided into strategic, economic and social. Strategic financial stability is based on the ability to create, develop and maintain competitive advantages in the market in the long term, in accordance with the constantly evolving scientific and technological landscape. Economic financial stability is associated with the dominant role of economic factors in achieving stable operations of the company. This subtype depends on the effective use of the intellectual potential of scientific and technological developments and information systems. Social financial stability ensures the dynamic development of the company's workforce. Based on the regulatory capacity, a distinction is made between open and closed financial stability. This type of financial stability implies the presence or absence of the ability to adjust the company's performance indicators based on constantly changing external conditions (Maslova, 2014).

In terms of its usefulness, financial stability is divided into active and passive. Active financial stability is characterized by the constant achievement of positive financial results, aimed at achieving the company's long-term development goals. In contrast, passive financial stability focuses on achieving positive results in solving short-term problems that do not contribute to long-term development prospects and expanding production potential.

By its nature, financial stability is divided into inherited and acquired. Inherited financial stability is characterized by the presence of a certain margin of safety within the company, which serves as a guarantee of resistance to the impact of adverse changes in internal or external factors. This type of financial stability develops over several years. Inherited financial stability can be possessed by monopolistic companies that produce products essential for society. Acquired financial stability is achieved through an internal management system, characterizes the efficiency of production, the ratio of expenses to income, and facilitates the possibility of expanding the business.

Based on the amplitude of development, financial stability is divided into cyclical and progressive. Cyclical financial stability is characterized by criteria of regular repetition of stability indicators at certain intervals, under the influence of external and internal influences. Progressive financial stability is characterized by the ability to maintain a state of equilibrium without changing its structure.

Depending on the place of origin, financial stability is divided into local and global. Local financial stability is typical for companies in a separate region, while global financial stability is assessed on a national scale. According to the scope of planning, financial stability is planned and unplanned. Planned financial stability is included in the financial plan and, in accordance with this plan, must be achievable. Unplanned financial stability is considered in the case of excessive fulfillment of planned financial indicators (Shikhalieva, 2017).

According to the nature of its characteristics, financial stability is considered individual and universal. Individual financial stability has characteristics that are directly related to the economic conditions of a separate region, while universal financial stability characterizes the characteristics of financial stability of all regions.

Depending on its form, financial stability is divided into restorative and weak. Based on the definitions of these subtypes, it can be concluded that restorative financial stability is the ability to return to the initial state after being disturbed by a certain factor. Weak financial

stability is characterized by a lack of sufficient safety margins and a high risk of partial maintenance of a stable state in the future.

Based on the definition of financial stability from the perspective of domestic and international economists, it can be concluded that the financial stability of a company is a state characterized by the degree of independence or dependence on the influence of various factors - both external and internal. From a dynamic perspective, external and internal factors determine financial stability. Several factors, both internal and external, influence the degree of financial stability. Based on this interpretation, external factors are those that cannot be controlled by the company. These factors include the level of economic development in the country, the state system, fiscal policy and inflation, which, in turn, lead to a corresponding decrease in consumer demand. Internal factors influencing financial stability are those that the company can manage and directly influence. These include technology, the condition of assets, industry affiliation, the composition and structure of products and services, the structure of production costs and their relationship with income, financial resources, and the competence and professionalism of financial managers. The most important external factor is, without a doubt, the level of economic development in the country, as well as policies aimed at creating a regulatory framework that directly governs the activities of companies. The government's attitude towards entrepreneurship is widely known, as are the principles of state regulation of the economy, which are based on incentives for the expansion of economic activity and prohibitive measures, such as those regulating the activities of monopoly companies. For example, for comparison, let consider how the financial activities of companies were organized in the era of the planned economy and the influence of the state system on the formation of the financial stability of a company. In the planned economy, financial analysis was carried out centrally, at the state level. Domestic companies, operating in conditions artificially created by the state, were accustomed to external stability. The main consumer interested in information related to the results of the economic analysis of the activities of companies was the state, represented by the ministries of industry, planning agencies and statistical agencies (Shikhalieva, 2016).

Companies did not have legal and economic independence, and their commercial activities were entirely focused on achieving the goals planned, developed and approved by the state. Financial analysis consisted of compiling numerous reports and statistical summaries, to the detriment of internal economic analysis. Sales volumes were pre-calculated based on the needs of society in each industry. As a result, commercial activities aimed primarily at generating higher income and increasing sales volumes lacked "ground" for development. The state independently determined suppliers, production technology, product range, structure, planned cost levels and profit levels, based, firstly, on needs, and, secondly, on the criteria for the company to achieve indicators that, taken together, combined a balanced financial position. It is also important to note that there were no prerequisites for the formation of conditions for fierce competition, which also affects financial stability (Belyaeva, 2015).

Market relations do not imply total state control over the implementation of economic activities of companies. One of the defining features of a market economy is the presence of competition, and the degree of its severity depends on the economic condition of the country. Currently, companies enjoy economic freedom in determining the type of manufactured products, volumes, final cost to the consumer and resources that will be used in the process of creating products, depending on market conditions. The achievements of economic and commercial activities are aimed, first, at obtaining effective and profitable

financial results, which will contribute to the formation of financial stability and independence of the company from the influence of various factors. After establishing the criteria for the implementation of economic activities, the company could independently develop and implement, based on experience, financial strategies aimed at achieving the set goals. Another factor influencing the financial stability of the company's activities is effective demand, the level of which is also closely related to the economic situation in the country. During periods of economic crisis, the level of effective demand decreases significantly. This leads to an increase in defaults and an increase in receivables, intensifying competition. Together, these factors have a direct impact on the activities of companies (Suspitsyna, 2015).

State tax policy is another external factor influencing the financial stability of a company. Depending on the type of activity and its legal structure, a company is obliged to pay various taxes and fees to the state's budgetary and extra-budgetary funds. The most significant and substantial taxes when assessing the tax burden are value added tax (VAT) and corporate income tax. Together, these taxes remove a significant part of funds from circulation, thereby significantly affecting financial stability indicators. In practice, many companies fail to bear the tax burden, and as a result, their financial stability is unstable. Under these conditions, it becomes impossible to fulfill financial responsibility towards other participants in economic activity, both domestic and external, which is the foundation of financial stability. Consequently, such a financial situation leads to the liquidation of the company or bankruptcy.

The technological factor can be assessed based on an analysis of the company's financial position, as well as the effectiveness of policies aimed at managing fixed and current assets. An analysis of the financial position of a company allows us to determine its financial stability, assess the growth potential of its real estate and fixed assets, and analyze whether the company can conduct production and commercial operations in a way that generates continuous cash flows and profits. We also determine the impact of the composition and structure of assets on financial stability. The correct choice of asset management strategy largely determines their composition and structure. The volume of funds involved in turnover, that is, the volume of reserves and assets expressed in monetary terms, has a direct impact on the financial stability and development potential of the company. A company's policy aimed at reducing inventories and liquid assets, which leads to the possibility of attracting a larger cash flow to turnover, is not always effective. Commercial activities influenced by this policy lead to a high risk of insolvency and reduced production due to lack of reserves.

Another factor influencing the financial stability of a company is the ratio of its own and borrowed financial resources. The more financial resources a company can attract, the greater its financial capabilities. However, there is a risk associated with the ability to fulfill its obligations to creditors in a timely manner. That is, the company's activities should be aimed at achieving an optimal ratio of borrowed and own financial resources, which ultimately ensures solvency (Belyaeva, 2016).

During economic activity, each company determines its structure, volume, quality and technology of products or services. Based on the selection of these criteria, fixed and variable costs are formed. It is very important to maintain a balanced ratio between costs and sales volume, and therefore profit. The optimal ratio is obtained if the variable costs formed during the process of purchasing raw materials, energy, transportation, storage are proportional to the volume of production. And fixed costs, which include rent and purchase

of premises or equipment, depreciation, payment of any services, do not depend on the volume of production. That is, costs are another factor determining financial stability (Rogatenyuk, 2015).

The financial stability of the company also depends on the level of qualifications of financial managers and largely predetermines the direction of economic activity depending on the influence of various factors. Based on an analysis of the factors affecting financial stability, the business process must be sufficiently flexible and resistant to external and internal influences. The qualifications of financial managers allow for high-quality financial analysis, which allows for the assessment and identification of the most significant weaknesses, along with the development and implementation of measures to stabilize the financial stability of the company.

Conclusions

Managerial competence is crucial, since the main activity is directly related to sales. A significant internal factor influencing financial stability is the qualifications of financial managers, who largely determine the direction of business operations depending on various conditions. Based on an analysis of factors influencing financial stability, the business process must be sufficiently flexible and resistant to external and internal influences. The qualifications of financial managers allow them to conduct high-quality financial analysis, which allows them to assess and identify weaknesses, as well as develop and implement measures to strengthen the financial stability of the company. Therefore, various training events and seminars can be organized for this category of employees as well. The implementation of an effective financial policy allows for the correct organization of the company's business activities, characterized by maintaining a balanced ratio of costs to sales and, consequently, profit; maintaining an adequate balance between equity and borrowed financial resources; and selecting the right strategy for managing the company's assets, fixed assets and working capital.

The implemented financial policy must be flexible enough and easily adaptable to changing market conditions to enable efficient business operations. The company must adhere to a progressive approach to financial stability management, which is driven by fierce competition, the conquest of new markets and a commitment to innovation and continuous improvement of products. This progressive financial policy contributes to achieving high results and reinvesting profit, and its principles are flexible enough in relation to modern trends. Given the impact of various unfavorable external factors on financial stability, by implementing an effective financial policy and the correct approach to managing internal factors of influence, the company can demonstrate in practice the importance of effective management of internal factors to be able to carry out economic activities independent of external factors.

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