

Economic Security of Enterprise and the System of its Ensuring

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Abstract. In modern conditions of unpredictability of economic activity, enterprises represent an open dynamic system. Functioning and development of the enterprises is influenced by numerous external and internal factors. Multiple threats of economic security may lead to negative consequences in form of solvency and financial stability violations, profitability reduction and other deterioration in the enterprise. In this regard, the relevance and the need of ensuring economic security of enterprises are increasing. The issues of economic security are relatively new to the national science. At the same time, a sufficient number of scientific literature devote to this topic. In this article is presented the analysis and the systematization of various definitions of economic security. On its basis, the authors have identified five main approaches. The relationship between economic security and other economic categories such as sustainability, effectiveness, development and independence was explained. In order to counter threats of economic security and to ensure stable functioning of enterprise, the system of economic security is developed and presented in the paper. Under this system, main ways of increasing the level of economic security of enterprises was presented. Ensuring of economic security of each enterprise serve as a basis for sustainable development both businesses and the economy as a whole.

Keywords: development, economic security, functional components, system of economic security, profit, sustainability, threats.

JEL Classification: M21; O12.

Conference topic: Modern Business Management Problems and Perspectives.

Introduction

Statistics of world business indicates that 75–80% of all newly established enterprises cease to exist during the first five years. This fact suggests that the achievement of effective strategic management is a very difficult task. In modern economic conditions enterprises have a full autonomy in making decisions on the determination of the development strategy, organization of production and products sales, selection of contractors and other management decisions. Entrepreneurs assume all risks of economic activity. Under these conditions, the problems of enterprises' survival and ensuring their economic security are of a particular importance.

The unpredictability of economic activity, lack of reaction to the impact of internal and external threats may lead to undesired consequences in form of job losses, lower production volumes, may have a negative impact on the activities of contractors. Thereby, there are varied effects of threats, which affect enterprise: its strategic stability is disturbed, the goals are not achieved and the economic security of enterprise may be disrupted. This circumstance requires from managers of the company to organize an integrated system of economic security, aimed at early detection and operational removal of threats to the stable functioning of the enterprise. Improving the level of economic security of enterprise becomes a major challenge in current economic conditions.

The purpose of the article is to explore the essence of economic security of enterprise and to develop a system of its ensuring.

The essence of economic security of enterprise

The development of society and ensuring the welfare of its members largely depend on the security of their activities. According to the etymology of the concept of "security", it means "lack of danger" (Lazarev 2001), i.e. security is a state of protection of the vital interests of the individual, society and state from internal and external threats.

First, the question of security existed in a mythological form the echoes of that reached to our days. Therefore, in Roman mythology even there was a goddess Securitaty (Securitas) that personified security of citizens and states. She was represented by a worthy matron, more often at a column with heaved up a right arm, and her attributes were a scepter, laurel, horn of plenty and branch of olive (Korchevska 2015).

In Maslow’s hierarchy of needs, the second place is given to security needs, immediately after the main physiological needs of the man. Security necessity for a man and for an enterprise prevails especially in crisis.

One of the earliest definitions of security was proposed by A. Wolfers. He pointed to two sides of the security concept: “Security, in an objective sense, measures the absence of threats to acquired values, in a subjective sense, the absence of fear that such values will be attacked” (Brauch *et al.* 2011).

The term “security” is widely used in natural, technical, social, economic and other systems. It has an universal character and firmly entrenched in our lives. Economic security is one of the main parts of the security. The need in security is a basic need for the individual, enterprise, society and the state as a whole. Despite the fact that the problems of economic security have recently become more relevant, essential part of scientific works, especially western, refer to the security at the state and the individual levels (Kahler 2004; Nesadurai 2004). In conditions of transition to market relations by post-soviet countries, the issues of ensuring the economic security at the level of an economic entity acquired greater importance, however, are still not fully researched.

Analysis of economic literature has shown that the concept of economic security of an enterprise does not have a generally accepted interpretation.

By K. Zukrowska opinion “in macroeconomic terms the economic security means job stability, low unemployment, prospects of predictable growth of the economy, characterized by liquidity. In microeconomic terms of the solvency of the home or business. In both cases, it is the ability to balance the obligations in relation to the needs in the medium term” (Raczkowski, Schneider 2013).

P. Zeman *et al.* define the economic security as a state where the economy of the object whose security is to be ensured (enterprise, state, group of states, world, individual, family, etc.) is not endangered by threats which significantly reduce or could reduce its performance efficiency necessary for ensuring the defense as well as other security capacities, social reconciliation and competitiveness of the object and its individual components (especially individual companies) on the internal as well as external markets (Strelcova *et al.* 2015). According to I. Stratan, economic security is a state of the most efficient use of all resources in order to prevent (neutralize, eliminate) threats and ensure stable functioning of the enterprise in the market economy (Stratan 2007).

By analyzing the conceptual apparatus of category “economic security of enterprise”, presented by various authors, follows that it is considered from several points of view (see. Fig. 1), such as:

- the state of protection from threats;
- the state of efficient use of resources;
- the ability to stable functioning and development;
- the ability to achieve business goals;
- the presence of competitive advantages.

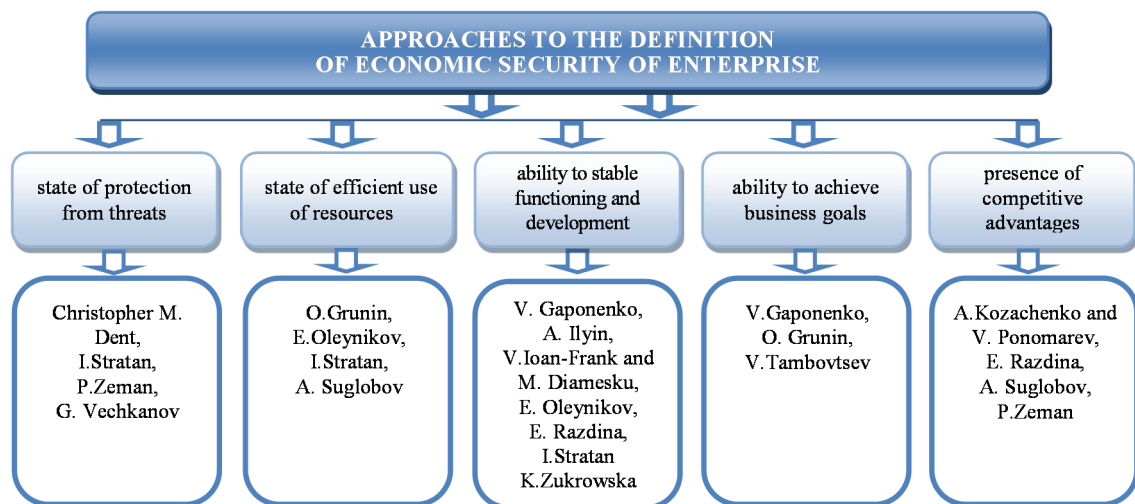


Fig. 1. Approaches to the definition of economic security of enterprise

(Source: compiled by authors based on Parmacli *et al.* 2015; Suglobov *et al.* 2013; Kozachenko, Ponomarev 2011; Ioan-Franc, Diamescu 2010; Gaponenko *et al.* 2007; Vechkanov 2007; Olejnikov 1997; Razdina 1997; Tambovcev 1995)

We’ll note that many authors: V. Gaponenko, O. Grunin, E. Oleynikov, E. Razdina, I. Stratan, A. Suglobov, P. Zeman in their definitions of enterprise economic security use a mixed approach.

By synthesizing the definitions of various authors it can be noted that *economic security of enterprise* is a state characterized by the ability of the economic entity to ensure the most efficient use of resources and entrepreneurial opportunities to prevent threats and increase competitive advantages that will allow to ensure stable functioning and dynamic development in order to achieve business goals.

The relationship between economic security and other economic categories

The economic security of enterprise is the main characteristic of its viability, i.e., the ability to exist, to ensure its survival through self-improvement.

Between the categories of “economic security”, “sustainability”, “effectiveness”, “development” and “independence” of enterprise exists a close relationship (Parmacli *et al.* 2015). This relationship is presented in Figure 2.

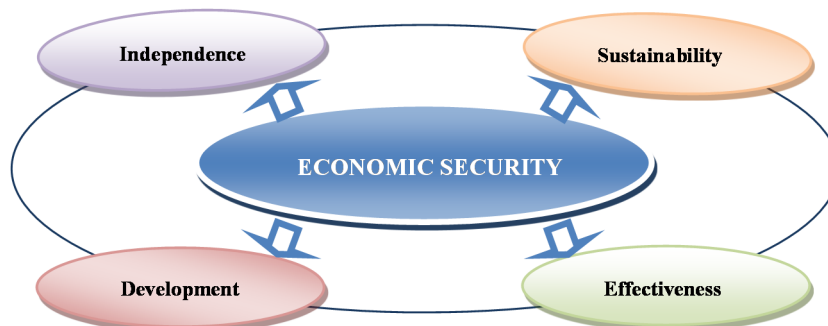


Fig. 2. The relationship between economic categories
(Source: compiled by authors)

Economic independence is an important element of security. It implies the existence of control over its own resources, the ability to pay timely its obligations.

The definition of enterprise economic security is often meet from the position of a “state of protection” of the participants in social and economic relations at all levels, beginning with the state and ending with each citizen. Sustainability plays here a major role. The sustainability is understood as stability of functioning, effective management of enterprise’s resources to ensure its activities and solvency.

The effectiveness of the enterprise is another important component of the system of economic security. This economic category represents the performance of the enterprise, and is characterized by the ratio of results and costs. The development involves improvement of enterprise performance and bringing it to a satisfactory condition. If the enterprise does not develop, does not reach the efficiency, then its ability to adapt to external and internal conditions decreases, and therefore the ability to survive reduces.

Therefore, the essence of economic security of enterprise consists in ensuring the effectiveness of its functioning and sustainable development.

Functional components of economic security of enterprise

The economic security of the enterprise includes a number of functional components, which represent the totality of the main directions of its security. They are significantly different from each other in terms of content (Paramonov *et al.* 2009). All of them together ensure maximum conformity of management of enterprise and its resource potential, and are aimed at achieving strategic goals of the business. In Table 1 is provided the description of major functional components. The analysis of these components will allow determining their degree of influence on the economic security of enterprise.

Table 1. Functional components of economic security of an enterprise
(Source: Paramonov *et al.* 2009; Lazarev 2001; Murphy *et al.* 2000)

Functional component	Description
1. Financial component	means the state of the most efficient use of corporate resources, which is reflected in the best values of business profitability, its capital structure, financial stability, solvency and liquidity of its current assets, in quality of management, etc.
2. Technical and technological component	it shows how the level of technology used at the enterprise meets the requirements of modernity.
3. Political and legal component	involves legal support for all aspects of enterprise, compliance with existing legislation by the enterprise and its employees.

Functional component	Description
4. Intellectual and human component	consists of two main directions. The first is based on the work with the staff. It includes planning and personnel management, maintenance of appropriate qualifications. The second direction is focused on the preservation and development of intellectual potential of enterprise: as a material part (intellectual property rights) as well as human part (knowledge, experience, skills of employees and business reputation of the enterprise).
5. Informational component	information security has many different facets, but the main goal is protecting the confidentiality, integrity, and availability of an organization’s information assets. A violation of any of these components can quickly put an organization at risk, both legally and to its reputation.
6. Environmental component	requires compliance with global systems of minimum acceptable content of harmful substances in the waste of enterprises, ecological parameters of products.
7. Force component	it represent a physical security of staff, including the management; safety of the property, as well as the implementation of preventive measures to ensure economic security of enterprise.

It should be noted that the level of enterprise security largely depends on the state and quality of management of each functional component of an enterprise.

External and internal threats to economic security of enterprise

The process of business entity developing does not have a linear character, the trajectory of its life cycle goes through certain stages and only the enterprise’s ability to counter threats will bring the development trajectory at a new reproductive cycle. Thus, in system of ensuring the economic security of enterprise initial task is to identify the hazards and threats to its activity.

A hazard is defined as “a source of danger that may cause harm to an asset” (Rausand 2011).

Threats to economic security of enterprise are potential or actual actions of individuals or entities that may lead to economic or other losses up to bankruptcy of an enterprise. “The concept is closely related to, but differs from, the concept of hazard, which is not directed to exploit vulnerability. A threat is therefore a hazard, but a hazard need not be a threat” (Rausand 2011).

All the hazards and threats are classified into internal and external depending on their areas of origin. At the same time, the study of the causes of companies’ bankruptcy in developed countries shows that bankruptcy is due to 1/3 external and 2/3 internal factors (Parmacli *et al.* 2015).

External hazards and threats represent changes in the environment that in a certain way may adversely affect the enterprise’s activity, its economic security. The external hazards and threats are:

- political: adverse changes in the political situation, changes in legislation, that affect the business environment;
- macroeconomic shocks: crises, inflation, loss of markets of raw materials or energy resources;
- market: undeveloped market infrastructure, use of unfair competition;
- natural: natural emergencies;
- socio-cultural: low income and others.

In Figure 3 are presented country risks on the seven constituents for Republic of Moldova, Romania, Lithuania and Estonia.

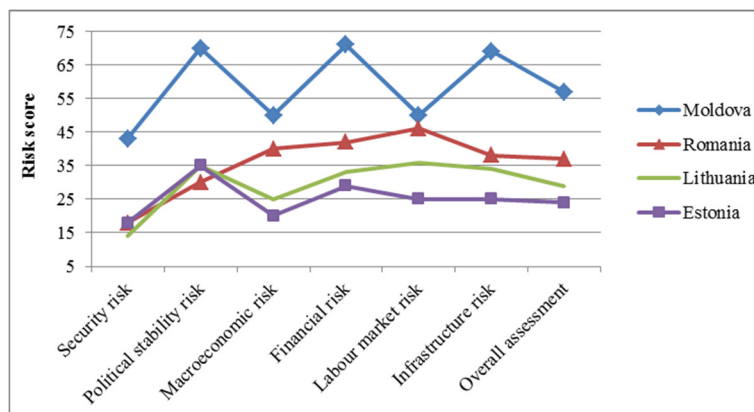


Fig. 3. Risk ratings on constituents for Moldova, Romania, Lithuania and Estonia (Source: compiled by authors based on Economist Intelligence Unit 2015)

As shown in Figure 3, Republic of Moldova is characterized by the highest risk level, the final score is 57 out of 100; which is 2.4 times more than in Estonia. At the same time, the financial risk and the risk of political stability are the greatest risks to analyzed countries. It certainly affects the level of economic security of enterprises, which are the main players in the market.

For the most part, enterprises are powerless in face of many changes in the external environment and need to adapt to them. In order to ensure their own security, enterprises can and should influence the processes occurring in their internal environment.

Internal hazards and threats are directly related to the economic activities of enterprises, their staff, and may have an impact on business results. These include:

- omissions in the planning and decision-making;
- failure of computer equipment;
- illegal actions of staff;
- incorrect assessment of staff qualification;
- outflow of qualified personnel;
- violations of the regime of confidential information preservation;
- choice of unreliable contractors and others.

However, we should not be limited to the listed above threats, since internal and external hazards and threats are individual for each enterprise and depend on the scale of the enterprise, branch features and areas of activity.

The system of ensuring the economic security of an enterprise

The instability, under which businesses operate, requires from them a constant adaptation, search and improvement of measures of ensuring the economic security to achieve economic and social goals of the business.

Today, unfortunately, not all entrepreneurs are aware of the importance of establishing a reliable system of economic security of enterprise and determination of the main directions of its implementation. Only this system is able to ensure the independence of enterprise and its sustainable development, avoiding falling into the danger zone. At the same time, it is important not only to create a system of ensuring the economic security, a comprehensive protection, but also to carry out its efficient functioning.

The process of ensuring the economic security of enterprise can be regarded as a process of realization of its functional components in order to prevent possible damage and to achieve a maximum level of economic security now and in the future (Goncharenko 2004).

The system of ensuring the economic security should be formed at the stage of starting a business. It is not a complement, but a part of an enterprise, which plays an important role in ensuring its financial and economic activities.

The system of ensuring economic security of the enterprise represents a set of organs, means, methods, and events, aimed at protecting the business from the actual and/or potential external and internal threats that could lead to economic losses. In order to be effective, this system must be comprehensive, all measures should be interconnected.

The purpose of the integrated system of economic security of an enterprise is to ensure its sustainable, efficient operation and development based on implemented set of measures.

The object of the system of ensuring the economic security is a stable economic state of a business entity in the current and perspective period. The specific objects of protection include resources: financial, material, human and information resources.

The ensuring of economic security of business entity should be based on certain principles:

- the legality involves the development of a security system in accordance with state law;
- the systematization and comprehensiveness involves the use of system analysis and full consideration of all factors when making decisions. All elements of the controlled system are considered in the aggregate, integrity and unity;
- the continuity, i.e. ensuring of economic security on an ongoing basis;
- the priority of preventive measures (timeliness). Development of preventive measures will allow to avoid or to minimize the negative effects of potential threats;
- the economic feasibility implies a comparison of the costs of ensuring security with the possible damage;
- the cooperation and coordination of all business units. According to I. Stratan, all participants of this process must interact with each other, know exactly who is responsible for what and who does what (Stratan 2007).

Figure 4 shows an integrated system of ensuring the economic security of the enterprise.

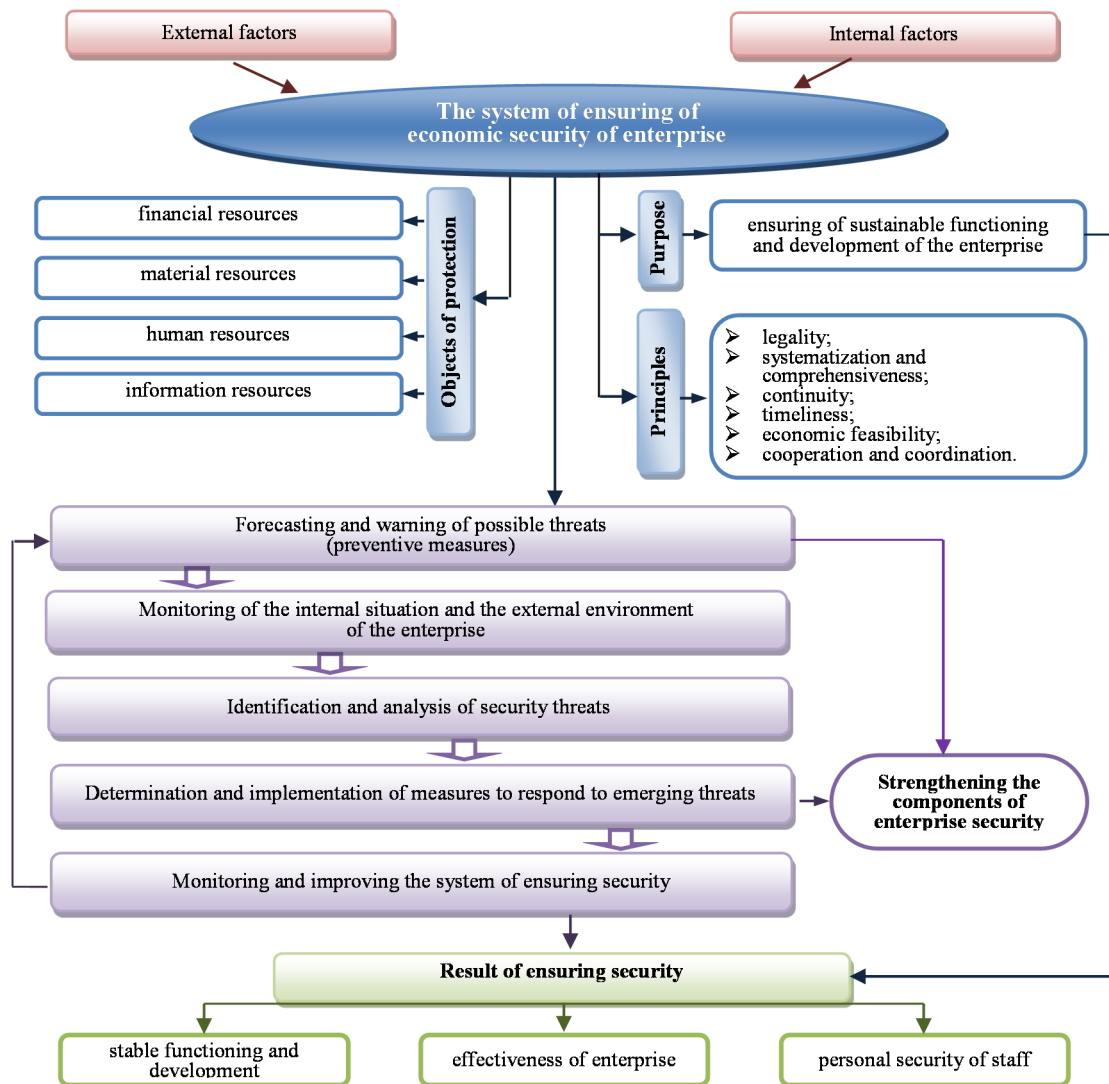


Fig. 4. The integrated system of ensuring economic security of enterprise
(Source: compiled by authors based on Parmacli *et al.* 2015)

The system of ensuring security requires a constant monitoring of both the internal situation of enterprise and its external environment. This allows to identify proactively threats and thus to make timely decisions to respond. The economic security of business entities is provided by the implementation of two approaches: based on preventive measures and an approach that responds to threats. Consequently, the system of economic security includes:

- the preventive measures allow to anticipate possible negative consequences through analysis of market and enterprise activity, verification of contractors, protection of computer systems and confidential information, analysis of transactions, etc.;
- the reactive measures are used to protect the enterprise from external and internal threats to economic security. They mean the process of neutralizing and minimizing of threats.

In general, the ensuring of economic security of the enterprise is carried out by its main functional components: financial, intellectual and human resources, technical and technological, political, legal, environmental, informational and force.

Ensuring the financial component of economic security includes:

- the effective management of financial flows;
- the monitoring of the use of funds;
- the ensuring the liquidity and solvency;
- the regulation of receivables and payables;
- the regulation of the structure of borrowed capital and others.

In addition, it is advisable to use such a method of minimizing risks as the self-insurance that means the reservation of funds for unforeseen expenses. The self-insurance consists in creating of own reserves by the enterprise

at the expense of regular payments to compensate losses during emergencies. A carefully developed estimate of unforeseen expenses minimizes cost overruns.

The security ensuring of technical and technological component includes:

- the improving of production technologies;
- the sale or utilization of mentally and physically obsolete equipment;
- the planning of technological development of an enterprise;
- the modernization of technical equipment of an enterprise;
- the innovation in the manufacturing process and others.

The security of legal aspect should be carried out through continuous analysis and compliance with changes in the legislative framework, correct drafting of the contracts from a legal perspective; monitoring of compliance with contractual obligations and others.

The human resource is the main resource of the company. That is why ensuring of security of intellectual and human resource components is so important. The process of planning and management of human resources should cover all processes from the organization of the selection and recruitment of employees to their continuous training and motivation. The internal policy on working with the staff should be organized in such a way that the number of dissatisfied employees (with wages, official position, etc.) has been minimized, especially among former employees, which can significantly reduce information leakage. The security of personnel component is possible with early detection and resolution of crises in the team. Social security of staff should provide not only decent wages and social payments, but also the protection of human health, avoid emergencies.

The ensuring of information security of enterprise includes:

- the protection against espionage by competitors or other persons;
- the technical protection of negotiations, documentation, correspondence from unauthorized access to confidential information;
- the organization of anti-virus protection of computers;
- the identifying and strengthening of the disciplinary and other responsibility of each employee for failure to comply with conditions of confidentiality through the instructions, orders and others.

The ensuring of *environmental component* requires compliance with norms of permissible contents of harmful substances in the waste business with minimum expenses, as well as ecological parameters of products, which will allow to avoid various fines and penalties and to increase the competitiveness of products.

The main types of actions for the organization of the force component of economic security consist in:

- the ensuring of the physical and moral protection of staff, collection of information and preventive actions to avoid threats to their safety;
- the reduction of thefts and/or losses;
- the protection of property (buildings, equipment, transports);
- the realization of property and risk insurance, etc.

As a result of the taken measures of improving the economic security, the control of their efficiency should be carried out. The economic security is not a static phenomenon and should be provided, maintained and improved on a regular basis.

The stability of enterprise functioning, the efficiency of financial and economic performance (profitability) and personal security of staff should be the main results of economic security of the enterprise (Il' in 2007).

Conclusions

1. The analysis of the conceptual apparatus of the category “economic security” showed that there is no consensus on its definition. At the same time, they are all-true and have the right to exist.
2. Five approaches considered by scientists to the definition of economic security were identified. Thus, the economic security is considered from several points of view: as the state of protection from threats, the state of the efficient use of resources, the ability to stable function and development, the ability to achieve business goals, the presence of competitive advantages. We will note that some authors use a mixed approach.
3. The economic security of enterprise is a state characterized by the ability of the economic entity to ensure the most efficient use of resources and entrepreneurial opportunities to prevent threats and increase competitive advantages that will allow to ensure stable functioning and dynamic development in order to achieve business goals.
4. A close relationship between the categories of “economic security”, “sustainability”, “effectiveness”, “development” and “independence” of the enterprise was determined.
5. The system of ensuring the economic security of the enterprise was presented.
6. The ensuring of economic security of enterprise is based on the implementation of preventive and reactive measures.

7. The ways of increasing economic security of enterprise for each functional component was determined.

In modern conditions, the process of successful functioning and economic development of enterprises depends on the improvement of their activities in the area of ensuring of economic security. Therefore, the development of an integrated system of economic security and the ensuring of its rational functioning are the most important tasks.

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