American Journal of Economics and Business Management

Vol. 8 Issue 3 | pp. 1075-1083 | ISSN: 2576-5973

Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Financial Assessment of Enterprise Activity in The Region

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Abstract: The activity of enterprises in the region is a system composed of complex elements. This system is distinguished by the multifaceted and complex nature of the process of improving the efficiency of utilizing enterprises' financial and economic potential in the regions. Moreover, conducting research aimed at financial and economic analysis of enterprises is of great relevance today. It is important to apply financial evaluation results effectively in practice, as this serves as a foundation for the efficient operation of enterprises. In financial assessment of enterprises' activities, efforts are made to identify and eliminate economic uncertainty. Various economists have provided different opinions and economic definitions regarding the concept of economic uncertainty. By addressing the issue of economic uncertainty, enterprises can achieve better financial resource management and optimization, improve production quality, and attain other similar outcomes. Additionally, the financial potential of a region plays a significant role in shaping the financial and economic capacity of enterprises. However, the presence of factors hindering the enhancement of a region's financial potential negatively affects the development of enterprises. A region is studied as a combination of economic, social, and natural-geographical characteristics. The financial condition of enterprises is assessed in three stages, and based on the analysis results, an evaluation of the enterprise's financial state can be made.

Keywords: Financial Assessment, Region, Enterprise Activity, Economic Uncertainty, Regional Financial Potential, Local Economic Policy, Regional System, Economic Conjuncture, Cluster, Financial Potential

Citation: Omonovna, M. M. Financial Assessment of Enterprise Activity in The Region. American Journal of Economics and Business Management 2025, 8(3), 1075-1083.

Received: 24th Feb 2025
Revised: 28th Feb 2025
Accepted: 8th Mar 2025
Published: 15th Mar 2025

1. Introduction

In the current context of increasing regional independence, the issue of conducting a comprehensive financial assessment of enterprise activities and studying financial potential is becoming increasingly relevant. The operation of enterprises in a region is closely linked to the issue of regional financial stability, which remains significant throughout the entire process of developing a country's socio-political and economic relations. This is particularly relevant for countries undergoing global transformation processes.

Taking regional characteristics into account, establishing a comprehensive financial assessment framework for enterprises, structuring regional finances, identifying barriers to cluster formation, and improving the region's economic and financial policies provide an opportunity to evaluate the structural "potential" of enterprises within the region.

Our goal is to develop recommendations for assessing the financial potential of enterprises in different districts within a region and to enhance their financial activities while outlining the strategic directions of enterprise operations.

The financial potential of enterprises in a region is formed based on the monetary incomes and savings of market economy entities and the population. It consists of the following interconnected components:

1. Local budgets;
2. Non-budgetary fund budgets;
3. Regional revenues and expenditures;
4. Regional credit resources and so on.

Below, we will analyze each of these components individually:

1.1 Local Budgets

Local budgets represent the financial resources accumulated and managed at a specific regional level (province, district, or city). They are formed from local revenue sources (taxes, fees, state subsidies, etc.) and allocated for regional infrastructure, social programs, education, healthcare, and other public needs.

1.2 Non-budgetary fund budgets

Off-budget fund budgets consist of financial resources that are formed outside the state budget. These funds are typically allocated for purposes such as pension provision, social insurance, employment support, and environmental projects. Their revenue sources may include taxes, mandatory contributions, voluntary allocations, and other financial inflows.

1.3 Regional Revenues and Expenditures

Regional revenues and expenditures reflect the financial flows generated by a region’s economic activities and their allocation. Regional revenues may come from taxes, customs duties, payments for the use of natural resources, and income from local enterprises. Expenditures, on the other hand, are directed towards infrastructure development, social programs, education, healthcare, and addressing environmental challenges.

1.4 Regional Credit Resources

Regional credit resources refer to the financial funds allocated to support businesses and the population within a region. These resources may come from commercial banks, state financial institutions, international financial organizations, or private investments. They play a crucial role in fostering entrepreneurship, financing new projects, and supporting economic growth.

These concepts form key components of the regional financial system, and their effective management contributes to ensuring the region's economic stability.

The increasing responsibility of enterprises within a region is a result of decentralizing the powers of state authorities. This has created an objective necessity for developing a methodology to manage interregional cooperation among economic entities to enhance the efficiency of utilizing financial and economic resources.

The formation of market relations has led to a rise in socio-economic asymmetries in regional development and has made it essential to implement a balanced regional financial policy.

2. Materials and Methods

Currently, the essence and content of the "business activity" category, which defines the functioning of enterprises in the reproduction process within the regional economy, is becoming an urgent topic of study.

The multi-dimensional and complex nature of increasing the efficiency of utilizing the financial and economic potential of enterprises in regions, as well as its undeniable importance, makes the research aimed at analyzing this from a systematic approach to potential increasingly significant today.

The goal of this research is to develop an effective mechanism for assessing the financial potential of the region.

To achieve this goal, it is recommended to follow these steps:

1. Summarize the conceptual approaches to the content and methods of evaluating the financial potential of the region;
2. Assess the structural components of the regional financial potential and take into account the financial-economic ratios of the reproduction process;
3. Develop proposals to improve the management mechanism of the reproduction process based on the formation of the region's financial potential, taking into account the types of reproduction;
4. Evaluate the effectiveness of managing the region's financial potential under market economy conditions;
5. Develop a methodology for assessing the sustainability level of the regional budget.

Financial potential allows for comparing the financial capabilities of various regions within the area, fully assessing regional financial efficiency, jointly evaluating the financial support for strategic development tasks, implementing systematic changes in the economy, and determining the level of financial self-sufficiency of the region.

In the region, the financial activity of enterprises includes accumulated, attracted, and formed resources, which will later pass into the hands of economic entities, predetermined by regional and local economic policy concepts, aimed at achieving social strategic goals.

3. Results and Discussion

The concepts of regional and local economic policy are closely linked to the concept of "regional development." V. N. Lexin and A. N. Shvetsov [1] define this as “the operational system of a regional system aimed at positive dynamics in the parameters of the standard of living and quality of life.” They further describe it as “the social, economic resource, and ecological potential of the region, maintained in a balanced and stable manner, enabling reproduction without mutual destruction.” Additionally, the terms "region" and "regional system" are accepted as synonyms by them. Under "region," the authors refer to the spatial potential of the state, which includes social, natural, economic, infrastructural, cultural, historical, or local governmental aspects.

In the region, we are approaching a similar perspective when defining the essence of enterprise development. In this case, "regulating regional development" refers to the specifically organized system of local economic policies aimed at ensuring the stable and balanced functioning of regional systems.

The main goal here is to improve the standard of living and increase the quality of life for the population. This type of regulation refers to the compulsory functions of any state. As D.A. Tatarkin [2] emphasizes, “Building an effective model of economic development should be based on global trends aimed at forming sustainable, socially-oriented, self-developing regional systems, where conditions for social stability and the economic well-being of the population are created.”

Financial potential is carried out for the following purposes:

1. Ensuring regions with necessary financial resources;
2. Stimulating the entities of the financial system to enhance financial flows;
3. Changing the ratio of the value of the resources of the economic entities in the regional economic system;
4. Controlling the process of forming and using financial resources;
5. Insuring against various threats.

The article reflects the ideas of regulation through the assessment of enterprises' financial potential, aiming to eliminate economic uncertainties in the region and within the enterprises located in its territory. For enterprises (companies, corporations, etc.), economic uncertainty refers to the presence of opportunities necessary for their success in economic activities.

The main characteristics of this uncertainty are as follows:

1. For enterprises, bypassing economic uncertainty helps increase profits by reducing costs during the improvement of production operations and services;
2. Eliminating economic uncertainties helps improve the quality of products or services, work with new technologies and innovations, enhance production and supply processes, and improve service quality;
3. By identifying economic uncertainty for enterprises, it is possible to manage and optimize financial resources, guarantee costs and expenditures, manage financial supplies, and ensure tax obligations and other regulations, thus controlling costs;
4. Eliminating economic uncertainty helps develop and implement marketing strategies, attract customers, and establish continuous communication with them.

By identifying economic uncertainty, it is considered one of the key foundations for enterprises to improve production and quality, enhance services, increase financial outcomes, and refine market regulations.

As a result, eliminating economic uncertainty contributes to improving the economic situation of countries in a positive direction, increasing income, raising the level of production and services, reducing inflation, promoting the development of production, and enhancing public services, which are all considered important factors in improving key indicators.

The presence of uncertainty in various economic sectors for enterprises in the region, in turn, leads to variability in solving the problem through assessing the impact of uncertainty. It should be noted that, first and foremost, assessment models for enterprises in the region are developed, and the impact of uncertainty on the public sector in general, and specifically on the budget system, is rarely addressed.

The main content of this economic uncertainty is presented in F. H. Knight’s [3] monograph "Risk, Uncertainty, and Profit," where the author emphasizes that risk is measurable uncertainty, which is very different from immeasurable uncertainty.

J. M. Keynes [4] described the uncertainty characteristic of economics as a situation "where there are no scientific grounds for calculating any probability." We simply do not know. However, the necessity to act and make decisions forces us to disregard this uncomfortable truth.

Thus, the methodology developed in this research is based on understanding the social essence of uncertainty in enterprises, its inseparability, its connection to information, and the impossibility of directly quantifying it, as well as distinguishing between the concepts of "economic uncertainty" and "risk."

Taking into account the above characteristics and enabling the development of the necessary methodology, we emphasize the following definition of the concept of "economic uncertainty."

S.D. Valentey states: "National regional policy should be based on identifying the specific factors of growth or development of the economy of particular subjects of the region" [5].

In the study of policy at various levels of management conducted by T. V. Gritsyuk, much attention is paid to managing regional development. The author proposes a strategic approach to modelling the development processes of regional subjects, regulating fiscal relations between the centre and regions, and modelling regional fiscal behavior [6].

O.V. Kuznetsova defines this as “the actions of central government aimed at regulating the economic development of regions, with the goal of selectively influencing the economic development of specific regions” [7].

In the system of measures for restructuring economic relations, the regional issues of uncertainty in assessing the financial potential of enterprises are examined. In assessing the financial potential of enterprises, it becomes possible to eliminate uncertainties related to managing budget revenues.

It is also worth noting that there are several factors in the region or province that hinder the growth of enterprise activity, all of which lead to problems in determining the financial situation, see Figure 1.

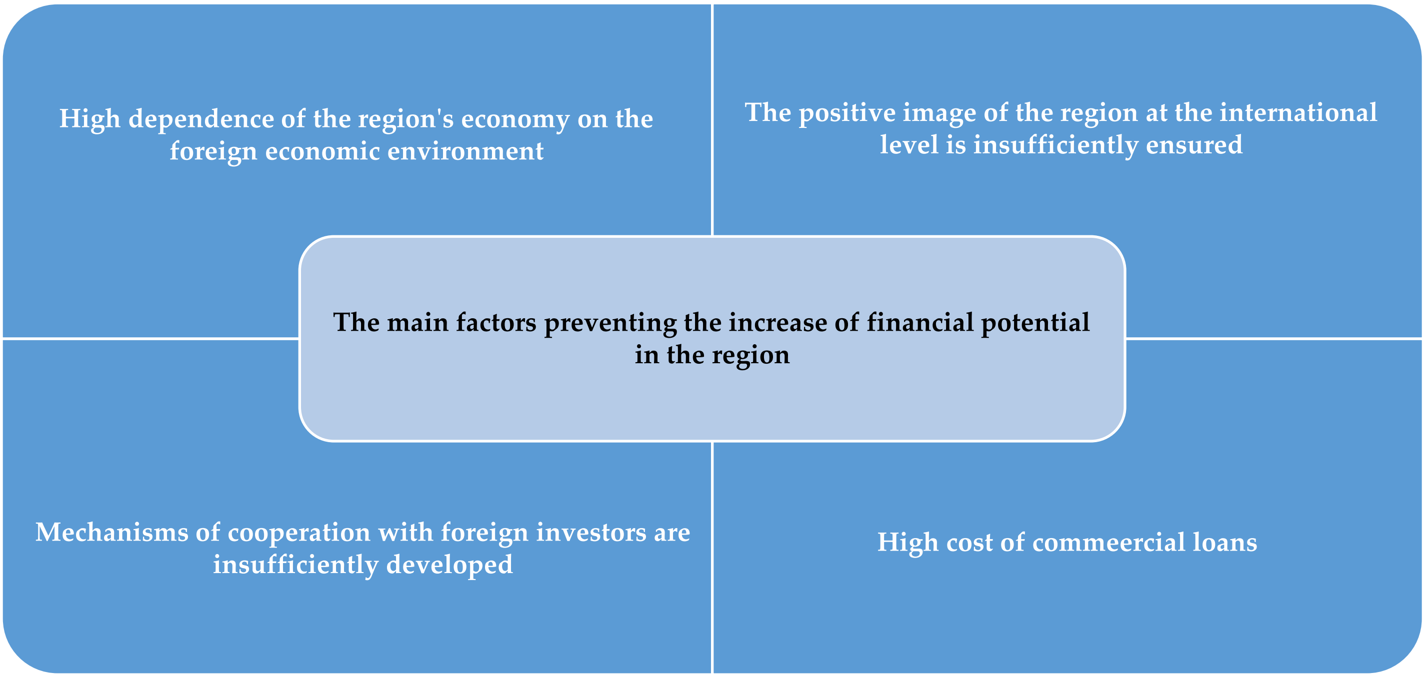

Figure 1. Key Factors Hindering the Increase of Regional Financial Potential.

The financial potential of regional enterprises is the sum of the region's objective economic, social, and natural-geographic characteristics. Therefore, as a set of objective conditions for financial potential, it is shaped by the presence and diversity of industries and objects, as well as their economic "health."

The foundation of the financial potential of a country or region consists of the key macroeconomic indicators, the saturation of the region's production factors (natural resources, labor resources, fixed assets, infrastructure, etc.), and quantitative characteristics that take into account factors like population consumption demand, among others [8]. The financial potential of the region consists of six specific potentials, see Figure 2.

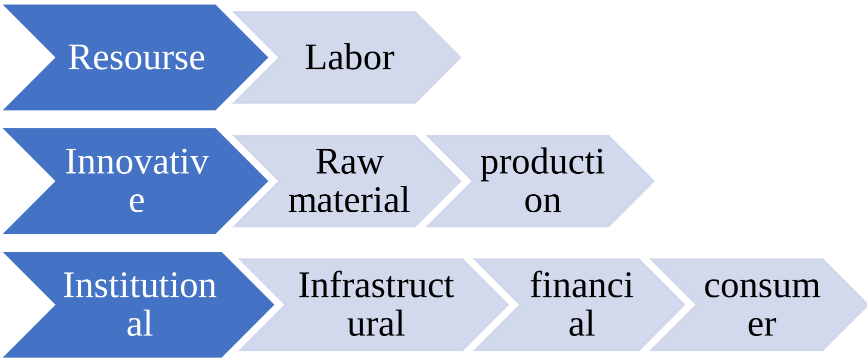

Figure 2. Characteristics of Regional Financial Potential.

As we can see from the figure, each of them, in turn, is characterized by a group of indicators.

1. Resources and raw materials are evaluated based on the average weighted supply of balance reserves of key types of natural resources.
2. Labor and human resources are assessed based on their level of education.
3. Production is evaluated based on the overall result of the economic activity of the population in the region.
4. The level of innovation and science development is evaluated based on the extent to which scientific and technological achievements are implemented in the region.
5. Institutional-market economy is assessed based on the development level of leading institutions.
6. Infrastructure is evaluated based on the region's economic-geographical location and its infrastructure provision.
7. Financial is assessed based on the size of the taxable base and the profitability of enterprises in the region.
8. Consumer is evaluated based on the gross purchasing power of the population in the region.

When we talk about the financial evaluation of enterprise activity in the region, it means analyzing and assessing the financial capabilities and potential of businesses and enterprises in a specific area (region). This process is a cyclical one with the following main objectives, see Figure 3.

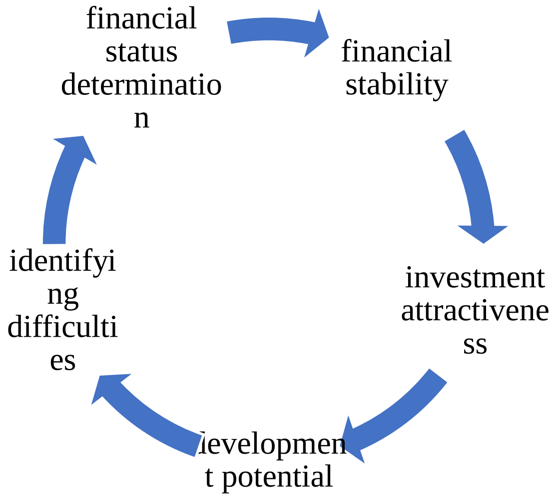

Figure 3. Financial Assessment of the Enterprise's Activity in the Region.

As seen in the figure, the financial assessment of the enterprise's activity in the region consists of a cyclical process, including determining the financial condition, financial stability, investment attractiveness, development potential, and identifying challenges [9].

In assessing the financial condition, the financial status of enterprises and businesses is analyzed by determining their assets, liabilities, revenues, and expenses, thereby evaluating the financial condition of the enterprise. The assessment of the financial condition of the enterprise is carried out through various methods and analytical tools. In this evaluation process, key indicators are analyzed at the following stages, see Figure 4.

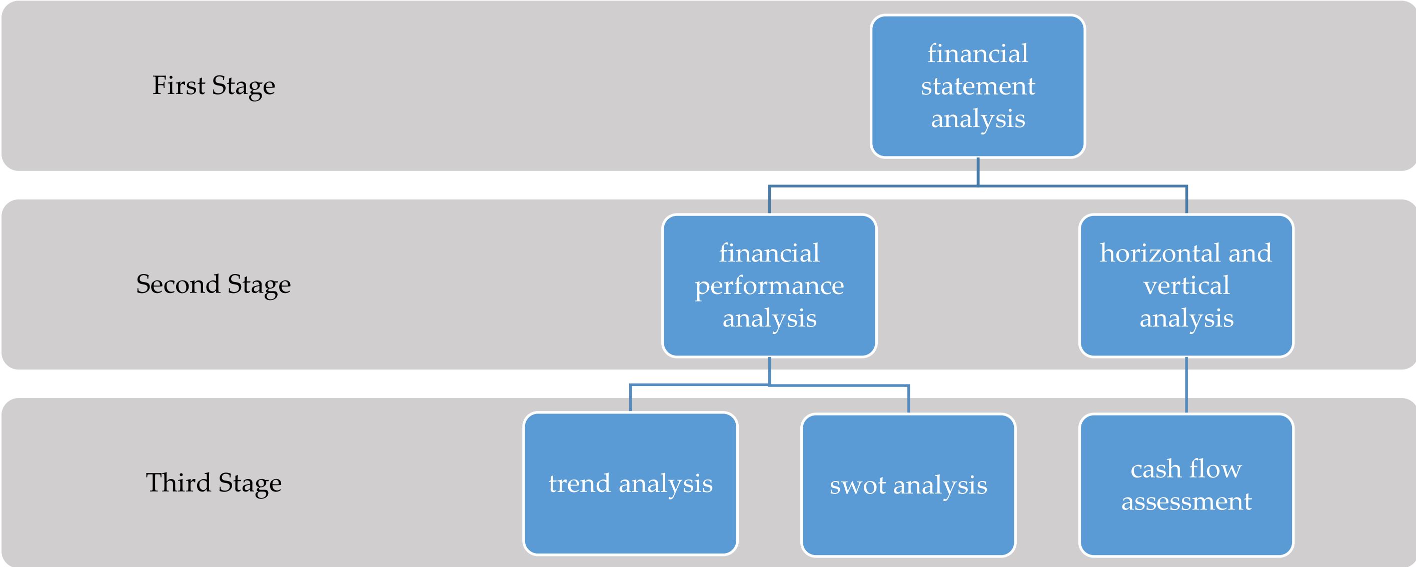

Figure 4. Stages of Assessing the Financial Potential of the Region.

As we can see from the figure, the first stage is the analysis of financial reports, the second stage involves analyzing financial indicators, which includes horizontal and vertical analysis. The third stage is trend analysis and SWOT analysis [10].

In the analysis of financial reports, the company's financial condition is determined by conducting a deep analysis of its financial statements. These reports include the following:

1. Balance Sheet: Provides information about the company's assets, liabilities, and equity.
2. Income Statement: Provides information about the company's revenues, expenses, and net profit.
3. Cash Flow Statement: Provides information about the company's cash inflows and outflows.

In the analysis of financial indicators, various ratios and indexes are used. Primarily, liquidity indicators are analyzed [11]:

1. Current Ratio: The ratio of current assets to current liabilities.
2. Quick Ratio: (Current assets – Inventories) / Current liabilities.

Financial Stability Indicators:

1. Debt-to-Equity Ratio: The ratio of total liabilities to equity.
2. Interest Coverage Ratio: Earnings Before Interest and Taxes (EBIT) / Interest Expenses.

Activity Indicators:

1. Inventory Turnover: Cost of Goods Sold / Average Inventory.
2. Receivables Turnover: Sales / Average Receivables.

Profitability Indicators:

1. Net Profit Margin: Net Profit / Sales Volume.
2. Return on Assets (ROA): Net Profit / Total Assets.
3. Return on Equity (ROE): Net Profit / Shareholders' Equity.

Trend Analysis involves studying changes in the company’s financial indicators over time. This method helps to identify the dynamics of financial indicators and growth or decline trends [12].

Horizontal and Vertical Analysis:

1. Horizontal Analysis: Studies changes in financial indicators over several years.

2. Vertical Analysis: Studies the indicators in the balance sheet and income statement within a single year and compares them to overall indicators.

Cash Flow Evaluation involves analyzing the company's cash flows to assess its liquidity and cash-related situations [13].

SWOT Analysis identifies the company's strengths, weaknesses, opportunities, and threats. This method is used together with financial analysis to evaluate the overall condition of the company [14].

Through these methods and indicators, the financial condition of the region is fully analyzed, providing a complete understanding of its financial stability, payment ability, profitability, and overall financial potential, see Figure 5.

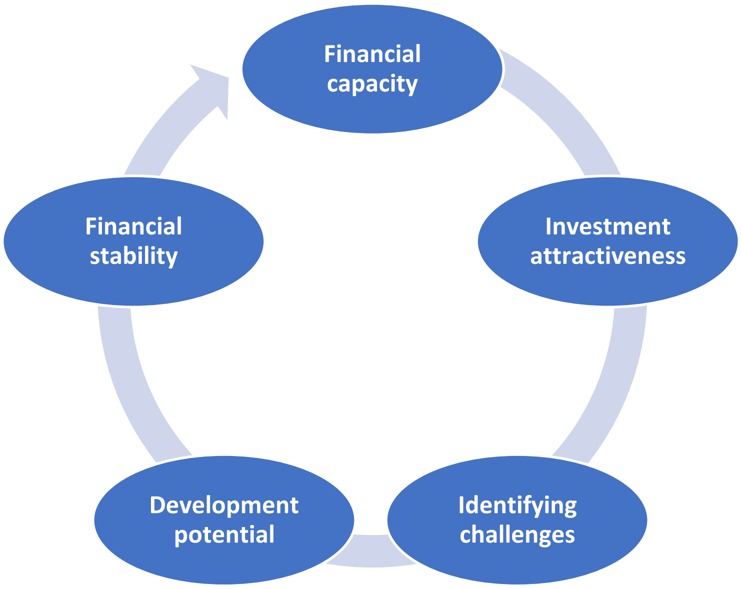

Figure 5. Transforming the Financial Potential of the Regions into Financial Stability.

As seen in the figure, the financial potential of the regions, through investment attractiveness, assesses how attractive enterprises and businesses in the region are for investment, which helps investors in their decision-making process [15]. As a result, the regions transform into areas with development potential. Based on existing financial resources, the growth and development opportunities of enterprises are analysed, challenges are identified, and through financial analysis, potential problems and difficulties in businesses are detected early [16]. Measures are then developed to overcome these issues, leading to the establishment of financial stability. This process involves evaluating the financial stability and payment capacity of the entities, that is, determining whether they can repay their debts on time [17].

The results of this assessment are crucial for shaping the economic policy of the region, developing investment programs, and implementing measures to support enterprises.

4. Conclusion

At the current stage, regional enterprises in Uzbekistan are playing an increasing role in the development process of the region. One of the key conditions for sustainable regional development is identifying uncertainties. Without knowing the real financial capabilities of enterprises in the region and addressing these uncertainties, it is difficult to implement social and economic development programs and comprehensively develop the region and strengthen its economic base.

Transitioning to a qualitatively new relationship for enterprise development in the region, establishing a prospective financial policy, and specifically increasing the financial stability of enterprises should be based not only on the state's but also on the regions' financial capabilities, rooted in uncertainties. Additionally, addressing these uncertainties is crucial. At every regional level, identifying the financial potential of enterprises is an essential first step in planning and implementing reforms and creating development forecasts.

To determine the total volume of financial potential of enterprises in the region, it is necessary to identify the possibilities for using each resource available in the region, compare resources, and consolidate them into a cohesive form. Rationally combining resources to generate income will achieve the highest level of efficiency in meeting regional needs.

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