Journal of Artificial Intelligence and Digital Economy
Homepage : https://journal.antispublisher.id/index.php/JAIDE
Email : admin@antispublisher.com

e-ISSN : 3032-1077
JAIDE, Vol. 2, No. 8, September 2025
Page 85-91

Financial Security As The Main Factor Ensuring The Stability and Competitiveness of A Joint-Stock Company

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DOI : https://doi.org/10.61796/jaide.v2i8.1459

Sections Info

Article history:
Submitted: August 25, 2025
Final Revised: September 07, 2025
Accepted: September 14, 2025
Published: September 26, 2025

Keywords:
Financial Security
Financial Stability
Competitiveness
Joint-stock Company
Uzbekistan
Corporate
Finance
Risk Management

ABSTRACT

Objective: *This study investigates the role of financial security as a critical determinant of the stability and competitiveness of joint-stock companies, with a specific focus on Uzbekistan's corporate experience.* ***Method:*** *Using a qualitative-descriptive approach, the research integrates a literature review with an analysis of real-world data, including capital structures, financial performance indicators, and regulatory developments affecting Uzbek joint-stock companies.* ***Results:*** *The findings show that firms with strong financial security – marked by capital adequacy, liquidity, solvency, and risk management – are more resilient to economic shocks and better able to pursue competitive growth strategies. Conversely, the decline in the number of joint-stock companies in the late 2000s reflects the consequences of stringent capital requirements and high leverage, while ongoing reforms in corporate governance and equity financing indicate progress toward improved financial stability and competitiveness.* ***Novelty:*** *The study contributes by contextualizing the concept of financial security within a transitional economy, demonstrating how financial resilience not only secures survival but also enhances market competitiveness, thereby offering theoretical insights and practical implications for corporate financial management in emerging markets.*

INTRODUCTION

In an increasingly dynamic economic environment, the long-term stability and competitiveness of a company largely depend on its financial security. Financial security, in the corporate context, refers to the firm's ability to maintain a stable financial condition and withstand internal and external risks or shocks. A company that is financially secure can meet its obligations, fund its operations and growth, and remain resilient during economic downturns – all of which contribute to continuous stability. Moreover, such a company can afford strategic investments (in technology, capacity, marketing, etc.) that enhance its competitiveness in the market. In short, financial security forms the foundation for both stability (survival and steady operation) and competitiveness (performance relative to peers) of a joint-stock company [1].

This linkage is especially pertinent for joint-stock companies, which are owned by shareholders and often operate in competitive markets. For these companies, instability in finances (such as excessive debt, poor liquidity, or inability to raise capital) can lead not only to insolvency risks but also to lost market opportunities and erosion of competitive edge. Ensuring financial security is thus viewed as a primary managerial and strategic objective to safeguard the company's longevity and market position. As noted by economists, the financial security of an enterprise is a "dynamic state of financial condition which reflects its resilience to internal and external threats, ability to develop sustainably, and balanced protection of financial interests". High financial security manifests in strong financial stability and independence, and it enables the firm to achieve high competitiveness in its sector [2].

The case of Uzbekistan provides a valuable context to explore this topic. After gaining independence, Uzbekistan saw a rapid establishment of joint-stock companies (JSCs) as part of market reforms and privatization efforts. Over time, however, the number of JSCs declined sharply – from 4,555 companies in 2000 to only 599 by 2020 – largely because many could not meet new financial requirements or attract sufficient capital, leading them to reorganize into other forms of ownership . Notably, since 2009 Uzbekistan had mandated higher minimum authorized capital for JSCs (equivalent to $400,000 for new JSCs) and other stringent criteria, forcing under-capitalized firms either to raise funds or exit the JSC structure. In 2014–2016, a now-reversed policy even required JSCs to have at least 15% foreign shareholder ownership, which over 100 companies failed to attain and thus converted into private or limited companies. These episodes highlight how financial security factors – like adequate capital and investor base – became decisive for corporate survival in Uzbekistan. Firms that could bolster their capital and financial footing remained as JSCs, whereas financially insecure ones lost stability and had to change form [3].

RESEARCH METHOD

In this paper, we undertake a deep analysis of how financial security serves as the main factor ensuring stability and competitiveness of joint-stock companies, using Uzbekistan as a case study. The Introduction has outlined the problem context and significance. Next, the Literature Review will discuss scholarly perspectives on financial security and its relationship with stability and competitiveness. The Theoretical Framework will then define key concepts and a model for assessing financial security at the enterprise level. In the Main Analysis, we integrate Uzbekistan-specific insights – laws, statistics, and examples of JSCs – to illustrate the interplay between financial security and company performance. We then provide a Discussion of the findings, drawing broader implications and highlighting challenges and strategies in the Uzbek context. Finally, the Conclusion summarizes the main points and offers concluding remarks. Through this structure, the paper aims to contribute a comprehensive understanding of why and how robust financial security underpins a joint-stock company's enduring stability and competitive success [4].

The concept of financial security in business has been explored within the broader domain of economic security and corporate finance management. In the literature, financial security of an enterprise is often defined as the condition of its financial resources and capabilities that ensures stable, effective functioning and protection from threats. Many scholars view financial security as an integral component of a firm's overall economic security. For example, V.K. Senchagov, a prominent economist in economic security studies, defines financial security (at the national level) as "the development of the financial system and financial relations in such a way as to preserve socio-economic stability and create conditions to neutralize internal and external threats in the financial sector" . When adapted to the enterprise level, this concept implies safeguarding a company's financial stability and integrity against risks. In essence, financial security at the firm level combines elements of economic security (the firm's resilience and viability) and financial management (prudent handling of finances) [5].

Researchers have identified key components and indicators that characterize an enterprise's financial security. A recurring theme is the ability of a company to withstand various threats (financial risks) and maintain a good financial standing as a result. Savchenko and Derbeneva (2021) summarize that a company's financial security is reflected through a set of financial stability indicators – including liquidity, solvency, profitability, and capital structure – that collectively measure its risk level and safety margin. Traditional methods of financial security assessment involve analyzing these dimensions: for instance, liquidity ratios ensure the firm can meet short-term obligations; solvency and leverage ratios (debt-to-equity, etc.) assess long-term sustainability; profitability and efficiency ratios gauge the firm's ability to generate income; and business activity indicators show operational health. Threshold values for such indicators can serve as benchmarks – falling below certain liquidity or solvency thresholds, for example, would indicate a compromise in financial security. This analytical approach aligns with classical corporate finance wisdom (e.g., Brigham and Houston's work on risk), where financial risk is seen as the extra risk to shareholders arising from a firm's use of debt. Too much debt increases risk of financial distress, hence a financially secure company typically maintains a balanced capital structure to avoid undue risk exposure [6].

RESULTS AND DISCUSSION

Based on the literature review, we establish a theoretical framework for understanding financial security in joint-stock companies and its relationship to stability and competitiveness. Figure 1 (conceptual, described here) illustrates the framework: at the core is the Financial Security of the firm, which is determined by several interrelated components – capital structure, liquidity, profitability, and risk management – and which in turn influences the firm's Stability and Competitiveness [7].

Capital Structure and Solvency: A fundamental aspect of financial security is the adequacy of equity capital relative to debt. A joint-stock company with a higher equity ratio (and correspondingly moderate debt levels) has a larger buffer to absorb losses, lower fixed financial obligations, and hence a reduced risk of insolvency. This contributes to stability by decreasing the likelihood of bankruptcy during downturns. It also enhances competitiveness because a solid capital base improves the company's creditworthiness and ability to undertake new investments. For instance, if a company maintains a conservative debt-to-equity ratio, it can more safely invest in expanding production or improving product quality without over-leveraging itself. In our framework, Solvency (measured by indicators like Debt/Equity, Equity/Assets) is a key pillar: sufficient equity capital ensures financial independence and flexibility, enabling the company to sustain operations and competitive initiatives even under adverse conditions [8].

Liquidity Management: Liquidity refers to the firm's capacity to meet short-term obligations and cash needs. High liquidity (e.g., a strong current ratio or quick ratio) is a sign of financial security because it means the firm can handle day-to-day expenses, unexpected costs, or revenue fluctuations without distress. From a stability perspective, good liquidity prevents crises of confidence (like payment defaults) that could disrupt operations. From a competitiveness perspective, a liquid firm can take advantage of opportunities such as bulk purchasing or quick investments, and it can also offer more reliable terms to suppliers and customers. Thus, our framework includes Liquidity (with indicators like current ratio, cash ratio) as a component of financial security that undergirds stability (avoiding cash crunches) and supports competitive agility [9].

Profitability and Efficiency: Profitability (net profit margins, return on assets/equity) and operational efficiency are both a result and a driver of financial security. A consistently profitable company will build retained earnings, strengthening its equity base (thus improving solvency) and generating cash (improving liquidity). High profitability also directly signals competitive strength – it often reflects cost advantages, pricing power, or superior products. In the framework, Profitability serves as a feedback loop: robust financial security allows a company to remain profitable (by avoiding distress costs and allowing long-term strategic moves), and high profits in turn enhance financial security by providing internal funding. We also include business activity/efficiency metrics (asset turnover, inventory turnover) as part of financial security assessment noted by Savchenko & Derbeneva, since efficient asset use helps maintain profitability and cash flow, contributing to a secure financial state [10].

Risk Management and Diversification: Financial security is not just about static ratios; it also involves how well a company manages financial risks (currency risk, interest rate risk, credit risk, etc.) and diversifies its financial sources. For joint-stock companies, a crucial aspect is diversification of funding sources – for example, relying not only on short-term bank loans but also on equity issuance, long-term bonds, or retained earnings. A broader financing mix reduces vulnerability to any single source drying up. Effective risk management practices (such as hedging currency exposures or maintaining adequate insurance and reserves) protect the company's finances from volatility. This component of the framework ties into stability by preventing financial shocks from derailing the firm, and into competitiveness by ensuring the continuity of strategic initiatives even in volatile conditions [11].

Surrounding these core components are Corporate Governance and Strategic Planning, which act as enablers of financial security. Good corporate governance (transparent reporting, strong oversight by the board, shareholder rights protection) encourages prudent financial policies and attracts investor confidence, thereby improving access to equity capital at lower cost – a clear boost to financial security and competitiveness. Strategic planning, as noted earlier, allows firms to anticipate and prepare for financial needs in alignment with growth objectives, ensuring that pursuit of competitive advantage (e.g., entering a new market) is matched with a sound financing plan (thus maintaining financial security). We incorporate these as overarching factors in our framework [12].

Linking Financial Security to Stability: In our model, a high level of financial security is essentially synonymous with financial stability of the company – meaning it can continue operating smoothly over time. Stability indicators like variability of earnings, risk of default, and business continuity are all improved when the firm has strong capital buffers, liquidity, and risk controls. A financially secure company is less likely to experience distress or failure during economic downturns or industry slumps, thus providing stable returns to stakeholders (shareholders, employees, creditors) and sustaining trust.

To apply this framework in the context of Uzbekistan's joint-stock companies, we will examine how these components (capital structure, liquidity, etc.) manifest in practice and how policy and market conditions influence them. The main analysis will use this model as a guide: evaluating the financial security of Uzbek JSCs and observing the impact on their stability (e.g., survival, solvency) and competitiveness (e.g., ability to expand, attract investors, or improve products). This theoretical foundation sets the stage for interpreting real-world data and corporate behaviors in the Uzbek economy [13].

Competitiveness in an International Context: As Uzbekistan opens up to global trade and investment, joint-stock companies must improve their competitiveness against international players. Financial security is foundational for this upgrade. For instance, to enter export markets, companies need modern equipment and certifications – which require capital investment. A financially secure company can raise and allocate funds for such investments more readily. Conversely, a company with weak finances might postpone necessary upgrades, leaving it stuck with higher production costs or lower quality, hence uncompetitive. An example is Uzmetkombinat (a steel producer JSC): it managed to finance a major modernization program partly through issuing corporate bonds and obtaining foreign credit lines backed by its reasonably strong financial record. This has allowed it to increase output and lower costs, making it competitive domestically and in the region. Its stable finances (including good profitability in recent years) were a precondition to attract the needed financing on viable terms [14].

In summary, Uzbekistan's experience vividly illustrates the interplay between financial security and the stability/competitiveness of joint-stock companies. Companies with stronger financial fundamentals – adequate capital, manageable debt, liquidity, and transparent governance – have generally thrived or at least remained stable through the country's economic transitions. They have also been the first movers in seeking competitive growth, whether via expansion or export. For example, financially solid banks led the way in international fund-raising, and financially healthier industrial firms were more ready to IPO or partner with foreigners. On the other hand, companies with weak financial security have either collapsed, reverted to state support, or retrenched from competitive markets. The policy reforms underway aim to shift the corporate sector toward greater financial security: by broadening financing options (equity, bonds), improving corporate governance, and selectively reducing state ownership to encourage private capital involvement. The next section will discuss these findings in a broader context and address the remaining challenges [15].

Financial security stands out as the cornerstone of a joint-stock company's stability and competitiveness. Through theoretical exploration and the case study of Uzbekistan's joint-stock companies, this paper has demonstrated that when a company's finances are robust and well-managed, it gains the stability to survive turbulent periods and the competitive edge to thrive in the long run. Key conclusions from our study include:

Definition reaffirmed: Financial security for a company entails a state of affairs where it has sufficient capital buffers, liquidity, and risk management to meet its obligations and absorb shocks, while also possessing the financial capacity to invest in growth. It is an amalgam of financial stability (solvency, liquidity) and proactive financial strategy (planning and risk mitigation).

Stability linkage: A high level of financial security is a prerequisite for stability. Companies that maintain prudent debt levels, strong equity, and cash reserves are far less likely to encounter financial distress. Uzbekistan's regulatory experience underscored that under-capitalized or financially fragile companies were inherently unstable – many ceased to be JSCs or required restructuring. Conversely, companies that upheld stronger financial metrics continued operating and could plan for the future.

Competitiveness linkage: Financial security directly feeds into competitiveness. When companies are not bogged down by crisis management, they can focus on innovation, efficiency and market strategy. Secure finances allow for strategic risk-taking – entering new markets, developing new products – which drives competitive advantage. In the Uzbek context, only those JSCs with improved financial security (either via new equity, foreign investment, or internal reforms) have successfully elevated their competitive capabilities (e.g., by modernizing or expanding exports). We saw that raising foreign capital, although challenging, is linked with improved product/service quality and company prestige, ultimately a competitive benefit.

CONCLUSION

Fundamental Finding : This study reveals that financial security in joint-stock companies is shaped by the interdependence of capital adequacy, liquidity, and profitability, which can create either a virtuous cycle of stability and competitiveness or a vicious cycle of debt-driven decline, with Uzbekistan's corporate reforms illustrating both the challenges and progress in fostering stronger financial systems. **Implication :** The findings underscore the importance of prudent financial management and supportive policy frameworks, as improvements in governance, capital market development, and diversification of funding sources not only enhance corporate resilience but also strengthen competitiveness in transitional economies. **Limitation :** Nevertheless, the study is limited by its reliance on descriptive and contextual analysis, without employing empirical testing or comparative cross-country perspectives, which may restrict the generalizability of its conclusions. **Future Research :** Subsequent studies should incorporate quantitative models to measure the causal relationships among financial security components, expand to comparative analyses across emerging markets, and examine the role of investor behavior and corporate culture in sustaining financial resilience over the long term.

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