

# ASSESSMENT OF THE FINANCIAL STABILITY OF COMPANIES IN MARKET CONDITIONS OF BUSINESS UNDER THE INFLUENCE OF THE COVID-19 PANDEMIC IN REPUBLIC OF SRPSKA

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*Paper presented at the 9th International Scientific Symposium „EkonBiz: Economy and COVID 19“,  
Bijeljina, 17 – 18th June 2021.*

**Abstract:** *The transformation of the economic system according to the standards of market developed countries and the implementation of long-term privatization have conditioned companies in the Republic of Srpska to find opportunities to preserve their financial stability in the newly created market environment. It is well known that turbulent markets have always favored those companies that can provide good financial stability and that adapt quickly to turbulent market changes. Therefore, the companies of Republic of Srpska have been adapting to the market way of doing business all these years in order to try to build financial stability in unfair competition, which would provide them with a certain reputation in turbulent markets. With the struggle to adapt to the market way of doing business in the last year of business under the influence of the COVID-19 pandemic, companies in Republic of Srpska are going through various unexpected challenges that they need to overcome in order to ensure financial stability. From the context of the above, the research is focused on assessing the financial stability of companies in market conditions under the influence of the COVID-19 pandemic. In this regard, the research attaches importance to the assessment of financial stability on the example of a specific company in market conditions under the influence of the COVID-19 pandemic, using basic analytical indicators used in assessing the financial stability of the company.*

**Key words:** *company, market, financial stability, COVID-19, Republic of Srpska.*

## 1. INTRODUCTION

The events related to the COVID-19 pandemic resulted in the dynamics of changes in the global sense, which were also reflected in the business environment of the companies in Republika Srpska. The essence of the changes related to the COVID-19 pandemic, regarding the business of companies in the Republic of Srpska, is on the sustainability of the financial stability of the company. Due to its importance for the company, it is necessary for the management to find an adequate approach for establishing a rational management concept, which would solve the problems and enable each company to adapt to the new changes. It is known that financial stability in the conditions of modern business affects the business position of our companies in their business, and in such turbulent market changes and under the influence of a pandemic, it can improve the market position of companies. For these reasons, the research issues in this article are focused on assessing the financial stability of a specifically selected company in order to see how much the changes that occurred during the COVID-19 pandemic affected the financial stability of the selected company. Analytical indicators will be taken into account for the assessment of financial stability, because they can serve the management to direct decisions in the

best possible way to preserve the financial stability of the company and thus ensure the company's operations in the new market conditions under the COVID-19 pandemic.

## 2. Conceptual determination of the financial stability of the company

In order to conceptually determine the financial stability of a company, it is necessary to consider its significance for the company. Above all, the financial stability of the company provides the company with solvency, security and solvency. Financial stability improves a company's market reputation (Malešević, 2000, p. 93). In the conditions of modern business, financial stability significantly affects the business position of the company when contracting jobs. Generally speaking, financial stability is a good platform for making management decisions in a company. Management decisions are the foundation for good business management and the growth and development of any company. The financial stability of a business allows business owners to maintain an interest in profitability and security. The importance of financial stability for the company has established the interest of management in all aspects of financial analysis, in order to ensure both short-term and long-term financial stability of the company in relation to the business environment. Therefore, based on the above, the need of every company for the assessment of financial stability through adequate indicators, which serve this purpose. The financial stability of a company can be determined through the coefficient of financial stability. The coefficient of financial stability is the ratio of fixed assets, on the one hand, and equity and long-term liabilities, on the other hand. Finally, financial stability shows whether the company is provided with security and solvency.

## 3. Basic analytical indicators for assessing the financial stability of the company

In accordance with the difficult business conditions of the company caused by the impact of the COVID-19 pandemic, all aspects of financial analysis should be pointed out to the company's management. In this way, the financial stability of the company would be continuously monitored. Several groups of analytical indicators need to be used for this purpose. This primarily refers to: 1. liquidity indicators (general liquidity ratio, reduced liquidity ratio, current liquidity ratio), 2. financial stability indicator of the company (financial stability ratio), 3. solvency ratio (solvency ratio), 4. indebtedness indicators indebtedness ratio, own

financing ratio, financing ratio), 5. profitability indicator (profitability ratio).

*Liquidity ratios.* A company is considered liquid if it is able to pay its liabilities in a short period of time. Therefore, liquidity ratios measure a firm's ability to meet due obligations. Liquidity ratios used for this purpose are derived from the balance sheet.

**Table 1.** Calculation of liquidity ratios

The name of indicator	Calculation of indicators
Coefficient of general liquidity	$\frac{\text{Total current assets}}{\text{short-term liabilities}}$
Coefficient of reduced liquidity	$\frac{\text{Cash money} + \text{short-term receivables}}{\text{short-term liabilities}}$
Coefficient of current liquidity	$\frac{\text{Cash money}}{\text{short-term liabilities}}$

*Source:* Malešević, Starčević, p. 356-360.

*An indicator of the financial stability of a company.* In this case, it is an indicator that is expressed through the coefficient of financial stability, which is characterized by the fact that it must always be less than 1, which means that there is a need to finance part of current assets from part of long-term sources. It is calculated on the basis of balance sheet data.

**Table 2.** Calculation of financial stability indicators of the company

The name of indicator	Calculation of indicators
financial stability ratio	$\frac{\text{Fixed assets}}{\text{equity} + \text{long-term liabilities}}$

*Source:* Author's work based on the indicator shown on the link: <https://usersite.datalab.eu>

*Solvency ratio.* The solvency indicator indicates the ability of the company to pay the total debts, even from the liquidation estate. It should be noted that it is desirable for the value of the solvency ratio to be above 1, because then the company is able to pay the total debts and part of the assets

remains at its disposal. The calculation of the solvency ratio is linked to the data from the balance sheet.

**Table 3.** Calculation of solvency ratios

The name of indicator	Calculation of indicators
solvency ratio	$\frac{\text{business assets}}{\text{total debts}}$

*Source:* Tuševljak, Rodić, 2003., p. 395.

*Indebtedness indicators.* Indebtedness indicators reflect how much money is financed from own and how much from other people's capital. They are calculated on the basis of balance sheet data.

**Table 4.** Calculation of indebtedness indicators

The name of indicator	Calculation of indicators
indebtedness ratio	$\frac{\text{total liabilities}}{\text{total funds}}$
coefficient of own financing	$\frac{\text{personal capital}}{\text{total funds}}$
funding ratio	$\frac{\text{total liabilities}}{\text{personal capital}}$

*Source:* Hodžić, Gregović, 2014., p. 99.

*Profitability indicator.* The company's profitability indicator is formed on the basis of the income statement. The profitability indicator shows whether the company has generated enough total income to justify the invested funds by achieving a positive financial result, ie. net profit.

**Table 5.** Calculation of profitability indicators

The name of indicator	Calculation of indicators
profitability ratio	$\frac{\text{net profit}}{\text{total income}}$

*Source:* Preparation of the author based on the indicators shown on the link: <https://usersite.datalab.eu>

#### 4. Assessment of financial stability on the example of a specific company in market conditions under the impact of the COVID-19 pandemic

Based on the financial statements of the company Alpro Vlasenica a.d. the assessment of financial stability was performed through the mentioned indicators of liquidity, financial stability, solvency, indebtedness and profitability.

The general liquidity ratio in the first analyzed year (2015) was 10,520, and after that year it had a declining trend until 2019, when it was 13,914.

**Table 6.** Movement of liquidity indicators in the company Alpro Vlasenica a.d. for the period 2015-2020.

The name of indicator	2015	2016	2017	2018	2019	2020
general liquidity ratio	10,520	7,946	5,895	5,207	13,914	6,099
reduced liquidity ratio	6,881	5,603	3,427	2,738	7,146	3,463
current liquidity ratio	0,668	1,367	0,629	0,730	4,101	1,603

*Source:* Preparation of the author based on data from financial reports (2015-2020) Alpro Vlasenica a.d. available on the Banja Luka Stock Exchange website: <https://www.blberza.com/>

In 2020, the general liquidity ratio compared to the previously analyzed year decreased by more than 50% of the amount. A similar situation was observed with the movement of the reduced liquidity ratio. In 2015, this coefficient was 6,881, so a declining trend was recorded, and its lowest value was in 2018 (2,738). The highest value of the reduced liquidity ratio was observed in 2019,

and in the last observed year its value dropped to 3,463. Also, the current liquidity ratio shows the instability that manifested itself the most in 2020 compared to 2019. Due to the growth of liabilities, which in this company are only short-term liabilities, there is a decline in all liquidity indicators in 2020.

**Table 7.** Movement of financial stability indicators in the company Alpro Vlasenica a.d. for the period 2015-2020.

The name of indicator	2015	2016	2017	2018	2019	2020
financial stability ratio	0,594	0,580	0,610	0,621	0,596	0,598

**Source:** Preparation of the author based on data from financial reports (2015-2020) Alpro Vlasenica a.d. available on the Banja Luka Stock Exchange website: <https://www.blberza.com/>

The coefficient of financial stability varied during the observed period. The calculated coefficients in all observed years were approximately equal and over 0.500. The highest amount of this coefficient was recorded in 2018, when it was 0.621. In the last year, 2020, the coefficient increased slightly (0.002) compared to the previous year.

**Table 8.** Movement of solvency indicators in the company Alpro Vlasenica a.d. for the period 2015-2020.

The name of indicator	2015	2016	2017	2018	2019	2020
solvency ratio	24,515	17,554	13,444	12,101	32,954	13,678

**Source:** Preparation of the author based on data from financial reports (2015-2020) Alpro Vlasenica a.d. available on the Banja Luka Stock Exchange website: <https://www.blberza.com/>

The highest solvency ratio was calculated in 2019, when it was 32,954. In the last observed year, the value of this coefficient decreased by over 50% and amounted to 13,678. In 2020, there is a tendency to increase total debts, so this has consequently been reflected in the reduction of the solvency ratio this year.

**Table 9.** Movement of indebtedness indicators in the company Alpro Vlasenica a.d. for the period 2015-2020.

The name of indicator	2015	2016	2017	2018	2019	2020
indebtedness ratio	0,041	0,057	0,074	0,083	0,030	0,073
self-financing ratio	0,959	0,943	0,926	0,917	0,970	0,927
funding ratio	0,042	0,060	0,080	0,091	0,313	0,079

**Source:** Preparation of the author based on data from financial reports (2015-2020) Alpro Vlasenica a.d. available on the Banja Luka Stock Exchange website: <https://www.blberza.com/>

The lowest indebtedness ratio was recorded in 2019 and amounted to 0.030, and the highest in 2018 (0.083). During 2020, the indebtedness ratio increased again to 0.073, which was approximately equal to the value from 2017. The reason for this is certainly the growth of total liabilities, which in 2020 increased by 670,824 BAM compared to 2019.

**Table 10.** Movement of profitability indicators in the company Alpro Vlasenica a.d. for the period 2015-2020.

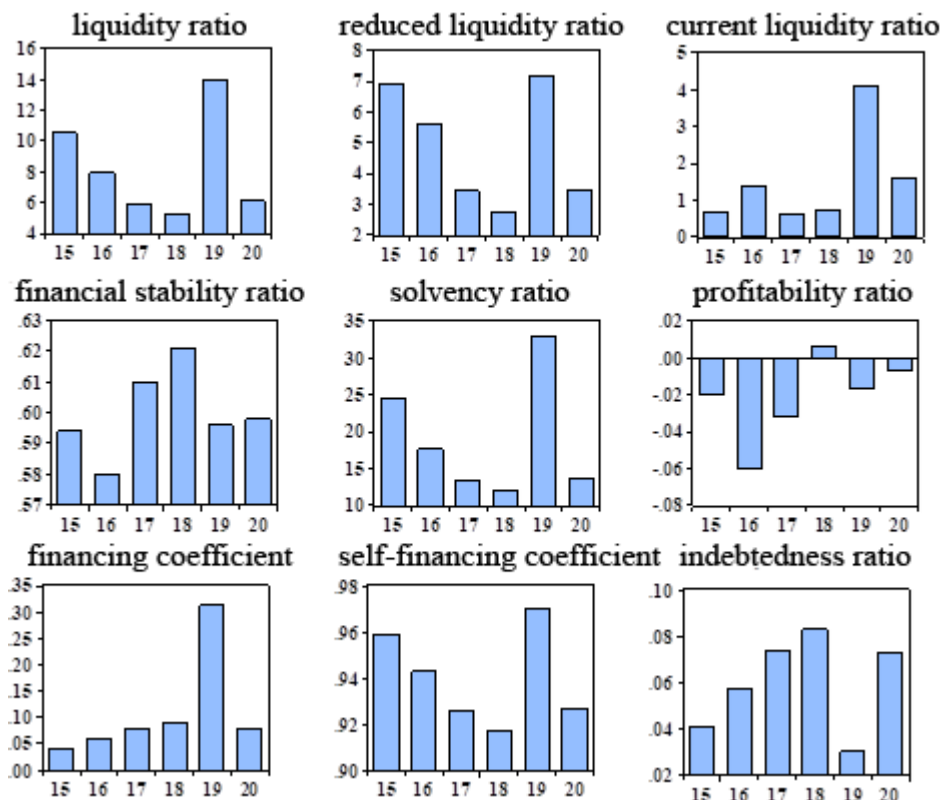
The name of indicator	2015	2016	2017	2018	2019	2020
profitability ratio	(0,020)	(0,060)	(0,032)	0,006	(0,017)	(0,007)

**Source:** Preparation of the author based on data from financial reports (2015-2020) Alpro Vlasenica a.d. available on the Banja Luka Stock Exchange website: <https://www.blberza.com/>

The profitability ratio was negative in almost all observed years, except in 2018, when the company made a net profit of 101,090 KM. The lowest value of this coefficient was recorded in 2016, because the amount of net loss this year was the

highest (850,346 BAM). In 2020, there was a decrease in net loss by 197,616 BAM so the profitability ratio increased slightly to (0.007).

**Graph 1.** Assessment of financial stability of the company Alpro Vlasenica a.d. (2015-2020)



**Source:** Preparation of the author based on data from financial reports (2015-2020) Alpro Vlasenica a.d. available on the Banja Luka Stock Exchange website: <https://www.blberza.com/>

Based on the analysis of financial stability in the company Alpro Vlasenica a.d. it can be noticed that the liquidity indicator drastically worsened in 2020 compared to 2019. It is clear that the company struggled with maintaining liquidity, i.e. certain difficulties related to the payment of obligations in the short term. However, the realized ratios of general, reduced and current liquidity were above the reference values, which means that the company was liquid in 2020, but that liquidity significantly deteriorated compared to the previous analyzed year. The financial stability indicator indicates whether the company is able to maintain liquidity for a longer period. Based on the analysis, it is clear that financial stability was achieved in all analyzed years, because the coefficient of financial stability is below 1. This means that long-term tied funds are

less than permanent and long-term capital, so long-term financial balance is shifted to sources, which indicates security in the direction of maintaining liquidity in the field of long-term financing. It is noticeable that the coefficient of financial stability during the analyzed period (2015-2020) was within the reference value, with the fact that in 2020 it increased slightly compared to 2019 and in practice should be reduced, because it would mean that there is an increase in net working capital, which is important for maintaining the financial stability of the company. The solvency ratio in the observed company was significantly above the reference value of 1, which indicates that the company will be able to meet its obligations in the future long-term. On the other hand, based on the movement of the calculated solvency ratios, it is clear that this ratio also significantly worsened in

2020 compared to 2019, in the newly created business conditions caused by the COVID-19 pandemic. The indebtedness indicator in the company Alpro Vlasenica a.d., calculated with the help of the coefficients: indebtedness, own financing and financing, was in the range of the reference value (less than 50%). Namely, these coefficients indicate what the capital structure of the company is and how it finances its business assets. It is very important that the company does not reach a high level of indebtedness, because this further affects financial flexibility, leads to the problem of finding new investors or may ultimately face bankruptcy. Also, it is very important to calculate the coefficients of financing and own financing. These indicators are focused on the ratio of own and borrowed sources of financing. The reference value of these indicators is 1. If the company is financed from its own sources, then the amount of this coefficient should be less than 1 and vice versa. In this company, based on the assessment of indebtedness, the company was not over-indebted in the observed period and kept the indebtedness under control. However, based on the obtained indicators, there is a trend of increasing indebtedness, ie an increase in all indicators of indebtedness in 2020 compared to 2019. As the coefficients of financing and own financing were calculated below 1, it is clear that the company in the observed period was financed more from its own sources of financing. Every company is established for profit. The profitability indicator is one of the most important expressions of the quality of a company's business. In the case of the analyzed company, the profitability ratio was negative in all analyzed years, except in 2018, when it was slightly above the reference value of 0. In all observed years, profitability was endangered and did not exist. The reason is certainly the negative financial results achieved during the analyzed period (except in 2018, when the net profit was realized). In 2020, there was a drop in net loss, but that amount did not reach a positive financial result this year.

## CONSLUSION

Based on the conducted analysis, the financial stability of the company Alpro Vlasenica a.d. It is concluded that the company had enviable performance during the observed period, but that the profitability is negative or extremely low. Also, the aggravated circumstances caused by the COVID-19 pandemic have contributed to the deterioration of all indicators of financial stability, especially in 2020. The growing threats posed by the COVID-19 pandemic are affecting the operations of all sectors of the economy and

investment around the world. As all markets are globalized, risks spill over from foreign markets to domiciles. This has already caused negative consequences for both the national economy and the global economy as a whole. Even before this global crisis, the economy in Bosnia and Herzegovina, and even in the Republic of Srpska, was not able to cope with a possible deep recession. It is quite clear that the consequences of the COVID-19 pandemic will be dramatic for the economy of Republic of Srpska. Businesses have faced enormous challenges in adapting to the disrupted business environment. They are only at the beginning of recovery from the consequences caused by the COVID-19 pandemic, getting used to the "new normality". At the level of Bosnia and Herzegovina, within the framework of public policy, a set of measures has been adopted that should facilitate the survival and development of the most affected branches of the economy. These measures should promote local entrepreneurship in the so-called "post-pandemic" economy in Republic of Srpska and Bosnia and Herzegovina.

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participation of the subjective factor in assessing the financial stability of the company. They can be adapted to the specific needs of management in assessing financial stability and represent a good basis in the process of making adequate decisions in a pandemic

## SUMMARY

In market conditions influenced by global processes, companies in the Republic of Srpska as well as in countries in transition are conditioned to shift the focus of management to survival and sustainable growth and development. In this context, the basic task of a company is undoubtedly to establish financial stability. With good financial stability, it would be easier for companies to adapt to the turbulent market changes. It is not unknown that in a such market environment as it is, only those companies that manage to provide good financial stability are acceptable. Due to the above and due to the presence of the COVID-19 pandemic in the last year, the research in the article is focused on the assessment of the financial stability of the selected company Alpro Vlasenica a.d. which belongs to the Republika Srpska. In order to be able to crystallize the financial stability of this company in the conditions of the COVID-19 pandemic, analytical indicators of financial stability based on the reports of this company were used. Indicators used, as is the case with the company Alpro Vlasenica a.d. can be used in assessing the financial stability of the company. In the year of the COVID-19 pandemic, the company Alpro Vlasenica a.d. as the above indicators indicate, has not maintained financial stability at an enviable level. Regardless of the fact that the financial stability ratio remained at the same level in 2020 compared to 2019, financial stability is inadequate, because liquidity ratios are significantly lower in 2020 as well as the solvency, indebtedness and profitability ratios. This statement is supported by the calculated indicators for the six years of operation of the company, which, if used for a longer period of time, show a higher degree of security. In particular, there is a decline in these coefficients in 2020 compared to 2019, ie. in the year of the COVID-19 pandemic. The presented analytical indicators represent a good platform for assessing the financial stability of the company Alpro Vlasenica a.d. in the newly created conditions. They are reliable in eliminating the