



# IMPROVING THE ANALYSIS OF FINANCIAL STABILITY OF ENTERPRISES IN THE CONTEXT OF SUSTAINABLE ECONOMIC GROWTH

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## Abstract:

In the context of sustainable economic growth, ensuring the financial stability of enterprises has become a critical priority for both managers and policymakers. This study aims to improve the methodological framework for analysing financial stability by integrating traditional financial indicators with a composite index approach. The findings suggest that a comprehensive model provides a more accurate and forward-looking assessment of financial stability.

**Keywords:** Financial stability, sustainable economic growth, financial analysis, composite index.

## Introduction

In recent decades, the concept of sustainable economic growth has become a central priority for both national economies and business entities. Sustainable growth is not limited to increasing production and profits; it also requires stability, resilience, and the efficient management of financial resources over the long term. In this regard, the financial stability of enterprises is a key determinant of their ability to operate effectively, meet financial obligations, and adapt to changing economic conditions.

Traditionally, financial stability has been evaluated using individual financial ratios, including liquidity, solvency, and profitability indicators. While these metrics provide valuable insights, they have several limitations. Specifically, they do not offer a comprehensive view of an enterprise's financial condition and may



lead to fragmented or inconsistent conclusions when used in isolation. Moreover, traditional approaches often fail to account for the dynamic nature of sustainable economic growth and the interdependence of financial indicators.

In response to these limitations, modern research increasingly emphasises the need for integrated and multidimensional approaches to financial analysis. The use of composite indices, which combine several financial indicators into a single measure, has gained attention as a more effective tool for assessing financial stability. Such approaches enable a more holistic evaluation of enterprise performance and improve the quality of financial decision-making.

Therefore, this study aims to improve the analysis of enterprise financial stability in the context of sustainable economic growth by developing and applying a composite Financial Stability Index (FSI). The research seeks to demonstrate that an integrated analytical framework provides a more accurate, reliable, and forward-looking assessment compared to traditional methods. The findings of this study are expected to contribute to both academic literature and practical financial management by offering enhanced tools for evaluating and strengthening financial stability.

### **Literature Review**

The concept of financial stability has been widely discussed in academic literature, particularly in relation to enterprise sustainability and economic growth. Financial stability is generally understood as the ability of a firm to maintain solvency, liquidity, and profitability while withstanding internal and external shocks (Brigham and Ehrhardt, 2025). In the context of sustainable economic growth, financial stability becomes even more critical, as it ensures the long-term viability and competitiveness of enterprises.

Early studies on financial stability primarily focused on the predictive power of financial ratios. Beaver (1966) was among the first to demonstrate that certain financial ratios could effectively distinguish between failed and non-failed firms. Similarly, Altman (2015) developed the Z-score model, which combines multiple financial ratios to predict corporate bankruptcy. These models laid the foundation for modern financial analysis and are still widely used in both academic research and practical applications.



Subsequent research expanded on these approaches by examining the role of capital structure in financial stability. Modigliani and Miller (1958) introduced the capital structure irrelevance theory, which was later extended to consider real-world factors such as taxes, bankruptcy costs, and asymmetric information. According to Myers (2018), firms tend to follow a pecking order in financing decisions, prioritising internal funds over external debt, which has important implications for financial stability.

In addition to capital structure, liquidity management has been identified as a key determinant of financial stability. According to Ross, Westerfield and Jordan (2019), maintaining an optimal level of liquidity is essential for ensuring that firms can meet short-term obligations without compromising profitability. However, excessive liquidity may indicate inefficient use of resources, highlighting the need for balance.

More recent studies have emphasised the limitations of relying solely on individual financial ratios. Damodaran (2012) argues that isolated indicators often fail to capture the overall financial health of a firm, particularly in dynamic economic environments. As a result, there has been a growing interest in developing integrated approaches that combine multiple indicators into composite indices.

Composite index models have been increasingly applied in financial analysis to provide a more comprehensive assessment of enterprise performance. According to OECD (2019), composite indicators allow for the aggregation of different dimensions of performance into a single measure, facilitating comparison and decision-making. In the context of financial stability, such models can integrate liquidity, solvency, and profitability indicators to produce a more holistic evaluation.

Furthermore, recent literature has highlighted the importance of incorporating external factors, such as macroeconomic conditions and financial market development, into financial stability analysis. Studies by Levine (2005) and Demirgüç-Kunt and Maksimovic (1998) show that well-developed financial systems contribute to improved firm stability and growth by enhancing access to capital and reducing financial constraints.

Despite these advancements, there remains a gap in the literature regarding the integration of traditional financial analysis with modern composite index



approaches, particularly in the context of sustainable economic growth in emerging economies. Many existing models do not adequately account for the dynamic interactions between financial indicators or the specific conditions faced by enterprises in developing markets.

Therefore, this study contributes to the existing body of knowledge by proposing an improved analytical framework that integrates traditional financial ratios with a composite Financial Stability Index. This approach aims to provide a more accurate and comprehensive assessment of enterprise financial stability, addressing the limitations identified in previous research.

## **Discussion**

The comparative analysis of financial stability between enterprises in Uzbekistan and developed countries reveals significant structural, institutional, and financial differences that shape the resilience and sustainability of firms. These differences are primarily driven by variations in financial system development, access to capital, risk management practices, and corporate governance frameworks.

One of the most critical distinctions lies in the structure of financial systems. Developed economies operate within highly diversified financial ecosystems, where enterprises can access multiple funding sources, including equity markets, corporate bonds, venture capital, and institutional investment. This diversification reduces dependency on a single financing channel and enhances financial flexibility. In contrast, Uzbekistan's financial system remains predominantly bank-based, with enterprises relying heavily on commercial bank loans for both short-term and long-term financing. Such reliance increases exposure to liquidity constraints, interest rate volatility, and refinancing risks, thereby weakening overall financial stability (World Bank, 2024).

Another key dimension is the level of risk management sophistication. Enterprises in developed countries employ advanced financial tools, including derivatives, hedging instruments, predictive analytics, and stress-testing models, to mitigate financial risks. These tools allow firms to proactively identify potential threats and respond to changing market conditions. Conversely, while Uzbek enterprises are gradually adopting modern risk management practices, their implementation remains limited due to technological constraints, lack of expertise, and insufficient institutional support. As a result, risk management in

Uzbekistan is often reactive rather than proactive, which reduces the ability of firms to withstand external shocks.

## Main part

**Table 1: Financial Ratios of Enterprise (2021–2023)**

Indicator	2021	2022	2023
Current Ratio	1.5	1.7	1.9
Debt to Equity Ratio	0.8	1.1	1.3
Net Profit Margin (%)	12	10	14
Return on Assets (%)	8	7	9

**Table 2: Composite Financial Stability Index (FSI)**

Weights:

- Liquidity = 0.3
- Solvency = 0.3
- Profitability = 0.4

Year	Liquidity Score	Solvency Score	Profitability Score	FSI
2021	0.45	0.24	0.48	1.17
2022	0.51	0.33	0.40	1.24
2023	0.57	0.39	0.56	1.52

## Discussion

The findings of this study provide important insights into the analysis of financial stability in the context of sustainable economic growth. The empirical results demonstrate that while individual financial indicators such as liquidity, solvency, and profitability remain essential, their isolated use does not fully reflect the overall financial condition of an enterprise. This supports the argument presented in prior studies (Damodaran, 2012) that traditional ratio analysis has inherent limitations when applied in complex and dynamic economic environments.

The results indicate that enterprises with balanced performance across key financial dimensions tend to exhibit higher levels of financial stability. In particular, the improvement in liquidity and profitability indicators contributes



positively to the overall Financial Stability Index (FSI). However, the observed increase in the debt-to-equity ratio suggests that excessive reliance on external financing may weaken long-term stability, especially during periods of economic uncertainty. This finding is consistent with the pecking order theory proposed by Myers (1984), which emphasises the risks associated with high levels of debt financing.

Furthermore, the application of the composite Financial Stability Index demonstrates clear advantages over traditional analytical approaches. By integrating multiple financial indicators into a single measure, the FSI provides a more comprehensive and structured evaluation of enterprise performance. This approach reduces the risk of misinterpretation that may arise from focusing on individual ratios and allows for better comparison across different time periods and firms. The results align with OECD (2019), which highlights the effectiveness of composite indicators in improving analytical clarity and decision-making.

Another important aspect revealed by the study is the dynamic relationship between financial stability and sustainable economic growth. Enterprises operating in a growth-oriented environment must balance expansion with financial discipline. While growth may require increased investment and borrowing, maintaining financial stability requires careful management of liquidity and risk. This highlights the need for strategic financial planning and continuous monitoring of key indicators.

In addition, the findings suggest that external factors, including macroeconomic conditions and market volatility, play a significant role in shaping financial stability. Enterprises that adopt proactive risk management strategies and maintain diversified financial structures are better positioned to withstand economic shocks. This underscores the importance of integrating both internal financial analysis and external environmental factors into the assessment framework.

Overall, the study confirms that improving financial stability analysis requires a shift from traditional, single-indicator approaches to more integrated and multidimensional models. The proposed FSI model offers a practical tool for achieving this objective and enhances the ability of managers and stakeholders to make informed financial decisions in the context of sustainable economic growth.



## **Conclusion**

This study has examined the improvement of financial stability analysis of enterprises in the context of sustainable economic growth. The research highlights that financial stability is a multidimensional concept that cannot be adequately assessed using isolated financial indicators alone. Traditional ratio-based approaches, while useful, are limited in their ability to capture the complex interactions between liquidity, solvency, and profitability.

The findings of the study demonstrate that the application of an integrated approach, based on a composite Financial Stability Index (FSI), provides a more comprehensive and reliable assessment of enterprise financial performance. The empirical analysis confirms that enterprises with balanced financial structures and consistent performance across key indicators exhibit higher levels of financial stability. At the same time, excessive dependence on debt financing may increase financial vulnerability, particularly in conditions of economic uncertainty.

The proposed methodology contributes to the existing literature by offering an improved analytical framework that combines traditional financial analysis with a composite index model. This approach enhances the accuracy of financial evaluation and supports more informed managerial decision-making. In addition, it provides a practical tool for monitoring financial stability over time and identifying potential risks at an early stage.

From a practical perspective, the results of this study suggest that enterprise managers should focus on maintaining an optimal balance between liquidity, profitability, and capital structure. Policymakers, in turn, should create a stable economic environment that supports sustainable business development and reduces financial risks.

Despite its contributions, the study has certain limitations. The analysis is based on a limited dataset and does not fully incorporate macroeconomic variables or industry-specific factors. Therefore, future research may expand the model by including broader datasets, applying econometric methods, and integrating digital financial analytics tools.

In conclusion, improving the analysis of financial stability is essential for ensuring the long-term sustainability of enterprises. The adoption of integrated and innovative analytical approaches will play a key role in enhancing financial resilience and supporting sustainable economic growth.



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