

ECONOMIC SECURITY OF ENTERPRISES*

*Tin Primorac*¹, *Toni Kozina*² & *Ivan Turčić*³

UDC /UDK /: 65.011.4:005

JEL classification / JEL klasifikacija: G31

DOI: <https://doi.org/10.22598/pi-be/2018.12.2.167>

Review / Pregledni rad

Received / Primljeno: September 26, 2018 / 26. rujna 2018.

Accepted for publishing / Prihvaćeno za tisak: November 30, 2018 / 30. studenoga 2018.

Summary

One of the most important purposes of an enterprise is to generate profit for their shareholders. In order to continuously fulfill their main purpose, enterprises constantly strive to achieve the state of being free from danger or threat, especially in an economic sense. This article aims to explore different views of an interdisciplinary connection between economics and security i.e. the economic security of enterprises. Methods used in this paper are literature review, systematization, analysis and synthesis of the most important factors influencing the economic security of an enterprise. A synthesis of analyzed literature is important for the future development of the economic security concept for enterprises as a basis for enterprises and their leading management to identify and improve their efforts in tackling certain risks threatening the economic security of their enterprise.

Key words: *economic security, economic security of enterprise, economic security of business.*

1. INTRODUCTION

Word „security“ derives from the Latin word „securus“ which means „free from care“ (Etymonline), and its basic meaning can be understood as the protection of values we care about (Malik, 2015; 4). Some of the most prominent names dealing with the contemporary meaning of the security concept have been Baldwin A. David, Barry Buzan, Stephen Walt, Jessica Tuchman Mathews and Richard H. Ullman.

* The paper was presented at the 3rd International Conference „Business & Entrepreneurial Economics –BEE2018“ which was held in Šibenik from 30 May to 2 June 2018 (www.bee-conference.com)

¹ Tin Primorac, Privredna banka Zagreb JSC, Croatia, E-mail: Primoractin@gmail.com

² Toni Kozina, Ultima ulaganja LTD, Croatia, E-mail: toni.kozina@ultima-ulaganja.hr

³ Ivan Turčić, MA, Faculty of Economics and Business, University of Zagreb, Croatia, E-mail: iturcic@efzg.hr

The concept of security has been examined massively in the 20th and 21st century, while the more intensified development of the security concept happened thanks to the establishment of the first department under international relations studies which had its focus on causes of wars (Aberystwyth in 1919), as well as the fatal events in the period ranging from the two World Wars to the terrorist attacks on the twin towers of the World Trade Center in New York on 11 September 2001 (Malik, 2015; 4).

2. DEFINING SECURITY IN GENERAL

Buzan et al (1998) defined security as a continuous pursuit of freedom from potential threats. Baldwin (1997) tried to define the security concept by pre-specifying questions like: a) Security for whom? (Individual, state or international systems) and b) security for which values? Ullman (1983) stated it is false to see security only in military terms, and posed a question of how much someone is willing to give up in order to obtain a higher level of security, stated that someone is not aware of their level of security until realizing that security is lost, and claimed that security can be defined by the threats which confront it. Mathews (1989) dealt with the broad issues relating to the concept of security such as resources, demographic and environmental issues, and she diminished the importance of conventional military threats referred to by Albert Einstein who claimed that everything changed with the invention of nuclear fission. Walt (1991) used a traditionalist approach to examine the evolution of security studies and concluded that research of the security concept had been mostly influenced by external events, allowing the connection between economics and security but only in the military sense. Still, there is no consensus about which influence is stronger: the military-political influence on economic security or vice versa, i.e. is it possible to connect economics and security into one common analytical, empirical construct, upon which it could be studied as a separate interdisciplinary concept (Anđelinović et al., 2014).

3. DEFINING ECONOMIC SECURITY

Because of increased globalization and economic interdependence between countries, the economic security concept has become a necessity because of the evolution of military and intelligence establishments around the world in search for new meaning and purpose (Cable, 1995).

Economic security was listed as one of the 7 most influencing factors on human security, among food security, environmental security, personal security, community security, political security, with economic security seen in this report as an assurance of basic income for every citizen from their own labor i.e. contribution to the society. (Chandra and Bhonsle 2010, according to Human Development Report 1994).

The importance of the economic security concept is also seen in scientists giving credit to it as an important factor of national security, since the economy represents a driving force of planning, organizing and focusing on using scarce resources in the best possible manner, in order to ensure basic means of living and to increase the standard of

citizens. National and international economic security has been researched as much as individual security since there is no entirely self-sustainable country in today's globalized world (Grubić 2014; Bilandžić and Mikulić 2007; Chernysheva et al, 2017).

Research of the economic security concept has developed in two ways depending on the type of economy in specific areas. For example, scientists from planned economy countries (mainly Russia and Ukraine) focused on macro-economic (state and regional level) position of the country in its environment. On the other hand, scientists living in the western market economies focused their research and thought on the economic security of individuals i.e. the stable flow of income of individuals in order to preserve the standard of living – mostly promoted by western schools of thought (Tamošiūnienė and Munteanub 2015; Ianioglo and Polajeva 2017a).

In order to encompass all the levels of economic security researched in recent history, a simple and logical conclusion of economic security was given by Ioan-Franc and Diamescu (2012) who defined economic security as: „all the rules and activities ensuring the proper functioning of the economy of a country, with repercussion on economic security of communities and individuals, that is on financial and economic quality of their lives“.

Efimovich Melev (2014), upon reviewing and analyzing the multiple definitions of economic security, concluded that economic security represents the scientific economic category which provides: „existence of abilities, opportunities and readiness of national economy to guarantee social stability and economic development of the country in a context of the most effective satisfaction of society's requirements and protection of the state's interests in various areas against internal and external threats.

Among many factors influencing economic security, Dent (2010) defined: security of supply chain, security of access to market, credit security, security of technological-industrial capabilities, socio-economic paradigm, system security, community security and security of alliances as the most important factors influencing economic security, all of them being mutually intertwined and dependent of each other (Grubić 2014 according to Dent 2010).

It is without doubt that economic security will be a frequently discussed topic in the future due to increasing conflicts around the world which remain generally unresolved, with climate change, labor migrations, and continuously increasing inequality between rich and poor and with natural resources becoming scarce and the environment polluted.

4. CONCEPT OF ECONOMIC SECURITY OF ENTERPRISES

Economics and security as two different disciplines share much in common: a) both concepts have a wide influence on many different scientific fields and disciplines; b) both concepts represent something rational, progressive, protective i.e. beneficial for today's environment, as a main factor, or as a supportive factor; c) both concepts are influenced by many different internal and external factors, where many of the factors

influence the concept of economics and security in the same way. In a comprehensive research of economic security of enterprise Korchevska (2015) investigated different economic research which might be correlated to economic security of enterprises ranging from the time of Ancient Greece until recent history. She discovered that the semantic construct of economic security of enterprises has not been directly considered up until recently, and based on this she concluded that the definition of economic security of enterprises exists by virtue of conventionality, which implies its potential for usage in further research and the development of security studies.

Economic security of enterprises was mostly defined and researched by Ukrainian and Russian scientists. According to Shutyak et al (2015) its popularity in Ukraine and Russia can be explained by the lack of knowledge of economic risks which were intensively developed in western highly developed, capital market countries. They discovered that the term “risk” was rarely used in correlation with economic security of enterprises, or when it was used it was seen as one of its components.

Many scientific papers refer to the economic security of enterprises by using certain wordings such as survival, threats, efficiency, risk, challenge, damage, sustainability, adaptability, freedom, predictability, probability, harmfulness, etc. This proposition can lead to a conclusion that we can find research outlines and connection points regarding the economic security of enterprises around the world in different wordings, such as “business continuity” or “economic security of business”.

Rybnikova and Rybnikov (2013) defined enterprise economic security as a state that ensures long-term, sustainable survival, in a changing and changeable environment, where enterprises should economically use scarce resources between maintaining current efficiency and future adaptability.

In a very broad sense, economic security of enterprises is defined as “a state of protection of an enterprise from external and internal threats...” (Shutyak et al. 2015 according to Pletnikova 2001) in which research of economic security of enterprises elaborated a more detailed approach of “protection of enterprise’s workers, equity, patent rights, market share, image and vision of further development from various economic endogenous and exogenous factors” (Shutyak et al. 2015 according to Kapitula 2009).

In their research, Ianigolo and Polajeva (2016) recognized five different approaches to economic security of enterprises: a) State of protection from various threats; b) State of efficient use of resources; c) Ability to obtain business goals; d) Ability to obtain competitive advantage; e) Ability for stable functioning and development.

Kozachenko et al (2010), recognized in their paper different approaches to the economic security concept of enterprises: a) As a form of development – in which a functional, competitive and harmonizing approach was delivered; b) The concept of security as opposition to threats in which the protection and steadiness approach was defined; c) An approach mixing the elements of aforementioned approaches in which economic security can be seen as threat protection and prevention, and where economic security is seen also as a system structured from components encompassing the eco-

conomic protection of enterprises: financial economic security, labor force vulnerability, investment potential etc.

Some scientists implemented a concept in which the economic security of enterprises was defined as a system of structural, managerial, technical, legal and other measures in order to ensure economic security, where sustainable and socially acceptable development of the company is supported while all the parties of the enterprise are satisfied (management, investors, workers, clients) as long as their interests are legitimate (Artemenko 2016). Ianigolo and Polajeva (2017b) explained this system as wide-ranging with the ability to guarantee enterprises efficient operating activities which contribute to a sustainable development based on an applied set of measures in which they enumerated the four main factors of the economic security of enterprises: “a) planning; b) monitoring of external and internal environment; c) identification and implementation of measures to respond to threats; d) control and improvement of the system.” This system is able to resist internal and external threats using its available resources, and can be in four different stages: a) normal; b) pre-crisis; c) crisis; d) critical (Kasyanova and Kasyanov 2014).

Delas et al (2015) according to Medvedyeva and Pohosova (2011) state that one of the primary needs of enterprises is the need for security. As there exists the Maslow’s hierarchy of needs, they apply this hierarchy to companies. Figure 1 below shows that the need for security is the second basic level of Maslow’s hierarchy of needs after easy playback. Thus, only after each level is satisfied can an enterprise move on to the higher level of needs.

Figure 1: Pyramid of business needs (according to Maslow’s ranking of needs)



Source: Delas et al. 2015, according to Medvedyeva and Pohosova 2011.

Since most of the scientists agree that economic security of enterprises is influenced by either internal or external threats, it is important to recognize their main

recognizable elements upon which both have significant effects on the economic activity of enterprises. Lavrov et al (2018) identified internal factors such as financial, productive, personnel, material and technical support factors, investment and technological, marketing, ecological factors, force majeure (physical hazards) and legal factors. Internal factors identified by Ianigolo and Polajeva (2016) include: a) managerial: wrong decisions, omission in the planning process, etc.; b) financial: ineffective management of assets, irrational increase of receivables and payables, etc.; c) labor: outflow of qualified workers, illicit activities of staff, etc.; d) production: inefficient use of resources, poor quality of products, etc.; e) marketing: uncompetitive products, unprofessional advertising, errors of marketing policy, etc.; f) legal: ineffective legal upholding of the interests of the enterprise, etc.; g) information: poor communication of departments, violations of the regime of protection of confidential information, etc.; h) technological: depreciation of fixed assets, failure of equipment, etc.

External factors identified by Lavrov et al (2018) are related to political, macroeconomic, microeconomic, mesoeconomic, environmental, legal, scientific and technical, and technological, natural and man-made, demographic, social and cultural, informational, criminal, moral and psychological. External factor identified by Ianigolo and Polajeva (2016) were divided into: a) economic: external macroeconomic shocks like financial crises and inflation, unfair competition, etc.; b) political and legal: instability of political situation, frequent changes in legislation and tax system, etc.; c) social: low income of population, significant unemployment rate, etc.; d) market: strong competition, international competition, etc.; e) technological: low level of scientific and technical progress etc.; f) natural: emergency situations of natural character, destruction of natural ecosystems, etc.

Threats have also been scaled depending on the source, potential of realization, size of expected damage (Delas et al. 2015), availability of resources and financing, lack of communication in enterprise, disruption between management and shareholders, organized crime etc. (Buzan et al. 1998).

Many other internal and external factors have been identified by various scientists, who believe that the identification of the most influential threats to the economic security of an enterprise is the most important step in ensuring the economic security of a company (Lavrov et al. 2018). This leads to a logical conclusion of a high importance of the economic security of enterprises in every-day operational and long term strategic decisions made by the management, in which all of the parts of the enterprise must be engaged to a certain degree in order to ensure long lasting, sustainable growth and development of the company.

5. CONSLUSION

Although multiple and various definitions were delivered in order to support the concept of economic security of enterprises, until now there has been no standardized conceptual definition of such a broad multidisciplinary category. By reviewing a large amount of scientific literature related to economic security of enterprises, it is evident that the level of economic security of enterprises will to a large extent be determined by

the seriousness of the management approach to prediction, prevention and reaction to specific harmful threats. These threats might be of internal or external nature in which it is important to emphasize that every enterprise is a case in itself, and threats to one enterprise might be opportunities for another. In order to ensure economic security enterprises must develop a formal or informal system of protection from harmful threats, ensure functional operating activities that are able to counter harmful effects in order for the enterprise to achieve a state of economic security.

In the current stage of the globalized economy, enterprises are encountering multiple threats which may have a direct or indirect impact on their activity, productivity, supply chain, labor force, access to cheap finance, or availability of needed resources. This impact can also be on financial on short-term liquidity, long-term solvency, and ultimately on sufficient profitability for shareholders along with the positive externalities to society and the environment. The complexity of economic security of enterprises is manifested in a variety of interactive elements among the internal components of enterprises and the unpredictable nature of external factors.

Research on which this paper focused lead to a logical conclusion that the concept of economic security of enterprises is important, its meaning broad and involving a vast amount of factors, in which enterprises are the backbone of economic activity, organization, and the economic security of individuals, as well as of regional, national and international economic security.

REFERENCES:

1. Anđelinović, M., Matika, D. and Mišević, P. (2014). Tehnološko industrijska sigurnost kao važan čimbenik ekonomske sigurnosti i prosperiteta. *Poslovna izvrsnost*, 8(2), pp. 141-153.
2. Artemenko, L. (2016) The System of Enterprise Economic Security: International and Ukrainian Content. *World Scientific News*, 57, pp. 695-705.
3. Baldwin, D. A. (1997). The Concept of Security. *Review of International Studies*, 23, pp. 5–26.
4. Bilandžić, M. and Mikulić, I. (2007). Business Intelligence i nacionalna sigurnost. *Polemos*, 10(1), pp. 27-43.
5. Buzan, B., Wæver, O. and de Wilde, J. (1998). *Security: a new framework for analysis*. Colorado: Lynne Rienner Publishers, Inc.
6. Cable, V. (1995). What is International Economic Security? *International Affairs (Royal Institute of International Affairs 1944-)*, 71(2), pp. 305-324.
7. Chandra, S. and Bhonsle, R. (2015). National Security: Concept, Measurement and Management. *Strategic Analysis*, 39(4), pp. 337-359.
8. Chernysheva, Y.G., Shepelenko, G.I., Gashenko, I.V., Orobinskaya, I.V. and Zima, Y.S. (2017). Business Analysis as an Important Component of Ensuring Enterprise's Economic Security. *European Research Studies Journal*, XX(3B), pp. 250 – 259.

9. Delas, V., Nosova, E. and Yafinovich, O. (2015). Financial Security of Enterprises. *Procedia Economics and Finance*, 27, pp. 248–266.
10. Dent, C. M. (2010). Economic Security. In: A. Collins, ed., *Contemporary Security Studies*, 2nd ed. New York: Oxford University Press Inc., pp. 239-255.
11. Efimovich Melev, S. (2014). Economic Security as a Scientific Category: Theoretical and Methodological Aspect of Research. *Annales Universitatis Mariae Curie-Skłodowska Lublin – Polonia*, XXXIX(2), pp. 81-91
12. Etymonline – Online Etymology Dictionary, Available at: <https://www.etymonline.com/word/security>
13. Grubić, A. (2014). Nacionalna sigurnost iz perspektive geoekonomije: slučaj Republike Hrvatske. *Međunarodne studije*, 14(1), pp. 65-85.
14. Ianioglo, A. and Polajeva, T. (2016). Origin and Definition of the Category of Economic Security of Enterprise. *9th International Scientific Conference "Business and Management 2016"*, Vilnius
15. Ianioglo, A. and Polajeva, T. (2017a). Innovative Component of Economic Security of Enterprises: a Case of the Republic of Moldova. *Journal of Business Economics and Management*, 18(6), pp. 1228-1242.
16. Ianioglo, A. and Polajeva, T. (2017b). The Essence and Phases of the Comprehensive System of Ensuring the Economic Security of Enterprise. *International Journal of Learning and Change*, 9(1), pp. 59-74.
17. Ioan-Franc, V. and Diamescu M. A. (2012). Some Opinions on the Relation between Security Economy and Economy Security. *Review of General Management*, 16(2), pp. 43-75.
18. Kapitula S. (2009). Otsinka ta upravlinnia ekonomichnoiu bezpekoiu pidpriemstva (na prykladi hirnychozbahachuvalnykh kombinativ Ukrainy) [Evaluation and management of economic security at enterprise] Thesis for the degree of Cand. of Sc. Kryvyi Rih Technical University, Kryvyi Rih
19. Kasyanova, N.V. and Kasyanov, A.V. (2014). Diagnosing Economic Security of an Industrial Enterprise. *Economy of Industry*, 1(65), pp. 136-144.
20. Korchevska, L. (2015). Periodization of the Stages of the Formation and Development of Knowledge about Economic Security of Enterprise. *European Cooperation*, 1(1), pp. 54-65.
21. Kozachenko, G., Lyashenko, O. and Bezbozhnyy, V. (2010). Enterprise Economic Security Management Conception. *TEKA Kom. Mot. i Energ. Roln. – OL PAN*, 10A, pp. 263-270.
22. Lavrov, R., Sadchikova, I. and Shtyrkhun, K. (2018). Identification of the Factors of Influence on the Financial and Economic Security of an Enterprise and Methods of Their Neutralization. *Economic and legal paradigm of modern society*, 1.

23. Malik, S. (2015). Framing a Discipline. In: P. Hough, S. Malik, A. Moran and B. Pilbeam ed., *International Security Studies*, 1st ed. London and New York: Routledge, pp. 3 – 11
24. Mathews, J. T. (1989). Redefining Security. *Foreign Affairs*, 68(2), pp. 162-177.
25. Pletnikova, I. (2001). Vyznachennia rivnia i zabezpechennia ekonomichnoi bezpeky zaliznytsi [Estimation of the Economic Security Level and ensuring of the Economic Security of Railway]. Thesis for the degree of Cand.of Sc. Institute of Market Problems and Economic and Ecological Research NAS of Ukraine, Odessa
26. Rybnikova, N. and Rybnikov, S. (2013). In Quest of Enterprise Economic Security: Gaining Benefits from Inventory Models. Available at SSRN: <https://ssrn.com/abstract=2195239> or <http://dx.doi.org/10.2139/ssrn.2195239>
27. Shutyak, Y., Danylenko, O. and van Caillie, D. (2015). The Concept of Economic Security of Enterprise in Ukrainian Economic Thoughts. *ZN WSH Zarządzanie*, 4, pp. 27-45
28. Tamošiūnienė, R. and Munteanub, C. (2015). Current Research Approaches to Economic Security. *1st International Conference on Business Management Universitat Politècnica de València*.
29. Ullman, R. H. (1983). Redefining Security. *International Security*, 8(1), pp. 129-153.
30. Walt, S. M. (1991). The Renaissance of Security Studies. *International Studies Quarterly*, 35(2), pp. 211-239.

EKONOMSKA SIGURNOST PODUZEĆA*

Tin Primorac,⁴ Toni Kozina⁵ & Ivan Turčić⁶

Sažetak

*Jedan od najvažnijih ciljeva poduzeća je stvaranje dobiti za svoje dioničare. Kako bi stalno ispunjavali svoju glavnu svrhu, poduzeća neprestano nastoje biti u stanju bez opasnosti i/ili prijatni, posebno u ekonomskom smislu. Cilj ovog članka istražiti je različite poglede na interdisciplinarnu vezu između ekonomije i sigurnosti, tj. na ekonomsku sigurnost poduzeća. U ovom radu su bile korištene sljedeće metode: pregled literature, sistematizacija, analiza i sinteza najvažnijih čimbenika koji utječu na ekonomsku sigurnost poduzeća. Sintezom analizirane literature važna je za budući razvoj koncepta ekonomske sigurnosti za poduzeća temeljem kojeg bi poduzeća i njihov vrhovni menadžment mogli bolje spoznati i poboljšati napore pri postupanju s **određenim rizicima koji ugrožavaju ekonomsku sigurnost njihovog poduzeća.***

***Ključne riječi:** ekonomska sigurnost, ekonomska sigurnost poduzeća, ekonomska sigurnost poslovanja.*

***JEL klasifikacija:** G31*

* Rad je prezentiran na 3. Međunarodnoj konferenciji „Business & Entrepreneurial Economics –BEE2018” koja je održana u Šibeniku od 30. svibnja do 2. juna 2018 (www.bee-conference.com)

⁴ Tin Primorac, Privredna banka Zagreb d.d., Hrvatska, E-mail: Primoractin@gmail.com

⁵ Toni Kozina, Ultima ulaganja d.o.o., Hrvatska, E-mail: toni.kozina@ultima-ulaganja.hr

⁶ Ivan Turčić, mag.oec., Ekonomski fakultet, Sveučilište u Zagrebu, Zagreb, Hrvatska, E-mail: iturcic@efzg.hr