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The Use Of Strategic Financial Analysis Instruments In Making Investment Decisions

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Abstract: The article explores the theoretical and practical aspects of forming financial-investment strategies in joint-stock companies, the reforms aimed at developing the capital market, and the importance of using strategic financial analysis instruments. The role of models such as CAPM, WACC, and DCF in strategic decision-making is analyzed. In addition, proposals have been developed to enhance the effectiveness of corporate governance and to improve investment processes.

Keywords: Financial strategy, investment decision, capital market, joint-stock company, CAPM, WACC, DCF, risk management, corporate governance, innovative approach.

Introduction: In our country, systematic reforms are being carried out to create a favorable investment climate, protect the rights and legitimate interests of private property owners, and develop the capital market. These reforms play an important role in increasing the investment attractiveness of corporate structures, expanding their participation in the securities market, and ensuring corporate transparency, as well as in introducing modern, consumer-oriented management methods in enterprises with state participation. In particular, the Presidential Decree of the Republic of Uzbekistan No. PF-60 dated January twenty-eighth, 2022, titled "On the Development Strategy of New Uzbekistan for 2022-2026" identifies several priority tasks. These include: gradual liberalization of capital movement in the country; privatization of large enterprises and state-owned shares (stocks), including through the stock exchange; and completion of the transformation processes in commercial banks with state shares, ensuring that by the end of 2026, the share of the private sector in bank

assets reaches sixty percent.

Naturally, based on the priority tasks and goals outlined in the Strategy, a number of reforms are being implemented aimed at the comprehensive development of entrepreneurial activity, establishing integration between joint-stock companies and the spheres of production and science, and expanding opportunities for entering international capital markets.

Another important document adopted in the process of modernizing and improving the capital market is the Presidential Resolution of the Republic of Uzbekistan No. 291 dated September second, 2023, titled "On Additional Measures for the Development of the Capital Market" [2]. This resolution sets out specific measures aimed at further developing capital market infrastructure, improving the investment climate, expanding the participation of local and foreign investors in privatization processes, enhancing corporate governance principles, and strengthening mechanisms for protecting investor rights. In particular, it establishes the requirement to publicly place the shares of enterprises in which the state owns fifty percent or more through the stock exchange and, after placement, to allocate at least thirty percent of net profit to dividend payments for at least seven years. In addition, a special legal regime in the form of a "regulatory sandbox" has been introduced for foreign investors, creating opportunities to test new financial instruments and innovative technologies.

Nevertheless, a number of issues remain in many joint-stock companies regarding the organization of financial management processes in accordance with modern requirements, the widespread use of innovative financial instruments, and the application of effective mechanisms for managing investment risks. In particular, the insufficient use of strategic financial analysis tools in the process of making investment decisions is one of the causes of inefficiencies in the utilization of investment resources. From this perspective, it is considered urgent to study, from a scientific-practical standpoint, the use of strategic financial analysis instruments in making investment decisions in joint-stock companies, to identify existing problems, and to develop recommendations and proposals for their elimination.

LITERATURE REVIEW

Extensive research has been conducted by both foreign and national economists on the development of financial-investment strategies in companies, and we continue our reflections on some of these studies. Today, according to the authors Zh. Zhang and B. Sun, who have published numerous research articles on the scientific and practical foundations of formulating financial strategies in the Scopus scientific database, a financial strategy is a comprehensive plan that performs the financial function of a business, aimed at effectively managing financial resources and ensuring financial stability in order to achieve the key goals set by the company [3]. A company's investment-financial strategy is directed toward optimizing the activities of the finance department, ensuring the effective organization of cash flows and investment processes in financial operations, and adapting internal corporate governance mechanisms to external environmental changes. One of the main tasks of a financial strategy is to further strengthen the role and responsibility of the finance department in ensuring the company's financial stability, while clearly defining its authority [4].

The mechanism of the financial-investment strategy is important not only for increasing the market value of the company but also for conducting a systematic analysis of financial activities. Based on the implementation of priority tasks outlined in the financial strategy under real (actual) conditions, it becomes possible to assess the prospective development trends of the company. Financial strategies represent goals, models, or alternative choices aimed at improving and optimizing financial management to achieve corporate outcomes [5]. Corporate strategy encompasses the overall activity of the entire company, while functional strategy refers to the company's specific functions within this general strategy. In turn, the financial-investment strategy is functional. For this reason, its primary objective is to engage in activities aimed at enhancing efficiency through capital mobilization [6].

According to X. Akhmedov, "Forming and implementing a corporate strategy in ensuring the efficiency of enterprise activities serves as the foundation of prospective financial planning. The formation and implementation of a financial strategy in enterprises contribute to development both at the micro level and at the macro level. New principles of managerial integrity-namely, the system of strategic management-underlie the development of an enterprise's financial strategy" [7]. A. Burkhanov argues that "financial strategy encompasses the most important aspects of an enterprise's activity, ensures advance control over the formation and utilization of financial resources, and creates the conditions necessary for strengthening the enterprise's financial position" [8]. According to F. Saidnazarov, under market relations, enterprises must develop strategies in order to secure a stable position in the market. Among these strategies, the financial strategy plays a decisive role. Proper development and implementation of financial strategies ensure the optimal management of enterprise funds, which

becomes a crucial factor enabling enterprises to 'survive,' and moreover, to progress under competitive market risk conditions [9].

Based on the definitions and scholarly approaches presented above by foreign and national economists, we have formulated the following authorial definition regarding the financial strategy of joint-stock companies: a financial-investment strategy is a master plan aimed at ensuring the long-term financial stability of joint- stock companies, developing and implementing long-term programs for their core and investment activities, and optimizing the capital structure based on analysis of external factors.

METHODOLOGY

In this study, a systematic approach, comparative analysis, deduction, and induction methods were employed to examine the process of forming financial-investment strategies in joint-stock companies. The data were processed based on qualitative and quantitative analysis, and the advantages of assessing capital cost using the CAPM, WACC, and DCF models were explained. In addition, the effectiveness of financial management was evaluated through economic-statistical data analysis, and strategic transformation opportunities were examined using the DESTS framework.

RESULTS

A review of numerous scientific studies today shows that there are diverse approaches regarding the instruments and methods used in the development of financial-investment strategies. In our view, the use of one or another type of instrument or method by companies is largely determined by the level of development of the external economic environment and the availability of opportunities to attract financial resources. For the successful implementation of a financial-investment strategy, theoretical models such as practical instruments. In making strategic decisions, financial managers and investors rely on modern financial theory (for example, portfolio theory), instruments for assessing and managing risks (diversification, hedging, VaR, etc.), as well as capital valuation models (CAPM, WACC, DCF, and others) (Table 1).

Table 1

Scientific theories used in strategic decision-making*

Direction	Core Theory/Model	Brief Description
Strategic decisions	Modern Portfolio Theory (MPT)	Determining the optimal balance between risk and return through the diversification of investments.
Risk assessment and management	Diversification	Reducing overall risk by allocating assets across different industries and segments.
	Hedging	Hedging financial risks through derivative instruments such as options, forwards, and futures.
	VaR (Value at Risk)	A method for determining the maximum potential loss at a given probability level.
Assessment of capital cost	CAPM (Capital Asset Pricing Model)	Calculating the expected return of financial assets based on systematic risk (beta).
	WACC (Weighted Average Cost of Capital)	Determining the average cost of a company's total capital, including both debt and equity.
	DCF (Discounted Cash Flow)	Assessing the market value of a financial asset or company by discounting expected future cash flows to their present value.

Compiled by the author*.

In Table one, we presented the capital valuation model as one of the key directions in strategic financial

decision-making. Today, according to scientific research conducted in our country, this issue is being studied step by step, and proposals are being developed for its practical application, while existing approaches are being improved. Undoubtedly, these models play an important role in making strategic decisions; by determining the value of a company's capital, they are used to compare and evaluate this value against future profitability levels, thereby supporting informed decision-making.

The CAPM model evaluates the expected return of assets based on overall market risk (the beta coefficient). CAPM characterizes the relationship between systematic risk-that is, the general risk inherent in investment activity-and the expected return of assets, particularly stocks. The foundation of the CAPM model lies in the relationship among an asset's beta coefficient, the risk-free rate (commonly the rate on government treasury bills), and the equity risk premium. CAPM is widely used in financial markets to determine the price of high-risk securities and to calculate expected returns based on the risk levels of assets. Furthermore, this model serves as a baseline indicator for determining the cost of capital.

The CAPM (Capital Asset Pricing Model) is defined as follows:

$$E(R_i) = R_f + \beta_i(E(R_m) - R_f); \quad (1)$$

Where: $E(R_i)$ - expected return of the asset;

R_f - risk-free rate (typically the yield on government securities);

β_i - beta coefficient representing the asset's sensitivity (volatility) relative to the market;

$E(R_m)$ - expected return of the market portfolio.

WACC (Weighted Average Cost of Capital) The WACC formula is expressed as:

$$WACC = \left(\frac{E}{V} * R_e\right) + \left(\frac{D}{V} * R_d * (1 - T)\right); \quad (2)$$

where: E - equity capital; D - debt capital;

V - total capital (E + D); R_e - cost of equity;

R_d - cost of debt;

T - corporate income tax rate.

Of course, alongside the advantages of these methods used in developing financial- investment strategies, certain shortcomings also exist. In our view, they may be classified as shown in Table 2. A review of international practical experience demonstrates that various modern approaches are used in designing forward-looking strategies. Considering the scope requirements of a scientific article, we briefly highlight several approaches that are convenient for application in national practice. One such approach is the Dynamic Enterprise Strategic Transformation System (DESTS), which represents a dynamic framework for the strategic transformation of a company.

The DESTS model is a transformational approach that enables a company to rapidly, flexibly, and systematically adjust its financial-investment strategic directions. This system enhances corporate adaptability by taking into account the frequently changing external and internal factors in the modern environment. DESTS has several important features, all of which ensure that the strategies developed can quickly adapt to changing external conditions:

Adaptability to a dynamic environment. DESTS allows for the development of rapid strategic responses to the fast-changing environment-that is, changing market demands, shifts in external financial market conditions, technological innovations, customer requirements, or competitor actions. Through continuous monitoring, analysis, and financial-economic evaluation, the system enables the company to modify and update its existing strategy.

Strategic planning and scenario analysis. DESTS facilitates the identification of key strategic objectives and the modeling of how these objectives perform under different scenarios (optimistic, realistic, pessimistic), allowing companies to select the most effective strategies.

Table 2

Comparative analysis of financial-investment strategy methods: advantages and disadvantages*

№	Method	Disadvantages	Advantages
1	Financial forecasting	Reduces uncertainty risk and provides essential baseline	Key factors (external and internal) may be lost due to

	method	information.	varying conditions.
2	Financial analysis method	Provides sufficient information about the financial condition of the enterprise.	The difficulty of obtaining reliable information complicates calculations.
3	Strategic financial planning method	Enables the development of a future action plan.	Internal factors may change sharply under the influence of external factors.
4	Modeling method	Enables the development of the enterprise's financial model.	The ability to assess financial stability is limited.
5	Expert evaluation method	A broad approach to the situation, in-depth analysis, and obtaining complete information	There is a likelihood of subjective opinions.
6	Scenario analysis method	Increases the company's awareness of various market conditions.	Only a limited number of outcomes are considered.
7	SWOT analysis method	Enables the identification of strengths, weaknesses, opportunities, and threats.	High subjectivity and does not always provide conclusions based on precise numerical data.
8	Financial performance analysis for small and medium-sized enterprises	Allows the analysis of profitability, liquidity, and solvency.	May lead to incorrect results when information is limited.
9	Investment project evaluation methods (NPV, IRR, PB)	Enables the determination of investment efficiency.	If forecasts are inaccurate, the risk of error increases; external factors are insufficiently considered.

***Compiled by the author.**

This provides opportunities for optimal resource allocation, preliminary risk assessment, and consideration of alternative approaches.

3. Integrated information base. DESTS includes a centralized information platform covering all company divisions, investment processes, securities-related data, and financial resources. This integrated system ensures transparency and rapid access to information, supports data-driven decision-making for executives at all levels, and enables the execution of interconnected transformation projects.

4. Change management. DESTS provides specific methodologies for coordinating, controlling, and managing financial and investment changes within the company. It facilitates the coordination of staff responsible for developing and implementing financial-investment projects, ensures effective communication, and mitigates sensitivity to external fluctuations.

5. A system supporting flexibility and innovation. DESTS can be adapted to companies of various sizes-from small divisions to large multinational corporations. Its flexibility encompasses operational scale, industry characteristics (IT, finance, manufacturing, healthcare, etc.), and transformation stages. Furthermore, DESTS integrates the identification, evaluation, and implementation of innovative initiatives into strategic

processes. This accelerates the introduction of new products or services to the market and supports the application of technologies aimed at automating internal operations.

6. Real-time monitoring and analysis. DESTS conducts online monitoring of all levels of company activity using digital indicators and generates specific recommendations to address identified shortcomings.

7. Strategic alignment and communication. DESTS aligns each financial department and investment activity with the company's overall strategic goals. It also provides clear roadmaps for the implementation of digital technologies (cloud systems, AI, IoT, Big Data) and enables the development of proposals to further advance the sector.

As a conclusion, it may be stated that improving the mechanism of financial decision-making is regarded today as a key factor in ensuring the effective operation of economic entities. In competitive market conditions, companies, enterprises, and financial institutions require an efficient decision-making system to ensure rational use of resources, risk assessment, selection of investment projects, and financial stability. Enhancing this mechanism requires, on the one hand, the use of modern information and communication technologies and, on the other hand, the application of analytical approaches and modeling methods. Moreover, the human factor-namely, the experience, skills, and psychological characteristics of financial managers-also plays an essential role in financial decision-making. Therefore, improving the financial decision-making mechanism necessitates a comprehensive approach that simultaneously considers economic, technological, and human factors.

CONCLUSION

In joint-stock companies, combining practical experience with scientific- fundamental approaches in developing financial-investment strategies is essential for effective capital management, protection from financial risks, ensuring financial stability, and achieving long-term development. This process requires the application of modern management concepts, strategic analytical tools widely used in international practice, and innovative approaches in making strategic decisions. In addition, developing functional strategies aligned with corporate strategy allows companies to achieve higher performance, use financial resources more efficiently, reduce investment risks, and strengthen market competitiveness. This approach ensures strategic flexibility consistent with the company's mission and long-term goals and enables continual improvement in economic efficiency.

Strengthening the legal-institutional foundations of financial-investment strategies in joint-stock companies expands opportunities to ensure transparency in investment processes and fully utilize market mechanisms. The research findings indicate that in conditions where the legal-institutional framework is strong, the effectiveness of corporate governance increases, the investment decision-making mechanism becomes simplified, and a solid environment of trust can be established with external investors. Transparency mechanisms-including open financial reporting, equal access to information for shareholders, and compliance with corporate governance codes-enhance the company’s reputation. Full utilization of market mechanisms, including financing through capital market instruments, leasing, and investment funds, contributes to diversification of financial resources, reduction of risks, and improvement of investment process efficiency.

Integrating financial technologies into financial-investment strategies is one of the requirements of the modern economy and offers opportunities and prospects for strengthening financial stability, increasing capital efficiency, and ensuring innovative development in joint-stock companies. To fully utilize these opportunities, companies must correctly understand the role of financial technologies in strategic planning and manage their advantages and potential risks in a balanced manner. Rational and effective use of financial technologies by joint- stock companies will enable them to become leading participants in the future market.

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