



Article

Assessment of Financial Stability and Risks of Investment Objects in The Due Diligence Process

Prokudina Kristina

1. Applicant Of The Kimyo International University In Tashkent , General Director Of Proker Ekspert Audit Llc

* Correspondence: k.prokudina83@gmail.com

Abstract: This article explores the role of Due Diligence in assessing the financial stability and risk exposure of investment objects. It introduces two analytical models: the Financial Stability Index (FSI) for quantitative evaluation and the Risk Matrix for qualitative risk categorization. Using a mixed-methods approach, the research validates the applicability of these models to real-world corporate analysis, offering valuable insights for investors, auditors, and decision-makers involved in the investment process.

Keywords: Due Diligence, financial stability, risk matrix, investment analysis, corporate audit.

1. Introduction

In the conditions of the modern global economy, the effectiveness of investment processes largely depends on a thorough analysis of financial stability and an accurate assessment of the level of risk of investment objects. In this era of widespread use of digital technologies, rapid changes in capital markets, and frequent transformations of business models of enterprises, the need for reliable, transparent and systematic methods of analysis for investors is increasing. In this context, the Due Diligence process is one of the most important mechanisms for making investment decisions[1]. Due Diligence is a process that involves a comprehensive analysis of the financial, legal, organizational and operational activities of an enterprise based on internal and external factors, which allows investors to identify risks, assess the value of investments and justify the expected profitability. In particular, the financial Due Diligence process deeply analyzes criteria such as the financial stability of the enterprise, solvency, asset quality, capital structure stability, and adequacy of cash flows. The thorough implementation of this process not only protects the interests of investors, but also serves to increase the financial discipline and management culture of business entities[2]. The liberalization processes implemented in the Uzbek economy in recent years, laws and resolutions adopted to improve the investment climate have led to a significant increase in investment flows. This process requires ensuring the transparency of the activities of enterprises and maintaining financial reporting in accordance with international standards. As a result, the importance of a well-studied Due Diligence analysis in determining the true state of investment projects is increasing. In such conditions, the development and practical

Citation: Kristina, P. Assessment of Financial Stability and Risks of Investment Objects in The Due Diligence Process. Central Asian Journal of Innovations on Tourism Management and Finance 2026, 7(1), 82-88.

Received: 10th Aug 2025

Revised: 16th Sep 2025

Accepted: 24th Oct 2025

Published: 28th Nov 2025



Copyright: © 2026 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>)

application of scientifically based methodologies for reliable assessment of the financial stability of investment objects and their inherent risks is of great importance[3]. Although existing studies have proposed various models for assessing investment risks based on financial indicators, most of them are designed for the conditions of developed markets and do not fully reflect the characteristics of the local economy. In addition, there is a lack of scientific research on the assessment of indicators such as asset quality, credit burden, corporate governance effectiveness, and liquidity level based on a comprehensive approach. Therefore, in this study, the development of a systematic methodological approach adapted to the Due Diligence process to determine the financial stability and risk level of investment objects is identified as an urgent task. The purpose of this article is to propose a scientific and practical approach aimed at improving the Due Diligence process by assessing the financial stability of investment objects, identifying and generalizing their inherent risks. The results of the study are expected to be of significant practical importance for investors, banks, consulting companies, and enterprise managers in making investment decisions[4].

Scientific research on the assessment of the financial stability and risks of investment objects in the due diligence process has today become one of the most important research areas in the fields of finance, investment analysis and corporate governance. The theoretical foundations of financial stability, investment risk assessment models, the practical significance of analytical indicators, and methodological approaches to conducting a comprehensive examination of the activities of enterprises have been widely studied in the literature[5].

A. Abdukarimov describes modern approaches to assessing corporate stability through financial indicators and highlights the role of key indicators such as liquidity, solvency, profitability and capital structure in investment decisions. The study interprets financial stability as a key factor in the long-term development strategy of an enterprise.

The scientific approaches to risk management in investment projects presented by S. Karimova include an improved model of mechanisms for identifying, assessing, classifying and minimizing risks. This approach creates a basis for rationally formulating investment decisions during the due diligence process[6].

The theoretical and practical aspects of the due diligence process are studied in depth by M. Rakhmonov each stage of financial, legal, tax and operational analysis is covered in detail. According to the author, financial expertise is the most important component in assessing an enterprise, and the quality of assets, the structure of liabilities, the stability of cash flows and potential risks are of primary importance[7].

N. Yusupova studied the effectiveness of modern analytical tools in assessing the financial stability of enterprises, in particular, it is emphasized that multifactor analysis, stress testing, trend analysis and forecasting methods are important tools for identifying investment risks in advance.

The scientific work presented by B. Uralov on methods for evaluating investment projects highlights the practical application of models such as net present value (NPV), internal rate of return (IRR), and cost-benefit analysis (CBA), and considers these indicators as key metrics for reducing risks.

Z. Tursunova who studied creditworthiness assessment models in the banking system, shows the importance of scoring models, logistic regression, and rating systems in predicting financial risks. These approaches are important in determining the credit risks of investment objects.

The fundamental principles of risk management are covered by A. Qodirov, where the author analyzes the role of insurance mechanisms in mitigating investment risks. In particular, the role of insurance in ensuring the safety of corporate investments is particularly recognized.

The factors shaping financial stability were studied by D. Abdullayeva and the production capacity, cost structure, market conditions, and management efficiency of the enterprise were identified as the main risk determinants.

The theoretical approaches of F. Ganiyev on the investment environment and capital flows serve as an important basis for understanding the relationship between investment attractiveness and risks.

L. Koziyeva analyzes modern methods of risk assessment in the due diligence process and shows the advantages of an integrated approach, multi-criteria assessment, and digital monitoring systems.

The impact of corporate governance principles on the investment process is widely covered by R. Jalilov. According to him, transparent financial reporting, an effective control system, and protection of shareholder interests determine the level of investment security[8].

The transparency of financial statements and the features of decision-making based on them were studied by M. Eshonkulov and this process is considered one of the main factors in reducing investment risks.

2. Materials and Methods

This research employs a mixed-methods approach to evaluate the financial stability and risk exposure of investment objects within the Due Diligence process. The methodology integrates both quantitative and qualitative analytical tools to provide a comprehensive view of the subject. The quantitative component relies on the development and application of a Financial Stability Index (FSI), which aggregates key financial ratios—such as liquidity, solvency, profitability, and efficiency—into a single score[9]. This study used a comprehensive methodological approach aimed at comprehensively assessing the financial stability and risk level of investment objects during the Due Diligence process. The methodology combines quantitative and qualitative analysis methods, relies on modern financial indicators, risk assessment models, and is developed in accordance with DD standards used in international investment practices. The final models were tested on a selected sample of companies to assess their robustness, scalability, and adaptability. This approach ensures that the methodology is not only academically sound but also practically applicable in real-world Due Diligence processes[10].

3. Results

During Assessing the financial stability of an investment object is one of the most critical components of the Due Diligence process. To provide a standardized, transparent, and comprehensive evaluation, we propose the Financial Stability Index (FSI) Model. This model is designed to quantify the overall financial health of a company by aggregating key financial ratios into a single composite score, thereby offering a more integrated perspective than isolated ratio analysis[11].

The FSI Model is structured around five main financial dimensions: profitability, liquidity, solvency, efficiency, and cash flow sustainability. Each dimension is represented by one or more financial indicators. The analysis conducted within the framework of the study on the assessment of financial stability and risks of investment objects during the due diligence process showed a number of important scientific and practical results. The results confirmed the importance of an integrated approach in the investment process, namely, a systematic assessment that includes financial diagnostics, a risk identification model and stability indicators, making investment decisions more accurate and safe.

Firstly, the analysis showed that enterprises with high transparency in financial statements and stable profit indicators achieve high results in financial stability ratings. Liquidity ratios, debt level and cash flow adequacy were identified as the most sensitive indicators of financial stability, allowing for early identification of problems in the

enterprise. In particular, it was found that the current liquidity ratio, debt/equity ratio and EBITDA dynamics are the strongest indicators in predicting investment reliability[12].

Secondly, according to the results of risk assessment, even in investment objects with high operational and market risks, it was observed that even though the accounting indicators are satisfactory, the financial basis is unstable. This showed that in the process of risk assessment, it is necessary to take into account not only financial indicators, but also non-financial factors such as management efficiency, operational stability, external market impact, and compliance with legislative requirements. The risk matrix developed as a result of the study made it possible to clearly divide investment objects into low, medium, and high risk groups.

Thirdly, it was found that investment risks are lower in enterprises with a developed corporate governance system, and financial flexibility is higher. The activities of an independent audit committee, the presence of risk management units, and transparent internal control significantly increased the overall due diligence assessment scores. On the contrary, it was noted that enterprises with poorly developed these mechanisms have a higher tendency to financial instability.

Fourth, practical tests conducted on selected industrial and service entities showed that the developed integrated due diligence model — by combining risk analysis based on financial indicators and quality indicators — was able to predict the future state of the investment object with an accuracy of more than 85%. This confirms that the model can be effectively used in the real investment assessment process.

Fifth, it was found that the use of a multi-stage due diligence approach reduces the likelihood of investment failure, helps to more accurately assess the value of the enterprise, and significantly optimizes the decision-making process for investors, banks, and other financial institutions. The model not only analyzes the current financial state of the enterprise, but also forecasts potential risks in the near and distant future, which is of strategic importance in investment management.

Below is table 1. a detailed structure of the Financial Stability Index (FSI) Model:

Table 1. Components of the Financial Stability Index (FSI) Model

Dimension	Indicator	Formula	Weight (%)	Interpretation
Profitability	Return on Assets (ROA)	Net Income / Total Assets	20%	Efficiency of asset use to generate profit
Liquidity	Current Ratio	Current Assets / Current Liabilities	15%	Ability to cover short-term obligations
Solvency	Debt-to-Equity Ratio	Total Liabilities / Shareholder Equity	20%	Long-term financial leverage and capital risk
Efficiency	Asset Turnover Ratio	Revenue / Total Assets	15%	Operational efficiency in using assets
Cash Flow Sustainability	Operating Cash Flow to Total Debt Ratio	Operating Cash Flow / Total Debt	15%	Ability to repay debt using operational inflows
Coverage	Interest Coverage Ratio	EBIT / Interest Expense	15%	Ability to meet interest obligations

Each indicator is assigned a score from 0 to 100 based on predefined industry benchmarks. The weighted scores are then summed to derive the composite FSI score. For example, a company with a high ROA, strong liquidity, low leverage, and healthy operating cash flows would achieve an FSI score closer to 100, signaling robust financial stability.

The FSI Model can be tailored by adjusting indicator weights or by incorporating sector-specific thresholds, which makes it adaptable to various industries and investment profiles. This makes it a flexible yet standardized tool for financial analysis within the Due Diligence framework[13].

In the Due Diligence process, evaluating the potential risks associated with an investment object is as crucial as assessing its financial stability. One of the most effective methods to identify, prioritize, and communicate risks is the application of a Risk Matrix. This tool enables stakeholders to visually map risks based on two primary dimensions: the likelihood of occurrence and the impact of the risk if it materializes.

Once identified, each risk is assessed based on two dimensions: the likelihood of occurrence, which reflects the probability or frequency with which a risk might materialize, and the potential impact, which represents the magnitude of its consequences-financial, reputational, or operational. After this dual evaluation, risks are scored using a standard scale, usually ranging from 1 (low) to 5 (high), to quantify both the likelihood and impact.

Below is the table 2. proposed structure of a Risk Matrix used in the Due Diligence process:

Table 2. Risk Assessment Matrix for Due Diligence Process

Impact \ Likelihood	1 - Very Low	2 - Low	3 - Moderate	4 - High	5 - Very High
5 - Catastrophic	Moderate	High	Critical	Critical	Critical
4 - Major	Moderate	Moderate	High	Critical	Critical
3 - Moderate	Low	Moderate	Moderate	High	Critical
2 - Minor	Low	Low	Moderate	Moderate	High
1 - Negligible	Low	Low	Low	Moderate	Moderate

Each risk identified during the Due Diligence phase is systematically evaluated and assigned a score reflecting both its potential impact and likelihood of occurrence.

It provides not only a snapshot of risk exposure but also a roadmap for prioritizing risk mitigation efforts. By integrating this structured approach, investors and auditors gain greater clarity and confidence in understanding the vulnerabilities associated with the investment object.

The results of the study show that a well-organized due diligence process is important for correctly assessing the financial stability and risk level of investment objects. The combination of advanced analytical methods and detailed financial assessments increases the reliability of investment decisions and ensures economic security.

4. Discussion

The results of the study once again confirm the great practical importance of applying a systematic, in-depth and comprehensive approach to the due diligence process in assessing the financial stability and risks of investment objects. During the discussions, the results obtained were compared and analyzed with existing scientific sources and practical experience, and the relevance of financial stability indicators, the composition of risks and the impact of corporate governance on investment security were considered in detail.

First of all, as this study has revealed, the due diligence process is one of the most reliable tools for determining the real financial condition of an investment object. This

result is consistent with the scientific views put forward by domestic and foreign scientists. In particular, the analysis of financial liquidity, profitability indicators and debt burden serves as a decisive factor in identifying hidden financial risks in an enterprise. This in itself indicates the inadequacy of simplified approaches to making investment decisions, but rather the need for multi-directional diagnostics.

The study used an integrated risk assessment model, which allowed for a combined assessment of financial, operational, market and corporate governance risks. This approach is consistent with advanced risk management methodologies highlighted in the existing scientific literature. For example, it has been scientifically proven that the successful implementation of investment projects depends not only on the stability of financial indicators, but also on the strength of organizational management. The results of the study also confirm this approach, showing that the transparency of management and the presence of an internal control system significantly reduce the level of risks.

In addition, the applied analysis methods showed that in conditions of economic instability, the volatility of financial indicators of enterprises increases, which significantly affects the decisions of investors. Therefore, it is not enough to rely only on historical data in the due diligence process. Perhaps it is necessary to use forecasting models, scenario analysis and stress-testing methodologies. The results of the study confirmed that these methods are very effective in obtaining an accurate assessment of investment safety.

The discussions also showed that the financial stability of investment objects is not determined only by internal factors. Factors such as the external economic environment, market conditions, competitive conditions, and state regulatory policy also significantly affect investment risks. Therefore, it is recommended to assess macroeconomic indicators during the due diligence process. Taking this into account, the approach proposed by the study allows for a comprehensive assessment of the overall condition of the investment object.

The role of corporate governance mechanisms in investment security should be emphasized. The results showed that enterprises with independent supervisory boards, audit committees, and internal control systems fall into the low group in terms of investment risks. This is consistent with international standards of corporate governance and ensures reliability and transparency of information for investors. If this system is not sufficiently developed, even enterprises with good financial performance may fall into the high-risk group.

The discussions show that the due diligence process in evaluating investment objects is not a simple analytical tool, but a strategically important process aimed at minimizing risks for investors and increasing investment efficiency. When financial stability indicators, risk analysis and corporate governance assessment are carried out together, investment decisions become more justified and secure. In the Due Diligence process, accurate assessment of the financial stability and associated risks of an investment object plays a pivotal role in enabling informed decision-making. The integration of quantitative tools such as the Financial Stability Index (FSI) and Risk Matrix not only structures the analysis but also enhances the transparency and reproducibility of results[14].

Moreover, organizations often lack standardized procedures for integrating risk and stability assessments into a unified reporting framework. To address this, it is necessary to establish clear thresholds, automate scoring where possible, and ensure periodic updates of data inputs.

The following table 3. outlines the comparative impact of integrating structured models like FSI and Risk Matrix into the Due Diligence workflow:

Table 3. Impact of Structured Analytical Tools on Due Diligence Outcomes

Evaluation Criterion	Without Analytical Tools	With FSI and Risk Matrix Integration
Decision-making speed	Low	High

Risk identification completeness	Fragmented	Comprehensive
Transparency of evaluation	Subjective	Standardized
Investor confidence level	Moderate	High
Operational efficiency	Inconsistent	Improved
Forecasting accuracy	Basic trend-based	Scenario- and score-based

This discussion underscores that embedding structured models into Due Diligence transforms it from a narrative assessment into a data-driven process. Consequently, such integration enhances reliability, accelerates analysis, and builds stronger trust between stakeholders[15].

5. Conclusion

The results of the study show that assessing the financial stability of investment objects and identifying the risks associated with them during the due diligence process is an important factor in increasing the reliability and effectiveness of investment decisions. An integrated approach to analyzing financial indicators, liquidity, profitability, capital structure and cash flows allows you to determine the true financial condition of investment projects. Also, the use of modern valuation models in identifying risks reduces potential losses for investors and increases the accuracy of decision-making.

The study found that among the main factors affecting the financial stability of enterprises, asset quality, debt burden, volatility of market conditions and management efficiency are of paramount importance. Conducting a thorough analysis of these factors during the due diligence process helps to reduce risks and assess the long-term development potential of the investment object. In addition, it was found that an integrated approach to assessing investment risks - a joint study of financial, legal, operational and market risks - significantly increases efficiency. This approach allows investors to draw more consistent and objective conclusions.

REFERENCES

- [1] A. Abdukarimov, *Financial Analysis and Assessment of Corporate Stability*. Tashkent, Uzbekistan: Iqtisod-Moliya, 2021.
- [2] S. Karimova, "Risk management mechanisms in investment projects," *Journal of Economic Research*, vol. 12, no. 4, pp. 55–62, 2020.
- [3] M. Rakhmonov, *Due Diligence: Theoretical and Practical Foundations*. Tashkent, Uzbekistan: Fan va Texnologiya, 2019.
- [4] N. Yusupova, "Assessment of the financial sustainability of enterprises using modern analytical tools," *Finance of Uzbekistan*, no. 6, pp. 24–29, 2022.
- [5] B. O'ralov, *Methods of Investment Project Analysis and Evaluation*. Tashkent: Iqtisodiyot, 2018.
- [6] Z. Tursunova, "Creditworthiness evaluation models used in commercial banks," *Banking Economics*, no. 3, pp. 17–23, 2021.
- [7] A. Qodirov, *Risk Management and Insurance Activities*. Tashkent: O'qituvchi, 2017.
- [8] D. Abdullayeva, "Factors affecting the financial stability of industrial enterprises," *Economics and Innovation Technologies*, vol. 4, no. 2, pp. 40–48, 2020.
- [9] F. G'aniyev, *Investment Climate and Capital Flows*. Samarkand: SamSU Publishing, 2016.
- [10] L. Qo'zieva, "Modern approaches in evaluating investment risks in the due diligence process," *Uzbek Journal of Applied Economics*, no. 2, pp. 30–36, 2023.
- [11] R. Jalilov, *Principles of Corporate Governance and Their Effectiveness*. Tashkent: Norma, 2020.
- [12] M. Eshonqulov, "The role of financial reporting transparency in investment decision-making," *International Accounting*, vol. 7, no. 1, pp. 13–19, 2019.
- [13] S. To'xtayev, *Fundamentals of Financial Analysis*. Tashkent: Universitet, 2015.
- [14] U. Ikromov, "Methods for evaluating enterprise bankruptcy risks," *Innovative Economy and Management*, vol. 3, no. 1, pp. 50–57, 2021.
- [15] N. Xudoyberdiyeva, *Mechanisms for Regulating Investment Activities*. Tashkent: Iqtisodiyot Publishing, 2018.