

## IMPROVING CASH FLOW MANAGEMENT

### 1. Introduction

In a modern market economy, cash is one of the most scarce resources, and the success of enterprises and organizations depends on their more efficient use. With the help of indicators that characterize cash flows, a company can reveal additional income-generating opportunities and self-financing opportunities.

Effective cash flow management is a specific function of financial management and is an important factor in reducing the company's solvency risk, asset management and economic growth.

Cash flow is a key indicator of a company's development, as it shows the amount of cash available to the company to produce competitive products, apply innovative technologies and enter new markets. Thus, cash flow reflects the company's ability to invest freely, create reserve funds and use profit as an investment.

The implementation of continuous cash flow is an important prerequisite for strengthening the company's position in the market. In this regard, the company needs to improve cash flow management methods and improve its organizational and functional mechanisms. In this regard, the problems of improving the organizational and functional mechanism of cash flow management are of particular relevance and there is an urgent need for their study.

#### *1.1. Cash flow as an object of financial management*

To determine the nature, purpose and objectives of cash flow management, you need to look at the different views of famous economists on financial management.

American scientist James van Horn in the book "Fundamentals of financial management" outlined the theoretical and methodological foundations of financial management and called the term "financial management" capital management. Due to the effectiveness of attracting and distributing capital, the financial director contributes to the development and competitiveness of the company, as well as to the development of the economy as a whole [17, p. 10-11].

Russian scientists V. Bocharova and V. Leontiev consider financial management as the art of managing the company's finances in terms of the formation and use of capital, income and cash flows [6, p. 21].

In his research, V. Ostapenko considers financial management as the process of managing the finances of

an enterprise, developing management goals and making an impact on finance (monetary relations). [14, p. 252].

In V. Kovalev's works, financial management is considered as a system of relationships between various entities, despite the attraction and use of financial resources. [11, p. 7]. In this context, financial management consists of four main divisions: analysis and planning of general finances, management of financial resources, investment management and ongoing financial management. In this definition, financial resources are specifically designated as an object of financial management.

The correct view of cash flow as an object of financial management is explained in the work of I. Balabanov. The author believes that financial management is focused on managing financial relations and the movement of financial resources between business entities during the movement of financial resources [5, p. 18].

In the textbook on financial management, L. Pavlova, financial management is defined as follows: Financial management is the process of managing funds by using the influence mechanism [8]. The logical conclusion from this definition is that the process of financial management of an enterprise is an integral part of the management of the enterprise as a whole and expresses a set of means and methods of influencing the object of management to achieve a certain goal. Financial management of the enterprise directs financial resources to the development of business activities at the most appropriate time.

In his work, M. Romanovsky describes financial management as a special area of asset management, capital formation and the targeted organization of cash flows necessary to achieve the strategic goals of an enterprise [7, p. 56].

Thus, there is no consensus in many of these opinions that cash flow management is perceived as an object of financial management.

In our opinion, the definition of an object of financial management requires special discussion, since the solution of many theoretical and methodological issues depends on it. The object of financial management may vary, and its choice depends on the financial policy of the business entity and the goals of

the proposed management. In most cases, the object of financial management is turnover of cash flow and fund flow arising in the process of financial and economic activity of the enterprise. Nevertheless, financial resources dominate as an object of financial management and this is absolutely true: an enterprise can work only if there are sufficient financial resources, and expanded reproduction also implies the continuation of the process of formation, distribution, redistribution and use of financial resources.

#### *1.1.1. Economic content and classification of cash flows*

In a modern market economy, each business entity freely chooses its development strategy and tactics, presenting self-financing as a priority. Cash flow in the enterprise is constantly happening. Technological improvements caused by significant investments, changes in inflation and interest rates, tax reforms, affect the cash flow in the enterprise.

A cash flow statement is important as a source of information. This information is used by both financial managers and investors, and entrepreneurs use it to solve additional issues, such as creating additional assets, paying off debts and new investments.

The concept of "cash flows" first became the subject of research by scientists in the United States in the first, in connection with the activities of the securities market. American scientists have developed a method for calculating, analyzing and forecasting cash flows of the firm, and the term "cash Flow" has begun to be recognized internationally.

In the Oxford Dictionary, cash flow is defined as the movement of money into and out of business when goods are bought and sold.

M. Romanovsky describes the cash flow as a result of the cash flow of the company over time, that is, the total difference between the cash flow of the company and their repayment for the period [7]. B. Colass gives a more specific definition of cash flows as the excess of cash that arises in the enterprise as a result of all operations that are directly related and unrelated to economic activities [9, p. 135].

V. Bocharov characterizes cash flow as the distribution of cash flows by time and place created in the production process. From the point of view of J. Pearls, cash flows correspond to the resources generated by the activities of the company for a certain period of time. This is an expression of the company's development potential in the context of full self-financing" [6].

A more detailed presentation of cash flows was provided by J. Van Horne. He compares cash flows with the human circulatory system, representing the enterprise as a living organism. According to him, if the cash flow management system works continuously and efficiently, then the financial condition of the enterprise as a living organism will be healthy and constantly developing.

Given the importance of the cash flow category for financial management, it should be clarified both broadly and narrowly.

Cash flow in a broad sense means the timely distribution of cash flows, which is manifested as a result of the company's activities. The scale of cash flows in practice can be very different, and the financial Manager must explain in a narrow sense the category of cash flows, which refers to the management of a specific object, the timely distribution of incoming and outgoing funds at a certain scale.

There is no unanimous view of the existence of cash flow cycles. French economist B. Colass argues that the concept of a cycle, understood as a sequence of operations that are reproduced with a certain frequency, is suitable for describing production operations (except for enterprises with a long production cycle). But this understanding of the cycle is not suitable for describing investment and financial transactions, and certainly does not correspond to the description of operations with cash. Cash transactions, even if they fully meet their function, cannot be represented in a cycle [9, p. 52].

Summarizing the opinions of various scientists about cash flows in the economic literature, we can conclude that the cash flow cycle of an enterprise is a certain period of time during which assets are returned as a result of using these assets.

The cash flow at the enterprise can be presented as a schematic illustration of the cash flow from the sale of goods to the final distribution of profits and the formation of financial resources.

Various cash flows that occur in an organization are classified according to the purposes of analyzing, planning, and controlling cash flows.

V. Kovalev proposes to analyze cash flows in four directions; current, investment, financial and other activities. In our opinion, each of the industrial enterprises always has some economic operations that cannot be seriously attributed to any of these areas. Therefore, other activities may include targeted funding or values purchased for free. The cash flows generated by the current activities of the enterprise are often transferred to the area of investment activity and used to develop production, and can also be converted into financial activity to pay dividends to shareholders. *In fact, current activities are often supported by financial and investment activities, which puts pressure on a number of enterprises in unstable economic conditions.*

The second most important feature of the classification of cash flows is the scale of servicing financial and economic processes, as a generalized indicator of which is the cash flow of the enterprise. It characterizes the receipt and expenditure of funds at the level of the enterprise as a whole.

The most valuable classification used in financial management is the cash flow differentiation used in valuing a company. The most important of them are:

1. *Free cash flows* of a company are actual cash flows arising from its core business, that is, total cash

flows that remain after tax and are distributed between creditors and property owners. This can be considered as cash flow after taxes, which falls into the ownership of the owner of the company in the conditions if he has no debt obligations.

2. *Total cash flow* – the cash flow generated by the company is the amount available for investment in support and development of the business. The category “investment cash flow”, which is differentiated to measure a company, is inherently consistent with the cash flows of investing activities.

#### 1.1.2. *Methodological foundations of cash flow management*

Management of financial resources, including cash flows, in a market economy is a complex and responsible activity. In real economic terms, financial flows can be in cash or in monetary documents. An enterprise's financial resources are a set of cash flows in the form of cash flows in bank accounts and cash registers.

The concept of cash flows arose in the United States in the mid-twentieth century, and its main provisions were developed by foreign economists.

*Cash flow management includes the following key blocks:*

- identification of cash flows for certain types;
- determination of the total amount of cash flows of different types;
- distribution of the total amount of various types of cash flows at individual intervals;
- analysis and assessment of internal and external factors affecting the formation of cash flow.

The implementation of these measures is carried out within the framework of its financial policy, creating an effective financial management system that ensures the achievement of strategic and tactical goals of the company.

The cash flow management methodology provides an overview of the general principles and management methods that are reflected in the respective methodologies. The main and permanent principles of management are considered to be the provisions that underlie cash flow management and are characteristic of all financial management systems. Cash management is based on the following key principles:

- information accuracy – the management process must be provided with the necessary database;
- balancing – balancing is achieved by synchronizing the positive and negative cash flows of the company by type of activity, volume, time interval and other significant characteristics;
- ensuring the effectiveness of cash flows through financial investments of the company;
- liquidity provision- Liquidity is achieved by optimizing cash balances in accordance with the volume of term liabilities.

These principles can be the basis of the cash flow management process of any business entity.

The goal of cash flow management is to ensure the financial balance of the company in the development process by balancing and timely synchronization of cash inflows and expenditures.

*To achieve this goal, it is necessary to solve the following tasks in the cash flow management process:*

- ensuring the balance of cash flows
- ensuring timely synchronization of the formation of cash flows;
- providing an increase in the company's net cash flow.

However, restricting cash flow management functions only through balancing and synchronization undermines management effectiveness.

*The main objects of cash flow management are:*

- positive cash flow (cash inflow);
- negative cash flow (cash flow expense);
- net cash flow;
- cash balance.

The subjects of cash flow management are the company's financial services, which depend on the composition and number of employees, and depend on the size, structure, types of activities and other factors of the company's activity.

#### 1.1.3. *Organizational and functional mechanism for managing cash flows*

Various aspects of the organizational and economic mechanism were studied in the works of domestic and foreign economists. I. Balabanov interprets the organizational and economic mechanism of an enterprise as a financial mechanism, a systematic action of financial levers, which is expressed in planning, organizing and stimulating the use of finance [5, p. 25].

T. Makushkin identifies five main elements in the organizational and economic management mechanism, each of which in turn expresses the mechanism of a certain type of enterprise activity: the mechanism of financial activity; the mechanism of working with consumers; the mechanism of functioning of internal processes of the enterprise; the mechanism of the enterprise as a developing system; the information mechanism of the enterprise [12, p. 15].

A. Sheremet and P. Sayfulin's financial mechanism elements include the following [16, p. 13-14]:

- financial relations arising from lending, investment, taxation, insurance, current financing, payroll deductions and payments;
- a set of financial indicators: profit, income, financial sanctions, price, dividends, interest, salaries, taxes, etc.
- financial methods are understood as financial accounting, financial analysis, financial planning,
- legislative, regulatory, informational and methodological support of management.

The traditional organizational and functional mechanism is defined as a complex set of elements, structure and functional tasks that are interconnected organizationally, economically and technologically

Such interaction has a clear organizational and functional subordination. Thus, the organizational-functional mechanism of cash flow management refers to a set of elements that interact with each other and act as a whole.

The organizational and functional mechanism for managing cash flows represents two interrelated areas: organizational and legal (enterprise management structure) and functional (determination and consolidation of professional rights and obligations of each of the responsible persons).

The composition of elements of an organizational and functional cash flow management mechanism, its ultimate goal and the choice of tasks to achieve it depend on the following factors:

- differences in sectoral and territorial characteristics of financial and economic activities
- improving the legal regulation and structure of debt obligations of state and regional authorities and the conditions for their implementation
- optimal organizational structure that ensures the efficiency of all departments of the enterprise;
- excellence in information technology provided to experts for data analysis in order to make appropriate decisions on cash flow management;
- differences in operating, investing and financing activities.

#### *1.1.4. Identification of shadow cash flows in financial management*

The target management system, which involves the use of production, marketing, innovative and financial methods, is widely used in the process of forming and implementing a corporate financial management strategy. The financial method used to manage the value of the company is complex, integrated and affects other management methods.

*The specifics of the financial management method is determined by its ability to participate in the following tasks:*

- impact on costs and profitability;
- minimizing the cost of raising funds;
- capital structure optimization;
- qualitatively structure cash flow;
- determine the allowable amount of receivables and payables;
- financial risk management;
- ensure the implementation of effective investment projects;
- company budgeting;
- implementation of an effective dividend policy;
- to ensure the profitability of assets;
- determine the dynamics of indicators reflecting the final results of the company.

Within the framework of the above tasks, the company can operate in various schemes related to shadow cash flows. This is due to the fact that it has a one-sided and simple effect on key economic indicators, that is, on the manipulation of financial results. Holding companies usually carry out commercial, investment

and financial operations in the national and foreign markets, as well as in the markets of countries where they have branches. This means that large companies can distribute cash flows between several countries. The financial method used to manage the value of the company is divided into three areas: operations, investment activities, the formation of the structure of private and debt capital. This approach is used in preparing a cash flow statement and is generally accepted.

The ability to identify shadow cash flows in financial management is associated with determining the impact of factors on the growth of the economic potential of the enterprise. The realization of this task is convincing if the increase in the value of the company occurs in the phase of recession of the economic cycle, and also if the increase in value occurs in the context of the upward cycle, it is possible, although it is very difficult.

This traditional approach does not take into account the cyclical deviation of the global economy and the company's ability to form a growth point. This is explained by the fact that for subsidiaries, the cost is estimated separately, and then added to the cost of the parent company to determine the integrated indicator. At the same time, this does not take into account the possibility of creating a synergistic effect within the overall financial strategy. It is believed that it manifests itself as a result of a simple pooling of resources and activities, rather than through the use of shadow cash flows due to the purposeful efforts of the manager.

A value-based approach to identifying the potential of shadow cash flows in financial management to increase the value of a company should be based on the cyclical nature of the global economy. Although this is somewhat contrary to the probability of market efficiency, the market value of which is based on all the information coming to the market, and therefore corresponds to an objective real price.

## **2. Conclusions**

1. A more accurate definition of cash flow corresponds more to the term "cash flow", which refers to the difference between the inflow and outflow of funds and the various types of assets that serve the financial and business activities of the company.

2. It is impossible to identify the concepts of financial flow and cash flow, since financial flow is a structural element of cash flow. The types of cash flows directly depend on the cash flow accounting system, as indicated in International Financial Reporting Standards.

3. Qualitative characteristics of cash flows can be estimated by the cyclical sequence of economic processes in the company and presented in the form of a cash flow diagram of the company.

4. Management of cash flows mainly occurs in the course of the financial and economic activities of the company and ensures its financial stability.

5. Cash flow management is a complex process that uses a combination of methods, tools, and special techniques that constantly affect cash flows to achieve the company's strategic goal.

6. To improve cash flow management, it is important to develop the perfect organizational and functional mechanism with more precise consideration of the specifics of the company's activities and the characteristics of industries.

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#### Аббасов С. А. Удосконалення управління грошовими потоками

У статті розглядаються різні науково-теоретичні погляди відомих економістів на сутність, призначення та завдання грошового потоку як об'єкта фінансового менеджменту та зроблено відповідні висновки. Грошовий потік має унікальну властивість фінансової ліквідності і повною мірою реалізує економічні функції.

Управління грошовими потоками є фінансовим інструментом, що дозволяє досягти високих кінцевих результатів фінансово-господарської діяльності підприємства, тобто максимізувати прибуток. Розглянуто принципи, методи та комплексний аналіз управління грошовими потоками. Детально описано етапи процесу управління грошовими потоками та їх інформаційне забезпечення. Розглянуто принципи та етапи створення організаційно-функціонального механізму управління грошовими потоками та підкреслено, що формування відповідного механізму управління грошовими потоками дозволить підприємству залучити додаткові інвестиції для здійснення поточної діяльності та виходу на зовнішні ринки, у тому числі на фондові ринки. Детально досліджено питання розкриття тінювих грошових потоків у фінансовому менеджменті та визначення його ролі у підвищенні вартості компанії та ризиків, які пов'язані з макроекономічним регулюванням.

Є обґрунтовані пропозиції та рекомендації щодо вдосконалення механізму управління грошовими потоками.

*Ключові слова:* грошовий потік, фінансовий менеджмент, фінансові методи, фінансові інструменти, організаційно-функціональний механізм, тінюві грошові потоки.

#### Abbasov S. Improving Cash Flow Management

The article discusses various scientific and theoretical views of famous economists on the essence, purpose and objectives of cash flow as an object of financial management and makes appropriate conclusions. Cash flow has a unique property of financial liquidity and fully implements the economic functions that relate to it.

Cash flow management is a financial tool that allows you to achieve high final results of the financial and economic activities of the company, that is, maximize profits. The principles, methods and a comprehensive analysis of cash flow management are considered. The stages of the cash flow management process and their information support are described in detail. The principles and stages of creating an organizational and functional cash flow management mechanism were considered and emphasized that the formation of an excellent cash flow management mechanism will allow the company to attract additional investments to carry out its current activities and enter foreign markets, including the stock market. Issues of disclosing shadow cash flows in financial management and determining its role in increasing the value of the company and the risks associated with macroeconomic regulation have been studied in detail.

There are reasonable suggestions and recommendations for improving the cash flow management mechanism.

*Keywords:* cash flow, financial management, financial methods, financial instruments, organizational and functional mechanism, shadow cash flows.

**Аббасов С. А. Совершенствование управления денежными потоками**

В статье рассматриваются разные научно-теоретические взгляды известных экономистов на суть, назначение и задачи денежного потока как объекта финансового менеджмента и сделаны соответствующие выводы. Денежный поток обладает уникальным свойством финансовой ликвидности и в полной мере реализует экономические функции.

Управление денежными потоками является финансовым инструментом, позволяющим достичь высоких конечных результатов финансово-хозяйственной деятельности предприятия, то есть максимизировать прибыль. Рассмотрены принципы, методы и комплексный анализ управления денежными потоками. Подробно описаны этапы процесса управления денежными потоками и их информационное обеспечение. Рассмотрены принципы и этапы создания организационно-функционального механизма управления денежными потоками и подчеркнуто, что формирование соответствующего механизма управления денежными потоками позволит привлечь предприятию дополнительные инвестиции для осуществления текущей деятельности и выхода на внешние рынки, в том числе на фондовые рынки. Подробно исследованы вопросы раскрытия теневых денежных потоков в финансовом менеджменте и определения его роли в повышении стоимости компании и рисков, связанных с макроэкономическим регулированием.

Обоснованы предложения и рекомендации по совершенствованию механизма управления денежными потоками.

*Ключевые слова:* денежный поток, финансовый менеджмент, финансовые методы, финансовые инструменты, организационно функциональный механизм, теневые денежные потоки.

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