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CURRENT METHODS FOR OPTIMIZING CASH FLOWS IN CORPORATIONS

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Abstract. The article examines the economic essence and significance of corporate cash flows under economic liberalization, as well as the theoretical and methodological foundations of their optimization. The purposes and objectives of cash flow analysis, its specific features, and the factors affecting it are described. The article also presents a system of indicators used in cash flow analysis and a methodology for assessing them through their determination and grouping. The study puts forward scientific proposals and practical recommendations for optimizing the cash flows of corporate structures in our country under economic liberalization.

Keywords: cash flow, Beaver ratio, dynamic balance indicator, integral cash flow efficiency index, stress test, factor analysis, comparative analysis.

Introduction

The rapid intensification of competition in the global economy, the globalization of financial markets, the acceleration of digitalization, and the improvement of corporate governance standards are making the effective management of the cash flows of corporate structures one of the most pressing tasks. Especially under economic liberalization, the financial independence of corporate structures is expanding, and their investment activity, market stability, and competitiveness increasingly depend on the level at which cash flows are effectively organized and managed.

Cash flows represent the movement of funds generated by the financial and economic activities of corporate structures and are an important factor in their solvency, liquidity, financial stability, and value growth. The existence of profit in the activities of a corporate structure does not always ensure its solvency. This is because there is a certain time lag between the reflection of income and expenses under the accrual method and the actual movement of cash. Therefore, the management and optimization of cash flows in corporations is emerging as one of the priority areas of corporate finance.

Literature review

Cash flow is one of the most important indicators reflecting the efficiency and characteristics of the movement of funds in a corporate structure. All types of operations of a corporate structure are carried out on the basis of the continuous movement of funds. This continuous movement constitutes the essence of cash flow and creates the need to measure it and use it as the main indicator in assessing the successful operation and value of a corporate structure.

The term “cash flow” comes from the English expression cash flow. In the 1950s in the USA, economists such as L.A. Bernstein, Yu. Brigham, and J.C. Van Horne developed the concept of cash flows of a corporate structure [1]. This concept included the assessment of factors determining the volume of cash flow elements, the determination of the level of risk, and the choice of discount rates under conditions of a stable market economy.

Currently, economists interpret the concept of “cash flow” in different ways. For example, I.A. Blank regards cash flow as the main indicator characterizing the efficiency of investments in the form of funds returned to the investor. R.A. Brealey and S.C. Myers give the following definition: “Cash flow from production and business activities is the money left after deducting the cost of

goods sold, other expenses, and taxes from sales revenue" [2]. Ye. Leontev, V.V. Bocharov, and N.P. Radkovskaya, in turn, view cash flow as the amount of funds received or paid by an organization during a reporting or planned period [3].

Among our local economists, Kh.Kh. Khudoykulov, in his scientific works, proposed a cash-flow-based approach to valuing the capital of joint-stock companies and put forward the concept of "discounted cash flows" [4].

R.Kh. Karlibaeva's scientific works studied modern methods of analyzing the cash flows of joint-stock companies in Uzbekistan [5]. The scholar explained the direct and indirect methods of cash flow analysis in joint-stock companies and paid particular attention to the discounted cash flow model.

Sh.A. Masharipova conducted research on the methodology for determining the net cash flows of joint-stock companies and presented scientific views on the use of dynamic and statistical indicators in cash flow management [6].

Summarizing the above views, cash flow can be defined as the sum of cash inflows and outflows distributed over a certain period of time as a result of the implementation of a specific project or the use of a specific asset.

Main part

Under economic liberalization, the financial independence of corporate structures and their adaptability to market conditions are growing rapidly. In such conditions, the effective management of the movement of funds, and especially the optimization of cash flows, is one of the main factors ensuring the efficiency of corporate structures. We can explain this as follows:

- the financial stability and solvency of corporate structures depend largely on the balance of cash flows. In practice, even enterprises with high profit indicators may face financial difficulties due to a shortage of cash. Therefore, optimizing cash flows is an important tool for reducing liquidity risk;
- as investment activity increases, the ability of corporate structures to finance investment projects depends largely on the volume of free cash flows and the degree to which they are used effectively. Optimal management of cash flows makes it possible to improve the quality of investment decisions and increase capital value;
- in the current conditions of growing external and internal economic risks, improving mechanisms for forecasting and planning the movement of funds in corporate structures is of great importance. This serves to manage financial risks and ensure corporate stability [7];
- in the context of reforming the corporate sector in our republic, developing the capital market, and widely introducing international financial reporting standards, applying modern tools for analyzing and managing cash flows in practice is becoming increasingly necessary.

These circumstances require an in-depth study of theoretical and practical approaches to optimizing the cash flows of corporate structures under economic liberalization and their improvement based on the specifics of the national economy.

Thus, the activities of corporate structures are directly related to the movement of funds, that is, their receipt and outflow, and require the skillful management of these funds in the interests of the corporate structure. Cash flow management means achieving balance through optimal calculation based on the receipt and outflow of funds. Ineffective management of cash flows leads to a deterioration in the financial results of a corporate structure.

The purpose of cash analysis is to assess the current cash flow and make sound management decisions on determining its optimal volume. The objectives of cash analysis are as follows (Figure 1):

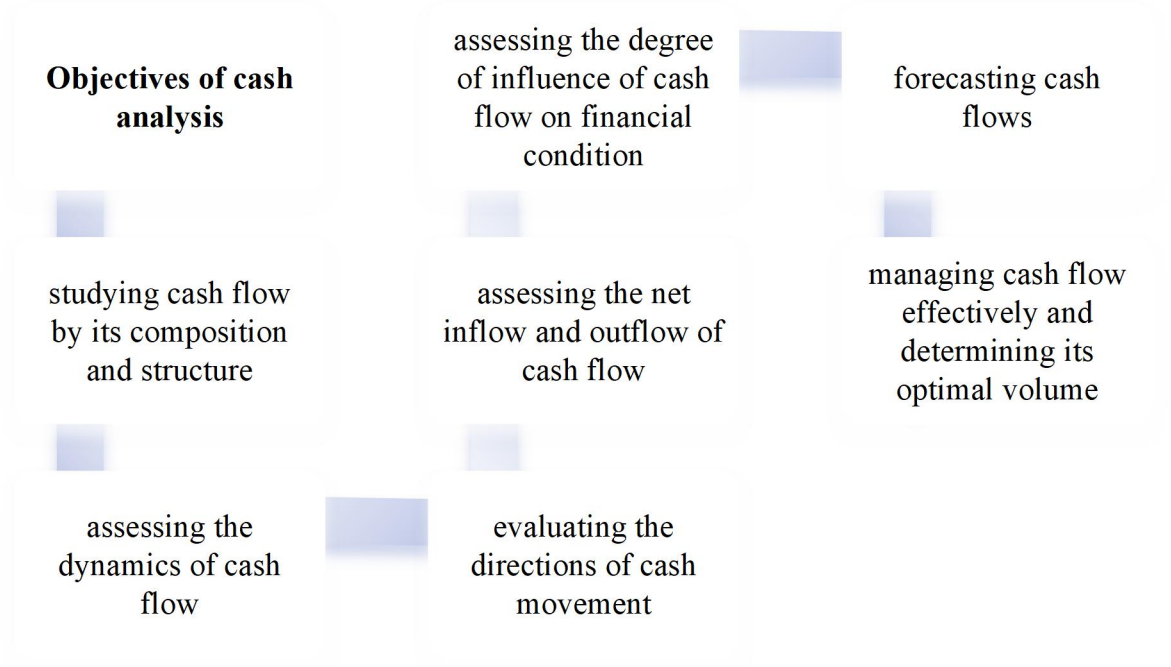


Figure 1. Objectives of cash analysis

When choosing methods of cash flow management, it is first necessary to take into account the factors affecting it. They are divided into external and internal factors:

1. Internal factors include: the life cycle of the corporate structure; the length of the operating cycle; the seasonality of production and sales; the relevance of investment programs; depreciation policy, and others.

2. External factors consist of: the state of the commodity market; the state of the stock market; the tax system for corporate structures; the system of crediting suppliers and corporate structures; the system of settlement operations; the availability of credit; the possibility of attracting earmarked funds on a non-repayable basis.

Taking into account these features, the classification of cash flows, the specific characteristics and life cycle of the corporate structure's activities, and external and internal factors, the following methods of cash flow analysis can be distinguished:

1. Comparative analysis;
2. Factor analysis;
3. Direct method of analyzing cash flow movement;
4. Indirect method of analyzing cash movement.

The comparative analysis method is carried out by comparing certain indicators of a corporate structure with the indicators of subsidiary corporate structures, divisions, and workshops, the indicators of competitors, the indicators of previous periods, and so on.

Factor analysis, in turn, makes it possible to determine the influence of individual factors on the overall change in cash flow.

The main methods of cash flow analysis are the direct and indirect methods. The direct method is distinguished by the simplicity of its calculation procedure and is easy for local accountants and financiers to understand. It makes it possible to assess the liquidity level of a

corporate structure over the long term. Direct analysis is necessary for the owners and potential creditors of a corporate structure. Having objective information on the structure of the receipt and outflow of funds, the owners of a corporate structure can make well-founded decisions on dividend policy and profit distribution, expense management, and determining the volume of additional investment. Potential creditors and investors, in turn, assess the corporate structure's ability to earn profit and its long-term prospects.

The direct method of cash analysis is based on analyzing the movement of funds in the corporate structure's accounts. It is characterized by the following:

– makes it possible to identify the main sources of cash inflows and the directions of outflows;

– makes it possible to quickly assess the sufficiency of funds for payments on current liabilities;

– objectively shows the relationship between sales and cash receipts during the reporting period;

– the calculation procedure is simple;

– directly linked to accounting reporting registers;

– stands out for its convenience in calculating the necessary indicators and monitoring the receipt and expenditure of funds.

The indirect method is preferable from an analytical point of view, because it makes it possible to explain the reasons for the differences between financial results and free cash flow. The purpose of indirect analysis is to determine the reasons for the difference between the financial result and the receipt and outflow of funds. Its essence lies in converting the net profit of a corporate structure into an amount of cash. Here, it is taken into account that in the activities of every corporate structure there are types of expenses and income that reduce (or increase) profit but do not affect cash.

Based on the above, it can be emphasized that the method of cash flow analysis should be chosen on the basis of the objectives of the analysis. The direct method is based on analyzing the movement of funds across accounts and shows the main directions of cash inflows and outflows and the relationship between sales and cash receipts. Although it is easy to understand, its implementation is labor-intensive. The indirect method, in turn, is based on analyzing the items of the balance sheet and the income statement and reflects the relationships between the various areas of a corporate structure's activities and between net profit and changes in assets. Although it is difficult to understand, it is easy to implement. The analysis carried out shows the need to deepen research in this area and to identify new methods of analyzing cash flow management.

It is recommended to use the following ratios in cash flow analysis:

Beaver ratio = (Net profit + depreciation charges) / Liabilities.

Net cash flow sufficiency ratio = Net cash flow / (payments on liabilities + increase in the balance of tangible current assets + dividends).

Net cash flow profitability = net profit / net cash flow * 100%.

The Beaver ratio is an important indicator used to assess the financial stability of a corporate structure and its ability to repay debts on time. The Beaver ratio is of great analytical importance in assessing the cash flows of a corporate structure, because:

- it provides a simplified model of operating cash flow based on “profit + depreciation”;

- it assesses the timely repayment of a corporate structure's debts by linking it to real cash flow;
- it serves as a signal of cash flow stability, financial strength, and bankruptcy risk;
- it is used as an explanatory and alternative indicator in direct and indirect cash flow analyses.

That is why the Beaver ratio cannot be separated from cash flow analysis – it is one of the main indicators for assessing the financial stability of a corporate structure and the real capacity of its cash flows. Using this ratio together with the following ratios makes it possible to draw highly accurate conclusions (Table 1).

Ratio	Formula	Group 1	Group 2	Group 3
		Financially stable	5 years to bankruptcy	1 year to bankruptcy
Beaver ratio	$\frac{\text{Net profit+depreciation}}{\text{Liabilities}}$	From 4 to 0.17	From 0.17 to -0.15	Less than -0.15
Return on assets, %	$\frac{\text{Net profit}}{\text{Assets}}$ *100	6-8	4	-22
Financial leverage	$\frac{\text{Liabilities}}{\text{Assets}}$	<0.37	<0.5	<0.8
Ratio of assets covered by own working capital	$\frac{\text{Equity−Non−current Ass}}{\text{Total assets}}$	0.4	<0.3	<0.06
Current liquidity ratio	$\frac{\text{Current assets}}{\text{Liabilities}}$	<3.2	<2	<1

Table 1
Indicator system used to determine the financial condition of a corporate structur

Thus, based on the above, it should be emphasized that the Beaver ratio is an important indicator for determining the effect of depreciation on cash flow in corporate structures and for explaining the difference between profit and cash flow.

Effective cash flow management ensures the financial stability of a corporate structure. The main goal of management is to achieve a balance between income and expenses, taking strategic development plans into account. One of the most important and complex stages of cash flow

management in corporate structures is their optimization. Cash flow optimization is understood as the process of choosing the most suitable forms of organizing the movement of funds, taking into account the conditions and characteristics of conducting the financial and economic activities of the corporate structure.

The internal cash resources of a corporate structure are always limited. In many cases, the possibility of attracting external financing is absent or economically unprofitable. However, every business has hidden internal reserves, which can be identified in the process of optimizing cash flows. The success of a business depends mainly on how effectively the available sources of funds are used and how optimal their expenditure is.

Cash flow optimization is the process of developing an effective scheme for the movement of funds, taking into account the characteristics of the business and the industry. This process is carried out within the framework of profit analysis and budgeting. The main result of properly organized optimization is an increase in net cash flow.

Optimization is carried out through the following measures:

– reducing the tax burden by improving accounting and depreciation policy;
– introducing an effective pricing policy that increases the profitability of operating activities;
– rational management of accounts receivable, intensifying demands and claims;
– reducing the cost of products by increasing production efficiency;
– increasing product competitiveness.

As a result of these measures, cash flows that can be redistributed are identified in the corporate structure, and their proper management leads to an improvement in financial indicators.

Cash flow optimization cannot be carried out when the balance between income and expenses is disrupted. The imbalance manifests itself through a shortage or surplus of cash resources. Both situations have a negative impact on the financial results of a corporate structure.

A cash shortage leads to consequences such as a decline in solvency and liquidity, growth in indebtedness on liabilities (debts to counterparties, bank loans, delays in wage payments, etc.), and a lengthening of the capital turnover period. An excess of cash, in turn, leads to consequences such as a decline in the real value of money due to inflation, loss of opportunities due to not investing temporarily idle funds, and a decrease in the return on equity and its turnover.

The lack of balance between cash inflows and outflows leads to a decline in the liquidity of net cash flow and, as a result, a deterioration in the solvency of the corporate structure.

At the initial stage of cash flow optimization, it is necessary to classify cash flows by the degree of predictability and neutralization.

The degree of neutralization is the possibility of changing a cash flow in the future. For example, tax payments are fixed and precisely defined and therefore cannot be neutralized. Payment terms with suppliers can be changed, so they are highly neutralizable.

The degree of predictability expresses the probability of a cash flow occurring. Cash flows are divided into fully predictable, partially predictable, and completely unpredictable categories.

Completely unpredictable and unchangeable cash flows are not optimized.

Time factors are important in stabilizing cash flows. The goal is to eliminate sharp fluctuations in cash inflows and outflows. Here we focus on synchronization, because it refers to the correspondence between positive (inflow) and negative (outflow) cash flows over a certain time interval. The correlation coefficient is used to assess it. Ideally, it should be close to +1. A lack of synchronization can lead to a loss of solvency and even bankruptcy, especially in seasonal businesses.

The ultimate goal of cash flow optimization is to maximize net cash flow. Optimized cash flows reduce the need of a corporate structure for external funds and increase the pace of economic development at the expense of internal resources.

For the purpose of optimizing the cash flow scheme, we believe it is advisable to use the following methods:

1. Methods of increasing cash inflow:
– receiving full or partial advance payment for goods (work, services);
– reducing sales on deferred payment terms and the practice of extending internal credit;
– increasing sales turnover through discounts on illiquid products;
– actively managing accounts receivable;
– restructuring the corporate structure;
– attracting investors or partners;
– selling unused assets.
2. Methods of reducing cash outflow:
– agreeing on payment terms with suppliers or extending them;
– replacing short-term debts with long-term debts;
– acquiring assets through leasing;
– optimizing taxes;
– reducing expenses.

Which of these methods to choose depends on the short-term and long-term goals of the corporate structure.

Conclusion

While studying foreign experience in optimizing the cash flows of corporate structures in our country under economic liberalization, we put forward the following scientific proposals:

1. Using the dynamic balance indicator (DB_i) of cash flows in corporate structures. This indicator should be determined as the ratio of the operating cash flows of corporate structures to the sum of investment expenditures and debt servicing costs. By setting an acceptable range for this indicator, an opportunity is created to regulate cash flows automatically.

2. Assessing changes in the cash flows of corporate structures under the influence of certain factors on the basis of stress testing. We know that cash flows change under the influence of various economic factors (changes in the exchange rate, increases in interest rates, a decline in sales volume, failure to repay receivables on time, etc.). Under the influence of such changes, the “break-even point” at which the corporate structure's cash flow remains positive is determined. This mechanism can be implemented by applying the stress tests used in commercial banks to corporate structures.

3. Introducing and using the integral efficiency index of cash flows in corporate structures (IE_i) The basis of this index is the most important financial indicators – liquidity, profitability, financial stability, and risk level – and weighting coefficients are set according to the importance of each indicator in the final integral indicator. In general terms, we express this indicator as follows: $IS_i = Lw_1 + Rew_2 + Bw_3 + Rw_4$. This indicator makes it possible to carry out a comprehensive assessment of the cash flows of corporate structures.

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