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RISKS AFFECTING ENTERPRISE CASH FLOW FORMATION

Cash flow management is an important financial lever for accelerating the turnover of an enterprise's capital and increasing the amount of profit generated over time. The rational organisation of cash flows contributes to greater continuity and regularity of operating activities. Any disruption in the execution of payments adversely affects the formation of inventories, labour productivity, and the sale of goods, works and services. Cash flow optimisation makes it possible to reduce an enterprise's need for borrowed capital and helps to lower the risk of insolvency. The synchronisation of cash flows over time supports the financial equilibrium of an enterprise in the course of its strategic development. Active forms of cash flow management make it possible to generate additional profit through their effective utilisation, including the investment of temporarily surplus cash in the financial market. Cash flows from the fundamental basis of financial management and support the economic sustainability of an enterprise, namely: *meeting current operating needs, financing investment development, providing returns to owners, and creating reserves*.

The formation of cash flows results from a set of financial and economic relationships, which are characterised by the following features:

1) the movement of funds takes place in the fulfilment of contractual obligations between business entities as a financial component of the performance of the respective agreements (contracts);

2) the functional and organisational characteristics of business transactions make it possible to identify the movement of funds by types of cash flows in accordance with established classification criteria;

3) cash flows generated by a business entity are exclusively financial in nature and are realised through the movement of cash.

The formation of cash flows is significantly influenced by internal risks, which may adversely affect the business and its financial stability (Figure 1).

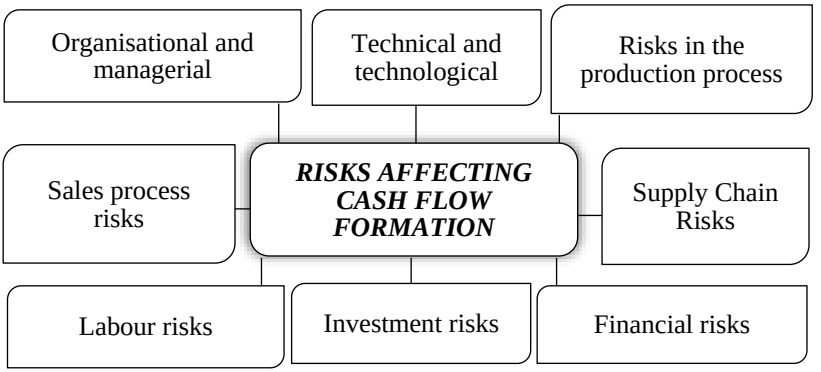


Figure 1. Risks affecting cash flow formation

Source: compiled by the author based on the results of the study

Organisational and managerial risks include the inconvenient location of an enterprise; the lack of a clear development strategy; and inadequate systems for cash flow management and for production, financial or investment planning. *Technical and technological risks* include insufficient production equipment, its non-compliance with the latest technologies, and its slow renewal. Such risks lead to a decline in the competitiveness of products, an increase in the production operating cycle, and cash outflows.

Typical *supply chain risks* include the following: an inappropriate choice of counterparties, which may subsequently lead to disruptions in production and sales processes and, consequently, delays in receiving cash; and the purchase of production inventories at inflated prices, which increases the production cost of finished products and results in additional cash outflows. *Production process risks* include the inefficient use of material, labour and financial resources and a sharp decline in production output. *Sales process risks* include: (1) unjustified expenditure on advertising and sales organisation, which increases product costs and selling prices while reducing demand for the products; (2) a decline in sales volumes, which reduces sales revenue and, consequently, cash inflows; (3) delays by customers in settling receivables, which reduce cash receipts, disrupt payment discipline, result in the imposition of penalties, and damage the business reputation; (4) an inefficient product

transportation system, which increases the turnover period of finished products and cash.

Labour risks include the insufficient qualifications of managerial and production personnel, which reduce work efficiency, contribute to the production of defective products and the inefficient use of resources, resulting in losses and cash outflows; as well as low levels of wages and employee incentives, which reduce labour productivity, product quality and production volumes, thereby contributing to a decline in cash inflows. *Investment risks* include an inappropriate choice of an investment programme, which may result in the loss of additional profit and a reduction in cash inflows. *Financial risks* include failure to fulfil contractual obligations relating to the repayment of loans and borrowings and the payment of interest thereon, which significantly affects solvency and business reputation and, consequently, results in a loss of opportunities to obtain additional financing.

As noted by *Chris Scharman*, CEO of Avtech Capital: "Cash flow is a strategic imperative. In a world where economic uncertainty is the norm, businesses that prioritize liquidity will outperform those that don't. By rethinking how capital is deployed, leveraging smarter financing tools and aligning financial strategy with operational agility, companies can reduce risk and build long-term resilience" [1].

Managing cash flows is becoming one of the key priorities for enterprise management, as managers are confronted with cash flow forecasting on a daily basis: they must determine how to protect cash from inflation, ensure the smooth operation of current activities, and maintain the business's reputation as a reliable financial partner. Effective cash flow management is guided by a set of conceptual principles, adherence to which ensures the sustainable financial stability of an enterprise, namely:

1) *cash flows comprehensively support business activities*; in other words, they constitute the "financial circulatory system" of its economic organism, the most important indicator of its "financial health", and a prerequisite for achieving positive financial results;

2) *cash flows ensure the financial balance of an enterprise in the course of its strategic development*: the pace of development and financial stability of a business depend on the synchronisation of different types of cash flows in terms of their volume and timing;

3) *the sound formation of cash flows contributes to greater regularity in economic processes*: any failure to make payments adversely affects the acquisition of inventories, labour productivity and the sale of finished products; conversely, effectively organised cash flows enhance the

regularity of business processes and ensure growth in production and sales volumes;

4) *effective cash flow management reduces the need for external financing*: the rational and economical use of an enterprise's own financial resources reduces its dependence on additional external cash injections into business activities;

5) *effective cash flow management* is a financial lever that makes it possible to accelerate capital turnover and reduce the risk of corporate bankruptcy.

Balancing the need for working capital with its actual availability and the potential for increasing it is achieved through cash flow optimisation. The main objectives of optimisation are to ensure an appropriate balance in their volumes, synchronisation in their timing, and growth in net cash flow. *Gary Lorimer*, Global Growth Leader at Credit Solutions, states: "Effective cash flow strategies are crucial for capitalizing on opportunities and sustaining growth in volatile times" [2].

Both cash flow deficits and excessive cash flows adversely affect business performance. The negative consequences of a deficient cash flow are manifested in a decline in overall solvency and balance sheet liquidity. Its characteristic indicators include: (1) an increase in overdue accounts payable arising from trade and financial transactions; (2) an increase in the duration of operating and financial cycles; (3) a decline in the profitability of assets and equity; (4) the forced sale of a portion of non-current assets; (5) the loss of opportunities to generate profit.

Cash flows constitute a complex economic category encompassing various types of cash flows. The strategic management and planning of these flows require consideration of time parameters, liquidity and risk, as well as the calculation of the present and future value of money and the implications of changes in the internal and external environments, although the latter are difficult to predict. The key aspect of strategic cash flow management is to ensure a sustainable financial position and economic growth.

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