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WAYS TO IMPROVE THE FINANCIAL STABILITY OF ENTERPRISES

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Abstract:

Financial stability is one of the key conditions for ensuring the sustainable development and long-term competitiveness of enterprises. In a rapidly changing economic environment, companies face various financial risks related to liquidity, excessive debt, cash-flow shortages, inflation, interest-rate fluctuations, and changes in market demand. Therefore, improving financial stability requires an integrated approach to liquidity management, working capital management, capital structure optimization, profitability improvement, and financial risk management. This thesis examines modern approaches to strengthening the financial stability of enterprises based on international research and practices. Particular attention is paid to efficient working capital management, optimization of debt and equity financing, improvement of cash-flow management, and implementation of financial risk assessment mechanisms. The study concludes that enterprises can increase their financial resilience by maintaining an optimal balance between profitability, liquidity, and financial risk.

Keywords: Financial stability, enterprise, liquidity, working capital, capital structure, financial risk, profitability, cash flow, financial resilience.

Financial stability is an important factor determining the ability of an enterprise to operate continuously, meet its financial obligations, finance investments, and withstand economic shocks. In modern market conditions, enterprises operate in



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an increasingly uncertain environment characterized by inflation, changing interest rates, supply-chain disruptions, exchange-rate fluctuations, and changes in consumer demand.

Financial stability should therefore not be understood only as the ability of a company to generate profit. It also includes the ability to maintain sufficient liquidity, manage debt effectively, generate stable cash flows, and adapt financial resources to changing economic conditions.

International financial research emphasizes the importance of indicators such as leverage, profitability, liquidity, and debt-servicing capacity in assessing the financial condition of enterprises. Excessive corporate debt may increase vulnerability to economic shocks, while insufficient liquidity can create difficulties in meeting short-term obligations.

Therefore, the development of effective financial management mechanisms is essential for strengthening the financial stability of modern enterprises.

The study is based on the analysis and generalization of international academic research and financial management practices. Comparative analysis, systematic literature review, and financial-ratio analysis are used as the main research methods.

The following indicators can be used to evaluate the financial stability of enterprises:

1. **Current Ratio** – measures the ability of an enterprise to cover short-term liabilities with current assets.
2. **Quick Ratio** – evaluates short-term liquidity excluding inventories.
3. **Debt-to-Equity Ratio** – determines the relationship between borrowed funds and shareholders' equity.
4. **Return on Assets (ROA)** – measures the efficiency of asset utilization.
5. **Return on Equity (ROE)** – evaluates the profitability of shareholders' equity.



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6. **Interest Coverage Ratio** – indicates the company's ability to cover interest expenses from operating income.

7. **Cash Conversion Cycle (CCC)** – measures the time required to convert investments in inventories and other resources into cash flows.

The combined use of these indicators provides a more comprehensive assessment of an enterprise's financial stability.

Working capital management is one of the most important instruments for improving the financial stability of enterprises. Working capital includes cash, inventories, accounts receivable, and other short-term assets.

Poor management of working capital can lead to liquidity problems even when an enterprise reports accounting profits. For example, excessive accounts receivable may increase sales revenue but simultaneously reduce the amount of cash available to finance current operations.

International research indicates that there is an optimal level of working capital. Excessive investment in working capital may reduce profitability because financial resources remain tied up in inventories and receivables. On the other hand, insufficient working capital can create liquidity problems and disrupt business operations.

Therefore, enterprises should:

- reduce unnecessary inventory levels;
- accelerate the collection of accounts receivable;
- establish effective credit policies for customers;
- monitor cash flows regularly;
- optimize payment schedules with suppliers;
- use digital technologies for working capital monitoring.

Efficient working capital management can simultaneously improve liquidity and profitability when an appropriate balance is achieved.



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Capital structure represents the proportion of equity and debt used to finance an enterprise's activities.

An excessive dependence on debt increases financial risk because enterprises are required to make regular interest and principal payments. However, the complete avoidance of external financing may also restrict investment and expansion opportunities.

Therefore, enterprises should seek an optimal combination of debt and equity financing.

An appropriate capital structure should consider:

- the cost of debt financing;
- the cost of equity;
- the expected return on investments;
- the level of financial risk;
- the stability of operating cash flows;
- the maturity structure of liabilities.

For enterprises with relatively stable cash flows, long-term debt can provide an additional source of financing for investment projects. However, enterprises with volatile cash flows should maintain a more conservative debt structure.

Accounts receivable management has a direct impact on the financial stability of enterprises.

When products or services are sold on credit, revenue is recognized before cash is actually received. If customers delay payments, the enterprise may face a shortage of working capital.

Therefore, enterprises should introduce systematic credit-risk assessment of customers.



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Recommended measures include:

- assessing customers' financial reliability before providing credit;
- establishing individual credit limits;
- monitoring overdue receivables;
- introducing early-payment discounts where appropriate;
- applying contractual penalties for significant delays;
- using electronic invoicing and payment systems.

Reducing the average collection period can improve the company's cash position and decrease the probability of bad debts.

Digital transformation provides enterprises with new opportunities to improve financial stability.

Modern financial-management systems can integrate accounting, cash-flow management, inventory control, sales, procurement, and financial forecasting.

The use of digital technologies can help enterprises:

- monitor financial indicators in real time;
- forecast cash flows;
- identify abnormal financial transactions;
- analyze customer payment behavior;
- optimize inventory levels;
- improve management decision-making.

Artificial intelligence and predictive analytics can also be used to identify potential financial risks and forecast future cash-flow requirements.

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