

## SECTION 14.

### BUSINESS ECONOMICS AND PRODUCTION MANAGEMENT

#### 14.1 Management and analysis of company's cash flows

In the modern world, rational cash flow management allows to fulfill the main objective of the company – increasing the efficiency of the company functioning. In addition, it ensures financial balance and business continuity, accelerates the capital turnover, reduces insolvency risk and leads to higher profits.

In Ukraine, many aspects of the cash flow management are still in the process of formation, as companies are exposed to the objective economic difficulties of the transition period, insufficiently developed financial market as a whole and its individual segments, imperfect regulatory framework, underdeveloped methodological issues, and weak level of training in this field. Further progress of the country on the way of its market reforms requires increased attention to cash flow management.

An important contribution to the study of companies' cash flow management was made by such economists as I. Blank, V. Bocharov, O. Vasylyk, J. Nevmezhytskyi, A. Podderiogin, M. Bertonesh, E. Brigham, J. van Horn, B. Coyley, B. Kolas and others. Methodological and organizational issues of cash flow analysis are reflected in the research of many scientists, including I. Levitska, E. Ishchenko, M. Pityulych, L. Kostyrko, V. Yasysheva and others.

Improvement of business operations efficiency is on the list of standard tasks for every company. Business top managers should regularly monitor the efficiency of all stages of production and other processes. Nowadays academics in financial management field emphasize that not the profits, but cash flows generated by the businesses indicate its efficiency, so cash flow analysis gets even more important.

Cash flow analysis is a set of methods intended to generate and process data on cash flows to objectively assess the cash flow numbers and balance between inflows and outflows in terms of size and the time of occurrence, efficiency of their use.

Financial statements and other accounting and financial reports provide information for the analysis of cash flows in the reporting periods. Assessment of cash flow impact on financial status of the company is performed with particular financial ratios such as liquidity, solvency, and financial stability.

Based on the results of cash flow analysis, the conclusions on the following aspects can be drawn:

- amount of earning generated by the different kinds of business operations;
- sources of inflows generated by the different kinds of business operations;
- reasons for outflows occurrence and spending patterns for various business operations;
- ability to ensure an excess of revenues over costs;
- sufficiency of earnings and ability to cover current financial needs;
- sources of operating and investing activities financing;
- difference between the company profit and net cash flow;
- level of financial stability of the business.

The analysis results are taken into account in the process of cash flow management, planning and optimization (see Fig. 260). Cash flow planning is the process of calculating its volume by the types of activity, time intervals and areas of use in order to ensure maximum synchronization of revenues and expenditures and solvency of the company. In the process of planning the optimization of cash flows is achieved through identification of proper balance between inflows and outflows, areas and terms of capital generation and use of funds, which allows to achieve the best results (costs minimization, profits maximization) [262, p.86 ].

Control of cash flow is an organized process which helps managers to check all steps in decision making process on inflows and outflows generation to identify deviations from the previously set parameters.

The main tasks of such control are the following:

- verification of compliance between actual cash inflows and outflows projections in current and operational plans;
- research on cash inflows and outflows correspondence in designated periods;
- correction of deviations from the set parameters and making decisions on adjustments in the cash flow management system.

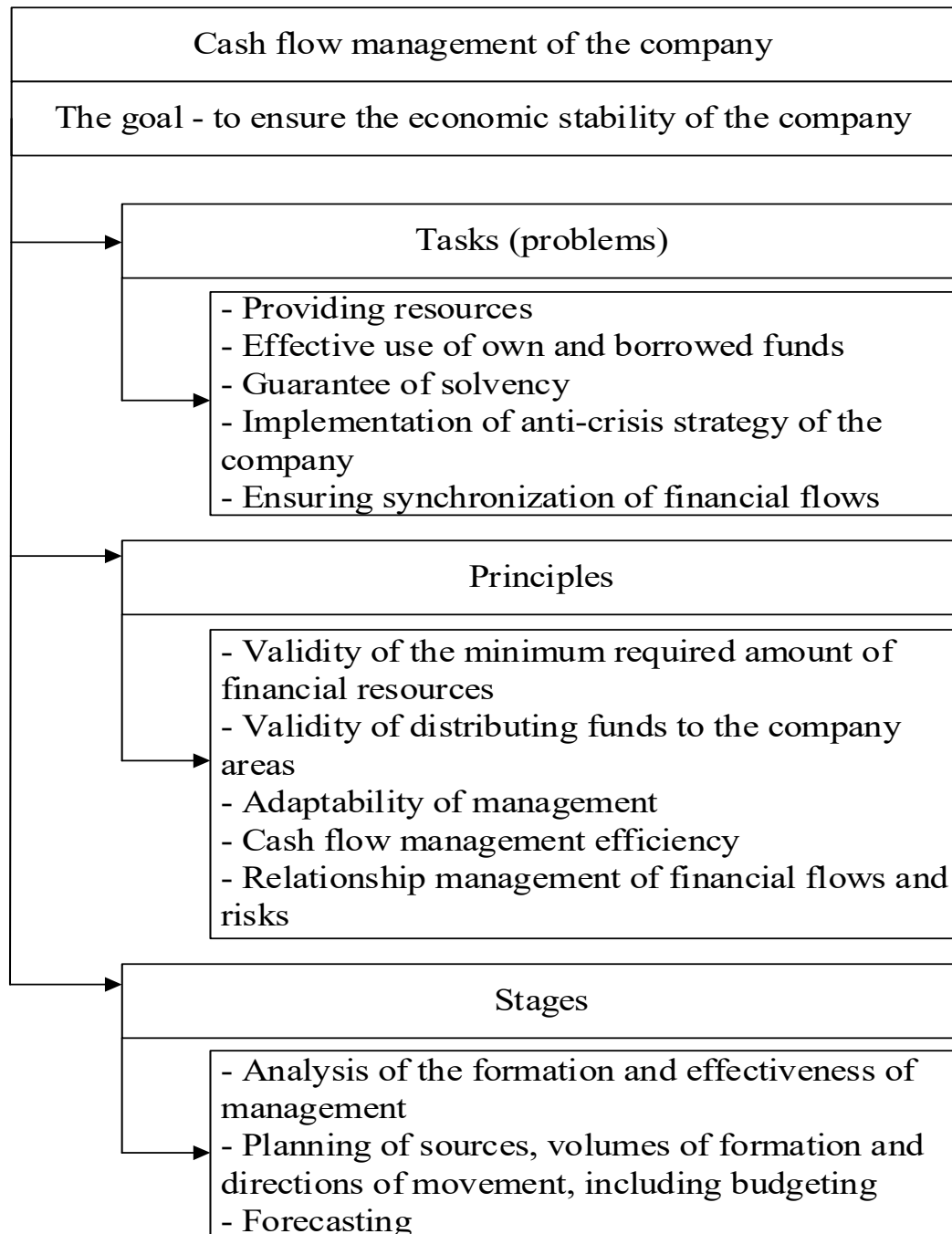


Figure 1 – Tasks, principles and stages of the company’s cash flow management

Efficient cash flow management is extremely important because of the following major provisions:

- cash flow ensures proper functioning of the company;
- cash flow management allows to identify minimal level of cash needed for all business activities;
- cash flow management prevents payment crisis;
- efficient cash flow management helps to synchronize inflows and outflows for all business operations;
- efficient cash flow management ensures financial balance and high solvency;
- efficient cash flow management leads to optimization of settlements between suppliers and customers, and improves cash turnover;
- cash flow management enables proper decisions on the use of free cash to prevent losses from inflation and occurrence of alternative costs.

The essence of efficient company's cash flow management is represented on Figure 2 [264, p. 124] .

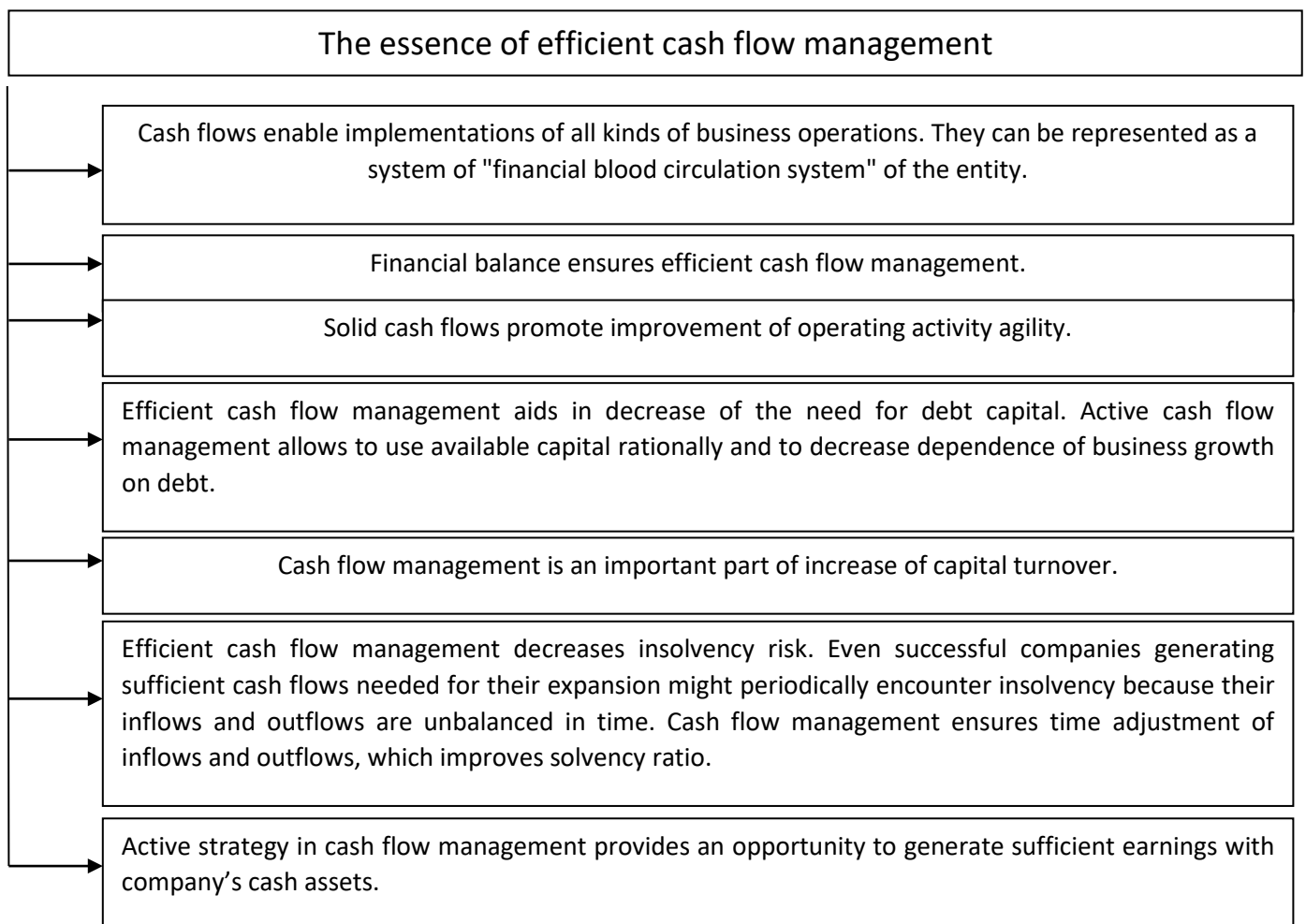


Figure 2 - The essence of efficient cash flow management

Efficient cash flow management is based on the following rules:

- passive strategies disable generation of cash flows;
- cash flows are an integral part of the financial and operating cycles, which in its turn requires coordination of financial issues between all parts of the company's financial management system;
- cash flow management requires an implementation of appropriate information system in decision making;
- unambiguous interpretation of financial decisions, effective communication with key players responsible for decision implementation and adequate feedback (monitoring, review and adjustment of financial decisions) are integral parts of cash flow management [266, p .322].

The cash flow management process at the company level is based on certain principles presented in Figure 3.

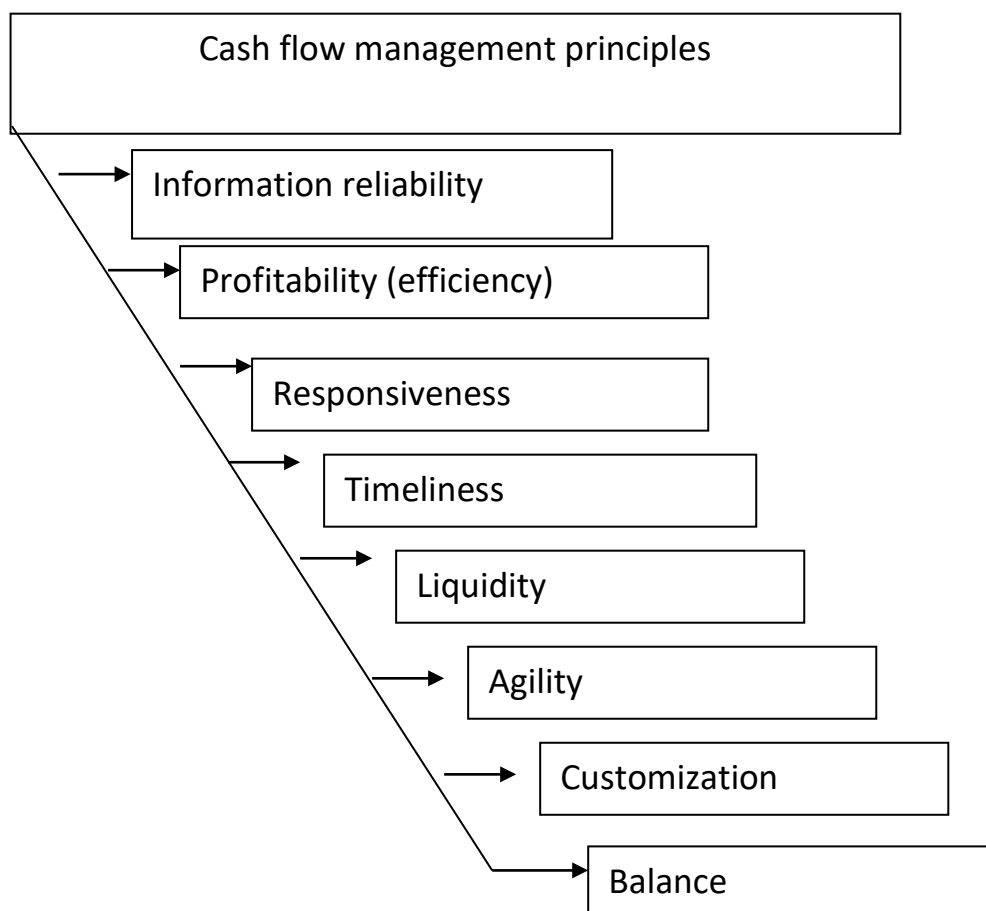


Figure 3 - Principles of cash flow management

Currently, senior management should strive to increase and balance out the amount and structure of cash flow. Properly organized cash flow management system facilitates production capacity building and improvement of profitability ratios. Both financial stability and opportunity for further development and path to future financial success depends on the quality and efficiency of cash flow management. Further research in the field may be dealing with development of advanced methods of cash flows optimization involving software application.