

CASH FLOWS MANAGEMENT AT THE ENTERPRISE LEVEL

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The management of cash flows associates equally to the management of cash inflows and outflows, as well as to the administration of cash deficit or surplus. The biggest challenge from the enterprise point of view is to schedule adequately cash inflows and outflows to avoid shortages and ensure a rhythmic development of the enterprise.

Article's importance arises from the role that management of cash flows has in the daily operations of an enterprise and the issue of ensuring economic efficiency of the decision to finance financial flows. Any activity requires spending money and should be conducted in such a way as to ensure sufficient financial flows. Author comes with a vision of factors that must be analyzed to ensure the financial equilibrium of the enterprise. The researched theme includes an analysis of the effectiveness of management of financial flows aimed at the enterprise level and presents a high level of originality, as it allows combining different concepts of financial management for the analysis and management of cash flows. Qualitative research techniques are used which facilitate the research perspective, enabling a deeper understanding of the investigated problem and the obtained information have a high degree of competence.

Key words: management, efficiency, financial flows, money, business, operations, balance.

Managementul fluxurilor monetare este asociat, în mod egal, cu gestionarea inputurilor și outputurilor monetare, precum și administrarea deficitului sau surplusului de monedă. Cea mai mare provocare din punctul de vedere al unei întreprinderi este de a programa, în mod adecvat, inputurile și outputurile monetare pentru a evita apariția deficitelor și de a asigura o dezvoltare ritmică a întreprinderii.

Importanța articolului reiese din rolul pe care gestiunea fluxurilor de mijloace bănești îl posedă în operațiile zilnice ale unei întreprinderi și problematica de asigurare a eficienței economice a deciziilor de finanțare a fluxurilor financiare. Orice activitate impune cheltuieli de mijloace bănești și trebuie dirijată în așa mod ca să asigure fluxuri financiare suficiente. Autorul vine cu o viziune asupra unor factori ce trebuie analizați în vederea asigurării echilibrului financiar la întreprindere. Tema cercetată cuprinde o analiză a aspectelor gestiunii eficiente a fluxurilor financiare la nivel de întreprindere și prezintă un nivel înalt de originalitate, deoarece permite combinarea diferitor concepte din managementul financiar cu scopul analizei și gestiunii fluxurilor de mijloace bănești. Sunt utilizate tehnici calitative de cercetare care facilitează punerea în perspectivă a cercetării, permit înțelegerea profundă a problemei investigate, iar informațiile obținute dețin un grad sporit de competență.

Cuvinte cheie: gestiune, eficiență, fluxuri financiare, mijloace bănești, întreprindere, operațiuni, echilibru.

Управление денежными потоками в равной степени связаны с управлением денежных входов и выходов, а также управление дефицита или профицита валюты. Самая большая проблема с точки зрения предпринимателя является правильное программирование денежных входов и выходов во избежание дефицита и для обеспечения ритмичного развития компании.

Важность статьи заключается в роли управления денежных потоков в повседневной деятельности предприятия и проблемы обеспечения эффективности экономических решений о финансировании денежных потоков. Любая деятельность требует расходовать денежные средства и управление таким образом, чтобы обеспечить достаточные финансовые потоки. Автор предлагает свое представление о факторах, которые должны быть проанализированы для обеспечения финансового равновесия предприятия. Исследуемая тема включает в себя анализ

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эффективности управления финансовыми потоками на уровне предприятия и представляет собой высокий уровень оригинальности, поскольку позволяет сочетать разные понятия финансового менеджмента для анализа и управления денежными потоками. Были использованы качественные методы исследования способствующие внедрению будущих исследований, что позволяет глубже понять проблемы исследования. Полученная информация имеет высокую степень компетентности.

Ключевые слова: управление, эффективность, финансовые потоки, деньги, бизнес, операции, баланс.

JEL Classification: H60; D50; E20; P40; P43

Introduction. The process of cash flow management while is a responsibility of financial department, has implications, influences on all enterprise divisions, and refers to every aspect of enterprise activity. There is no a major decision of the enterprise management without direct or indirect financial significance and, therefore, cash flow management process should consider every aspect of enterprise activity and be oriented towards maximization of enterprise efficiency and value.

The importance of cash flow management. The management of cash flows relates equally to the management of cash inflows and outflows, as well as to the management of cash deficit or surplus. The biggest challenge from the enterprise point of view is to schedule adequately cash inflows and outflows to avoid deficits. The evolution of economic conditions is unpredictable, making the enterprise management keen to prepare solutions for each situation, to timely anticipate cash flows deficits and to have the right solutions to continue operations and avoid deficits. The cash deficit management relies on internal reserves as well as on the enterprise ability to raise external financing.

During the normal course of business, companies are utilizing both internal and /or external financing, otherwise own or borrowed capital. The major goals when a company decides upon how to finance its operations are:

1. Minimizing the cost of capital by mixing the equity financing with less costly borrowed funding.
2. Timely supply of financing to sustain the normal course of operations and avoid stoppages.
3. Maximizing the value of enterprise by creating and implementing the optimal capital structure.

The management of cash flow deficit at the enterprise level should consider creation of internal reserves as well as the accessibility of external financing in order to optimize the return and mitigate the risks to create value for shareholders. When a company relies heavily on internal reserves and financing to deal with deficits, it succeeds to decrease the business risk, but have a lower level of return on invested capital. Meanwhile, external financing could add significantly to the enterprise return, but it could also generate additional risks and value depreciation, as shareholders have greater return expectations.

The main factors which influence the managerial decisions. There are a number of factors: internal and external, which influence the managerial decisions related to the management of cash flow deficits. The main external factors are:

Capital market conditions – the conditions of securities markets as well as of monetary markets can influence the ways a company finances its cash flows deficit. Currently, the securities market of Moldova is not liquid and the lack of investment and liquidities limit the enterprises ability to raise financing issuing stock or bonds. There is a little exception; commercial banks securities enjoy a limited level of liquidity in the capital market.

The level of country's economic development – has also an influence on financing decisions of management. The economic growth generate a surge in consumption and demand, which in turn is positively influencing the enterprise revenue and profitability. Moreover, during the times of economic growth, enterprises are increasing their investing activity building additional production capacities, penetrating new markets to meet the burgeoning demand. As a result, the demand for external financing to support the increased capital spending is soaring. Financial institutions are also benefiting from the country's economic growth, as they are able to increase the volume of interest earning assets and earn greater profitability.

The level of competitiveness – links the capacity to raise funds due to the enterprise profitability. The stability of enterprise return as well as the stability of revenue is important from financing point of view. The emergence of additional competition has the potential to wear away the company market share, revenue and earnings and can influence the financing capacity. An industry with strong growth rates is

attractive from profitability point of view but offers the risk of additional competition which can enter to benefit of abnormally high profitability. The existence of numerous entry barriers like technology, high investment required, recognition from key players, etc. have the ability to protect and industry from additional competition and maintain the profitability levels quite stable over the long run. Therefore a company should consider the industry's level of competitiveness when decides upon financing policies and should make correction to profitability rates if the risk of additional competition is high.

Income taxes – the interest payment are considered expenses from income tax point of view and accordingly allows to decrease the amount of enterprise' profit before taxes. Interest payment are considered to protect a part of profits from taxation and act like a shield. The higher is the income tax the biggest is the protection of profits against taxes and the bigger is the enterprise tax shield. In order to use the tax protection at the larger scale, the companies employ more debt in their capital structures. Meanwhile, equity financing usually raise the income tax payments and is considered less desirable from income tax point of view. Beginning with 2012, the Moldova's authorities would restore the income tax at 10% level and would maintain a 15% tax on dividends, raising the effective income tax at 25%. Therefore, domestic companies will increasingly consider the opportunity of debt financing as a tool to increase the company's free cash flows and return.

Enterprise image is the recognition that an enterprise earns within the investors community. Regardless the analysis that a company is making toward financing sources, the attitude of investors, creditors and rating agencies are sometimes the most important when a financing decision is taken. In many cases, the company discusses with shareholders and debt holders its financing strategy and considers eventual advises. When the management is too confident and tries to utilize financial leverage, raising the financial risks, it is the duty of creditors to calm down management and recommend a more balanced approach to financing.

Besides external factors, the management should consider internal factors as well, to decide upon the cash flows deficit management aspects. We regard the following factors as important for management consideration:

Business seasonality – an enterprise with stable revenue can use the financial leverage at a greater proportion and can sustain the payment of a greater amount of fixed expenses compared to an enterprise with sales volatility. The revenue seasonality (turnover seasonality) is caused by the differences in demand for enterprise products which make the company to report different revenues from one quarter (month) to another. The business seasonality influences the distribution activity, purchasing and inventory management as well as significantly change the

Another aspect is the *probability of bankruptcy and associated risks*. The greater is the level of indebtedness, the higher is the risk of bankruptcy and the higher are the costs associated with the increased probability of bankruptcy. The cost of bankruptcy raises de debt holders and shareholders expected return, which in turn diminish the enterprise value. The companies with stable revenues (that is without seasonality) have also high bankruptcy costs, however the lower probability of bankruptcy make the impact of these costs insignificant. Accordingly, these companies can afford to employ more debt in their capital structure. For example, the revenue stability and predictability for the companies from utilities: gas distribution, telecommunications, distribution of electricity, etc. allow them to use more debt to finance their cash flows deficits. Meanwhile, the companies from agriculture, food industry with higher seasonality should rely mainly on equity to finance the deficits.

The assets liquidity level – the companies, which assets can be pledge against loans are able to raise more debt financing to cover the deficit of cash flows. Therefore, the quality of assets as collateral is important and can be measured using the liquidity ratios. The higher is the assets level of liquidity, the greater is the amount of debt that can be raised, since assets can be easily accepted by banks as pledge. Accordingly, the building companies, are using more debt in their capital structure, while technology companies, which main assets are non-material, are relying on equity to cover the cash deficits. The assets of the companies from food industry are not presenting evidences of high liquidity, and accordingly they can rely on debt financing at a lower level.

The level of economic growth – the companies with decent growth rates need more financing and accordingly are using debts in a greater proportion compared to the companies with limited growth rates. The high growth companies are requiring cash flow to finance the growth, build additional capacities, accumulate inventories and accounts receivable as well as develop product and brand recognition.

Profitability level – companies with higher returns on assets are using internal financing (equity) to cover the operating deficits. While, the internal financing is limiting the utilization of financial leverage to enhance the return on equity, the companies with high returns are motivated to reinvest the cash flow surpluses back into their business, to sustain the rates at high levels. The abundance of cash is not sustaining the eventual utilization of debt financing.

Financial flexibility – the maintaining of financial flexibility is about having the internal reserves to raise debt financing without any problems, if the necessity occurs. The company should maintain a non-saturated borrowing capacity, based on internal estimates of cash flows required for operations, as well as on capital market conditions, management attitude and the consequences of eventual lack of cash. Financial flexibility requires the company to maintain a capacity to raise external financing at any moment in the future. The cost of flexibility is the lower rates of return on assets since the internal reserves are not producing decent returns.

Besides the sales and purchasing seasonality, *product life cycle* should be considered when a company is developing a strategy to raise and distribute financing and finance cash flows deficits. The enterprise development can be divided into 4 stages: business initiation or business inception (low rates of growth and huge losses from operations), development or youth (the acceleration of growth and breakeven), the business stability or maturity (growth rates are declining, solid profitability), and economic decline (revenue and profitability are declining).

Conclusions. The financing decision depends significantly on whenever a company is at the inception or at maturity; the business is growing or shrinking. Different approaches to financing are used during the enterprise lifetime. The life cycle approach is also important for the companies, which are operating in emerging economies, where the economic instability and volatility take a greater toll on business prospects.

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Recommended for publication: 12.11.2014