

FINANCIAL MANAGEMENT AGAINST CRISIS IN ENTERPRISES: EVIDENCE FROM UZBEKISTAN

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Abstract

Anti-crisis management of the enterprise assumes strict adherence to system principles. The task of such a management system is to prevent or eliminate undesirable business situations with the ability to maintain and strengthen positions in the market under any conditions, relying primarily on own resources. Enterprises nowadays have to manage their assets and liabilities professionally. Otherwise they are more likely to face with financial issues and even may become insolvent. This study examines the level of insolvency of some enterprises in Uzbekistan and gives recommendations and proposals to help them improve their financial state. On the basis of empirical findings, the study makes practical recommendations.

Keywords: Crisis, Insolvency, Financial management, Uzbekistan

INTRODUCTION

The crisis at the enterprise is maturing gradually, and it is important to identify its causes in a timely manner. At the first stage, the crisis manifests itself in the strategy, the second - in financial activity, the third - in liquidity. The crisis situation should be viewed not as a confluence of unfavorable situations (although for a separate production this may be so), but as some general pattern inherent in a market economy. Crisis situations, for the overcoming of which no appropriate preventive measures have been taken, may lead to excessive unbalance of the economic organism of the enterprise and, subsequently, to its insolvency and insolvency, respectively.

At this point in time, the problem of insolvency is becoming quite relevant for many existing enterprises. Hundreds of banks and other financial companies, thousands of manufacturing and commercial firms, especially small and medium-sized businesses, have already ceased to exist. Consider the main economic categories of insolvency of the enterprise-

1. Bankruptcy - insolvency of the debtor, (firm, bank or other organization), i.e., the court's failure to pay the debtor's debt obligations.
2. Loss - the process of carrying out economic activities, as a result of which the result does not cover the costs spent for the implementation of this activity.
3. Insolvency - the financial or monetary and financial situation of a firm or state, under which they can not timely pay off their financial obligations

The crisis situation is characterized as insufficiently efficient management of assets and accounts payable organizations, which determines the outflow of funds from owners and, as a result, dissatisfaction with the claims of creditors.

The crisis of the enterprise develops according to certain rules, which seem real to reveal. This is necessary to determine the emerging crisis and take adequate measures to eliminate its consequences at the stage of origin. This approach allows us to create a system to counteract crisis situations and even not to allow some of the possible consequences, and even the further development of the crisis situation. The development of the enterprise's crisis situation is closely related to a number of characteristics, the main ones being the amounts of net income, variable costs, fixed costs and time of processes. Variables and fixed costs of the company are necessary for us to identify the break-even point of the enterprise, from which, and you can make a description of the process of development of the crisis state of the enterprise. The situation of the development of the crisis can be divided into certain events occurring within the time intervals.

The reason for the crisis in the organization lies in the inconsistency of its financial and economic indicators of market parameters. These parameters are divided into the following groups: external (they do not depend on the activities of the organization); internal (are dependent on it). Each group includes several subgroups. External causes of the crisis are divided into:

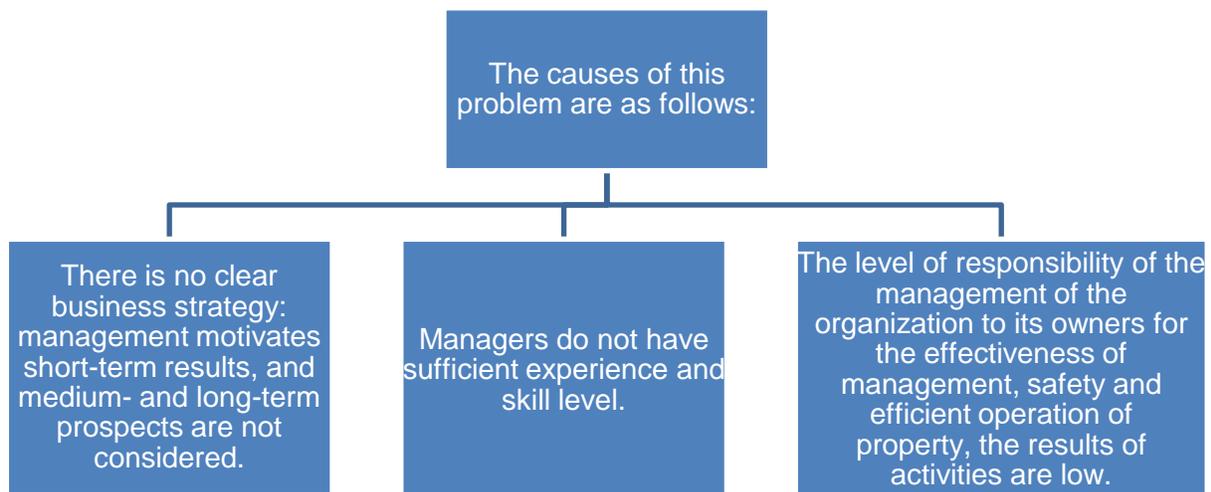
Table 1. External causes of the crisis

1. Socio-economic factors of the overall development of the country:	2. Market factors:	3. Other external factors:
<ul style="list-style-type: none"> ➤ Increase in the price level. ➤ Instability of the taxation system. ➤ Instability of the legislation performing the regulatory function. ➤ The fall of real incomes of citizens. ➤ Increase in the number of unemployed. 	<ul style="list-style-type: none"> ➤ Decrease in the capacity of the domestic market. ➤ The development of monopoly. ➤ Instability of the currency market. ➤ Increase supply of substitute goods. 	<ul style="list-style-type: none"> ➤ Instability in the political sphere. ➤ Natural disasters. ➤ Problems of criminal nature in society.

Source: Author's compilation

Currently, the main problem for organizations is ineffective management. It becomes an obstacle to successful business in a market economy.

Figure 1. The causes for financial crisis in an enterprise



Source: Author's compilation

Therefore enterprises have to conduct financial management really well so they do not face with financial crisis.

METHODOLOGY

In order to determine the strategy against crisis, first of all the level of insolvency of the enterprise should be evaluated. There are different models to analyze the solvency ratio of the company. The introduction of the Altman's Z-score model in 1983 and much recently the Enyi's Relative Solvency Ratio model in 2005 has divergently provided financial analysts with alternative methods of analyzing corporate solvency which hitherto was exclusively done using the traditional historical record based ratio analysis, with particular reference to the current ratio.

The first attempt to, perhaps, suggest a more effective way of diagnosing corporate insolvency was made in the works of Altman (1983) in which he used the discriminate analysis technique to calculate bankruptcy ratio. This ratio which uses the Z value to represent overall index of corporate fiscal health, is used mostly by stockholders to determine if the company is a good investment. For the Joint stock companies the Z-score is calculated as follows:

$$Z = 6.56 * A + 3.26 * B + 6.72 * C + 1.05 * D$$

Where:

A=Working capital/Total assets

B=Retained earnings/Total assets

C=EBIT/ Total assets

D=Book value of equity/Total liabilities

According to Enyi's relative solvency ratio, the model provides a solvency test which depends on the firm's ability to recover costs and make profit. There are two basic indicators of the model: OBEP (operational break-even point) and RSR (relative solvency ratio). The initial step of model is begun with calculating the mark-up ratio (MUR), which indicates the ability of a company management to recover the costs and maximize the profit.

$$MUR = PBT / TOC$$

Where: PBT – profit before tax, TOC – total operating cost.

The second step is calculation of break-even point (OBEP). At OBEP, the firm has achieved enough contribution from operations to cover all the attributable costs, a point beyond which profits may be noted.

$$OBEP = (1 + MUR) / 2 * MUR$$

Next step is the measuring the required volume of working capital which is central to operation of the company to sustain operational break even.

$$WCR = TOC * OBEP$$

One of the most important indicator is relative solvency ratio (RSR). RSR measures the liquidity of a company.

$$RSR = AWC / WCR$$

Where: AWC is available working capital which is the difference between current assets and current liabilities of a company.

ANALYSIS AND RESULTS

Table 2. The basic data

Companies	PBT	TOC	CA	CL
"Kvarts" JSC	36700709	23821288	96474396	11479267
"Uzkimyosanoat" JSC	1273078	1334438	18363152	1390175

Source: openinfo.uz.

Collecting necessary data from balance sheet and income statement of these enterprises we can calculate financial distress level by using Enyi's model

Table 3. Necessary indicators of selected companies

Companies	MUR	OBEP	WCR	AWC	RSR
"Kvarts" JSC	1.54	0.824	196228741.3	84995129	4.33
"Uzkimyosanoat" JSC	0,95	1,02	25321869,96	16972977,7	0,67

Source: Authors compilation

In Enyi's model, scale of RSR has exact criterion of financial distress level. Companies with 0.01 – 0.25 RSR are insolvent or high probability of bankruptcy. RSR coefficient between 0.26 and 0.99 is classified as a company with poor financial condition. 1 and above in RSR indicates the absolute financial health. Using the calculated data in Table 3, we can conclude all information that which is given in Table 4.

Table 4. Financial distress status of selected companies

Companies	RSR	Financial health level	Probability of bankruptcy
"Kvarts" JSC	4.33	Healthy	Very low
"Uzkimyosanoat" JSC	0,67	Poor financial health	Middle

Source: Author's compilation

Now, we can measure financial distress status of “Kvarts” JSC and “Uzkimyosanoat” JSC by using Altman Z-score model:

Table 5. The data

Parameters	“Kvarts” JSC	“Uzkimyosanoat” JSC
Operating income	6822339	663970
Current assets	96474396	18360590
Total assets	120342414	255674670
Current liabilities	11479267	1386410
Total liabilities	120342414	255674670
Retained earnings	33791685	1993026
Book value of equity	41098157	155147992

Source: openinfo.uz

Table 6. Necessary indicators of selected companies

Calculation process Kvarts JSC	Calculation process Uzkimyosanoat JSC	Constants *calculation process results	Constants *calculation process results
A=0,70628	A=0,06639	X1=A*6,56=4,633	X1=A*6,56=0,436
B=0,2808	B=0,0078	X2=B*3,26=0,915	X2=B*3,26=0,026
C=0,05669	C=0,0026	X3=C*6,72=0,38	X3=C*6,72=0,017
D=0,34151	D=0,60682	X4=D*1,05=0,36	X4=D*1,05=0,638
Z-score		6.28	1,12

Source: Author’s compilation

Table 7. The Zone of discrimination of the scores

Score value	Company’s situation
Z>2,6	Very good
1,1<Z<2,6	Middle
Z<1,1	Financial poor

After calculation process results suggests that financial distress level and bankruptcy risk of selected companies in Uzbekistan are different. Enyi’s relative solvency ratio and Altman Z-score models show us that both “Kvarts” JSC has a very good financial condition. It doesn’t have any problem with financial default and liquidity problem nowadays. However, “Uzkimyosanoat” JSC has experienced that it has problem with liquidity. That’s why the

company faces difficulties to meet their obligations in time and in terms of its financial problems, the company in the “Grey” zone.

CONCLUSION AND RECOMMENDATIONS

Analysis of bankruptcy risk and financial crises management plays a great role in companies. The fundamental financial health of a business firm is the main concern for the stakeholders. On the basis of the financial soundness, they take a decision regarding their possible involvement with a particular firm. The Altman Z score and Enyi’s relative solvency models are the best measurements that can shape the decision of the stakeholders.

1. “Uzkimyoanoat” JS company needs to increase its working capital and limit its permanent costs. This means that the company's balance shows that the proportion of fixed assets are considerable high, so that more proportion of the profits of the company is paid to its internal cost.(for example: for depreciation charges). Therefore, the enterprise should reduce the number of its fixed assets (or should use new technology) and increase the amount of working capital.

2. As it is known from the accounting balance of “Kvarts Joint Stock Company”, the share of long-term liabilities is 90% of total liabilities. The charter capital is low. Therefore, the entity should increase its own capital or limit its liabilities. It would be better if Kvarts JS company had to direct one the proportion of its profit to increase its charter capital.

3. In general, to reduce the likelihood of bankruptcy risk: a) Increase the share of working capital in the total assets and make them from their own resources. b) The corporation should hold an optimal ratio between borrowing and equity resources. c) The companies should control the receivable and payables accounts to ensure an optimal balance during the financial year. Overall, the findings of the study can be useful for the managers to take financial decision, the stockholders to choose investment options and others to look after their interest in the concern cement manufacturers of the country.

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