International Journal of Multicultural and Multireligious Understanding

http://ijmmu.com
editor@ijmmu.com
ISSN 2364-5369
Volume 10, Issue 7
July, 2023
Pages: 476-481

Increasing the Financial Capabilities and Investment Attractiveness of Enterprises

Jafar Mukhiddinovich Babakhonov

Independent Researcher, Scientific Research Center "Scientific Bases and Problems of the Development of the Economy of Uzbekistan" under the Tashkent State University of Economics, Uzbekistan

http://dx.doi.org/10.18415/ijmmu.v10i7.5034

Abstract

This article discusses such issues as the main trends in the dynamics of the financial condition and the results of the enterprise, methods for analyzing the financial potential, and also analyzes the classification groups of the total economic potential.

K*eywords:* *Financial Capabilities; Investment Attractiveness; Enterprises; Finance; Total Economic Potential; Financial Resources; Financial Potential*

Introduction

At present, with the transition of the economy to market relations, the independence of enterprises, their economic and legal responsibility is increasing. The importance of the financial stability of business entities is sharply increasing. All this significantly increases the role of the analysis of their financial condition: the availability, placement and use of funds.

In the conditions of building market relations, the process of analyzing the financial potential should be preceded by a deep financial analysis of the functioning of the enterprise on the following issues: analysis of the financial condition and determination of the financial capabilities of the enterprise. The main trends in the dynamics of the financial condition and the results of the enterprise's activities can be predicted with a certain degree of accuracy by combining formalized and non–formalized means.

The tasks of external analysis are determined by the interests of the users of the analytical material. The main ones here are: a group of such users as owners–shareholders, founders, for whom it is important to know the level of efficiency of their contributions, the amount of dividends and the prospects for the development of the enterprise; a group of numerous third–party economic entities, which consists of: creditors who must be sure that they will be repaid the debt; potential investors intending to make a decision on the contribution of their funds to the enterprise; suppliers who want to be sure of the solvency of their customers; auditors who need to recognize the financial tricks of their clients.

The results of such an analysis are needed, first of all, by owners, as well as creditors, investors, suppliers, managers and tax authorities.

Today, the real conditions of the enterprise's functioning determine the need to analyze the financial potential of the enterprise and its assessment, which allows to determine the features of its activities, shortcomings in the work and the causes of their occurrence, as well as, based on the results obtained, to identify the most rational directions for the distribution of financial resources, develop specific recommendations for optimizing activities. The results of the analysis of the financial potential of the enterprise make it possible to identify vulnerabilities that require the development of measures to eliminate them.

The main tasks of any economic organization include: maximizing profits, ensuring investment attractiveness, optimizing the capital structure and ensuring its financial stability, etc. The optimality of managerial decisions for the implementation of these tasks depends on many factors, including the quality of the analysis.

Thus, the analysis of the financial potential is a necessary measure in order to increase the capacity of the enterprise and improve the overall efficiency of economic activity. The financial potential of an enterprise is determined by the availability of sufficient financial resources and the rational structure of their attraction. The main task of managing the financial potential of an enterprise is to optimize financial flows in order to maximize the positive financial result.

In modern economic studies, the concept of the total economic potential of an enterprise has not been developed, which is associated with the ambiguity of this concept. Currently, there are various approaches to determining the economic potential of an enterprise.

In the process of studying the financial potential of an enterprise, it is required to link this concept with a more general concept of the total economic potential of an enterprise, which determines the possibilities of the latter in various fields of activity.

The authors such as E.B. Starodubtseva, B.A. Reisberg, L.Sh. Lozovsky under the economic potential understand the total ability of the enterprise's economy to carry out production and economic activities, produce products, meet social needs, determined by the involved natural resources, labor, scientific and technical potential, accumulated capital.

V.V. Kovalev considers the economic potential as the ability of an enterprise to achieve its goals, using its material, labor and financial resources. He distinguishes two sides of the economic potential: the property potential of the organization and its financial position. In his opinion, the property potential (resources acquired by the enterprise as a result of events of past periods, from which it expects economic benefits in the future) as a component of the economic potential of the enterprise is compared with the amount of borrowed funds (sources of financing) and the result of this comparison is the determination of the financial condition, which determines the possibility of further development of an economic entity and creates the result of its financial and economic activities.

In the scientific literature, potential is defined as the ability to have sufficient power to manifest any action, any activity; something that exists in a hidden form and can manifest itself under certain conditions. Potential is an opportunity, the available forces that can be put into action, used. A derivative of these concepts is the concept of potential, which refers to the degree of power, hidden opportunities in any respect, the totality of funds necessary for something.

Other sources provide a definition of the term "potential" as "… means, stocks, sources available and capable of being mobilized, put into action, used to achieve certain goals, implement a plan; solve a problem; the capabilities of an individual, society, states in a certain area".

Some sources under the potential of the enterprise mean the whole set of indicators and factors that determine its capabilities, means, stocks, abilities, resources, production reserves that can be used in economic activity.

The peculiarities of the potential of an enterprise include its probabilistic nature, since the magnitude of the potential also depends on the “weak link”–its least developed component, on changes in the quality, proportions of resources, as well as environmental conditions in which the enterprise operates.

Relying on these data makes it possible to formulate the concept of the total economic potential of an enterprise, to most fully and accurately reflect its essence. Thus, the total economic potential of an enterprise should be understood as the degree of power, the level of opportunities to ensure its competitiveness, due to the resources available to the enterprise and the ability of the enterprise to use and reproduce them effectively. The total economic potential of an enterprise is determined by the size of its production capacity, the quantity and quality of labor and financial resources, the enterprise’s access to natural resources, innovative and educational groundwork for development, and other reserves and sources of simple and expanded reproduction necessary to achieve a given level of enterprise competitiveness.

The total economic potential of an enterprise is an integrated system that combines interconnected, interdependent and production, financial, labor, innovative, natural and educational potentials.

In direct dependence on the financial potential, its size and efficiency, is the production potential of the enterprise. It represents the production capacity of the enterprise and is determined by the presence of material factors of production, the size of the capital of the enterprise, that is, the potential volume of production, the potential of fixed assets, the potential use of raw materials and materials. This is explained by the fact that the level of development of labor potential affects the possibility of increasing labor productivity, which, in turn, determines the possibility of increasing production capacity and profit.

The production potential can increase depending on the size and quality of financial potential, as well as due to obtaining easy access to natural resources, and the total economic potential of the enterprise as a whole is determined by the ability of the enterprise to involve financial and natural resources in production (that is, natural and financial potential).

The identifying the problems facing the enterprise and solving them, interacting with other elements of the general economic potential, using the necessary knowledge to create and provide conditions for increasing the level of the enterprise’s strength, enlightening the enterprise’s employees increasing the labor potential and strengthening competitiveness are considered to be the most important aspects of economic growth.

The economic potential and competitiveness of an enterprise directly depend on the interaction of production, financial, labor, educational and innovative potential (embodying the existing scientific and technical reserve) creates the possibility of timely implementation and implementation of research and developments in production, which allows to provide high competitiveness of manufactured products.

Depending on the structure of resources that form the aggregate economic potential, the structure of investments in the formation and development of the aggregate economic potential, as well as on the prevailing development factor, the following classification groups of the aggregate economic potential can be distinguished: cumulative economic potential with a high share of costs for the formation of production potential; aggregate economic potential with a high share of costs for the formation of financial potential, which is typical for holding companies; aggregate economic potential with a high share of costs for the formation of labor potential (typical for enterprises with labor–intensive production); cumulative economic potential with a high share of costs for the formation of scientific, technical and educational potential (enterprises with knowledge–intensive production that requires the use of high technologies); cumulative economic potential with a high share of costs for the involvement of natural resources in production.

There is another approach, according to which the components of the potential of an industrial enterprise should include: market potential: potential demand for products and the market share occupied by the enterprise, the potential volume of demand for the products of the enterprise, the enterprise and the labor market, the enterprise and the market for factors of production; production potential: the potential volume of production, the potential of fixed assets, the potential use of raw materials and materials, the potential of professional personnel; financial potential: potential financial indicators of production (profitability, liquidity, solvency), potential investment opportunities.

The assessment of the market potential at the current time has already been studied in detail and described by many authors in the process of analyzing the country's transition to a market economy. However, the problem of effective assessment of the financial and, especially, the production potential of an industrial enterprise remains open.

The analysis of scientific literature in the field of financial management, as in the case of determining the essence of the total economic potential of an enterprise, also does not give an exhaustive concept of financial potential.

Other authors understand financial potential as a set of financial and economic resources of an enterprise that ensure its progressive development and independence. The factors that form the financial potential are: financial stability of the enterprise; the ability to accurately and timely fulfill their financial obligations; investment opportunities of the enterprise; the possibility of attracting additional financial resources; efficiency of capital use (own and borrowed); asset management efficiency; risk management policy used.

The source of financial potential formation is financial, investment and credit resources. The financial resources are monetary incomes, savings and receipts at the disposal of an economic entity and intended for the fulfillment of financial obligations, the implementation of simple and extended reproduction and economic stimulation costs in the enterprise.

The formation of financial resources is carried out at the expense of own and borrowed funds. Initially, financial resources appear at the time of the establishment of the enterprise and are reflected in the authorized capital.

The credit resources are needed for the enterprise, because during fluctuations in the needs of financial resources, their availability may not be equal, it is necessary to assess the possibility for the enterprise to repay the borrowed funds with interest on time, if possible, since costs automatically increase.

The essence of financial potential management lies in the effective use of the financial mechanism to achieve the strategic and tactical goals of the enterprise. The most important aspect of the financial potential is not the availability of financial resources as such at a particular point in time, but the ability of the enterprise to recreate the necessary assets in the shortest possible time, in full and with minimal losses. This aspect is very important because in the era of fierce competition, all the resources of the enterprise are involved in production and quite stringent requirements are imposed on them in terms of efficiency of use. Therefore, the company is simply unable to keep any significant reserves for probable fluctuations in business activity. This is, perhaps, the main essence of the concept of potential: "not to have now, but the ability to create".

The existence of the financial potential of an enterprise is possible under the following conditions: availability of own capital sufficient for the implementation of current activities while meeting the minimum necessary conditions for liquidity and financial stability; the possibility of attracting borrowed capital as an indicator of the development of the enterprise; return on invested capital.

The financial potential is reflected in the total cash flow of the enterprise. It is to the structures that the composition of the cash flow reflects the current state of the enterprise's potential and trends in its change.

The financial potential is characterized by the financial independence of the enterprise, its financial stability and creditworthiness.

Among the most likely reasons for the unstable financial condition include: unsatisfactory structure of the property of the enterprise; drop in the degree of liquidity; production of low quality products; a significant share of overdue receivables and payables; low level of own sources; violation of financial balance, and, accordingly, instability; providing financial resources to the enterprise; irrational structure and ratio of assets and liabilities; low level of capacity utilization.

Most authors of modern publications identify financial potential with financial resources. But these two concepts are not identical, although they are close in content.

The financial resources of an enterprise are all sources of funds accumulated by an enterprise to form the assets it needs in order to carry out all types of activities both at the expense of its own income, savings and capital, and at the expense of various kinds of receipts. Today, attracted funds in the form of a bank loan, loans, accounts payable, equity participation, etc. play an important role in the formation of financial resources. The enterprise should be guided by the general principles of maximizing profitability and minimizing risks.

P.A. Fomin, M.K. Starovoitov proposes another definition of the financial potential of an enterprise. The financial potential of an industrial enterprise is the relationship that arises in an enterprise regarding the achievement of the highest possible financial result, provided that: availability of own capital sufficient to meet the conditions of liquidity and financial stability; the possibility of attracting capital in the amount necessary for the implementation of effective investment projects; return on invested capital; availability of an effective financial management system that ensures transparency of the current and future financial condition.

Thus, based on the proposed definition, financial potential means the ability of an enterprise to achieve its goals of maximizing financial performance, effectively operating and using its financial resources.

References

Anishchenko Yu.A. Management of the financial potential of the enterprise [Electronic resource] / Yu.A. Anischenko.

Bancheva, A. Management of the financial potential of the organization // Marketing. No.4., 2007. p. 24–34.

Fomin, P.A., Starovoitov, M.K. Features of assessing the production and financial potential of an industrial enterprise // Secondary vocational education. No.11., 2012. p. 24–37.

Kovalev, V.V., Volkova, O.N. Analysis of the economic activity of the enterprise. M.: PBOYuL, 2001. p. 424.

Kuvshinov, D.A. Financial state of the enterprise // Finance. 2007. No. 6. p. 80–86.

Merzlov, I.Yu. Management of the financial potential of the enterprise [Electronic resource] / I.Yu. Merzlov.