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REVIEW OF THE MANAGEMENT SYSTEM OF CORPORATE CASH FLOW

The article deals with theoretical and methodological analysis of the essence of the term "cash flow management". There are considered approaches of national and foreign authors as to the identification of cash flow management; there is made a comparison between the terms "cash flow management" and "cash management". The critical analysis showed that the vast majority of the authors does not emphasize on peculiarities of formation, control, origin and functions of cash flows while identifying their place in the whole system of corporate management. There is made an assumption that corporate cash flow management may be considered as a purposeful influence of the process of formation, distribution and use of funds at an enterprise. The emphasis was made on application of the system of principles, functions and methods of cash flow management while making managerial decisions.

Keywords: cash flows, corporate cash flow management, cash management, stages of cash flow management, process of cash flow management, purposes of cash flow management, functions of cash flow management.

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ОГЛЯД СИСТЕМИ УПРАВЛІННЯ ГРОШОВИМИ ПОТОКАМИ НА ПІДПРИЄМСТВІ

Стаття присвячена теоретичному та методологічному аналізу сутності поняття "управління грошовими потоками підприємства". Розглянуто підходи вітчизняних та зарубіжних авторів до ідентифікації поняття "управління грошовими потоками підприємства"; наведено порівняння понять: управління грошовими потоками підприємства та управління грошовими коштами підприємства. Критичний огляд довів, що більшість авторів не наголошує на особливостях формування, контролю, походження та функцій грошових потоків при визначенні їх місця в загальній системі корпоративного менеджменту. Зроблено припущення, що управління грошовими потоками підприємства може бути розглянуто як цілеспрямований вплив процесу формування, розподілу та використання активів підприємства. Наголос зроблено на використанні системи принципів, функцій та методів управління грошовими потоками при прийнятті управлінських рішень.

Ключові слова: грошові потоки, управління грошовими потоками підприємства, управління грошовими коштами підприємства, стадії управління грошовими потоками, процес управління грошовими потоками, цілі управління грошовими потоками, функції управління грошовими потоками.

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ОБЗОР СИСТЕМЫ УПРАВЛЕНИЯ ДЕНЕЖНЫМИ ПОТОКАМИ ПРЕДПРИЯТИЯ

Статья посвящена теоретическому и методологическому анализу сущности понятия "управление денежными потоками предприятия". Рассмотрены подходы отечественных и зарубежных авторов к идентификации понятия "управление денежными потоками предприятия"; приведено сравнение понятий управления денежными потоками предприятия и управления

денежными средствами предприятия. Критический обзор показал, что большинство авторов не отмечает особенности формирования, контроля, происхождения и функций денежных потоков при определении их места в общей системе корпоративного менеджмента. Сделано предположение, что управление денежными потоками предприятия может быть рассмотрено как целенаправленное воздействие процесса формирования, распределения и использования активов предприятия. Акцент сделан на использовании системы принципов, функций и методов управления денежными потоками при принятии управленческих решений.

Ключевые слова: денежные потоки, управление денежными потоками предприятия, управление денежными средствами предприятия, стадии управления денежными потоками, процесс управления денежными потоками, цели управления денежными потоками, функции управления денежными потоками.

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Introduction. Cash flow management is an important part of the general management system of financial activities. It enables solving acute problems of financial management and it complements its main goal. If a company does not manage cash flow correctly, it may critically run out of cash, be forced into high-interest short-term financing or even fail altogether. Because of this every business should have a system of cash flow management to know its current financial state, and, what is the most important, to plan its future financial moves.

Literature review. The essence of cash flow management is considered by many scholars: by I.T. Balabanov [1], N.S. Barabash [2], I.O. Blank [3], V.V. Bocharov [4], Z.V. Herasymchuk [5], H.H. Kireytsev [6], L.A. Kovalenko [7], O.N. Krushelnytskiy [8], M. Mawdesley [9], A.A. Mazaraki [10], I.J. Nevmerzhiyskiy [11], A.M. Poddyeryohin [12], R.Reider [13], etc. but there still remains misunderstanding in defining corporate cash flow management, its role and objectives in a company's functioning; the terms of cash flow management and cash management and the difference between them are not discriminated.

The aim of the paper is to make a critical observation of modern standpoints about the essence and purposes of corporate cash flows and to complement them emphasizing on specific principles and methods which are used in description of cash flows in modern science.

Results. Among the scholars, there are many approaches to determine the essence of corporate cash flows management, for example, U.Y. Rolko notes that "cash flow management is one of the most important segments of financial performance at an enterprise, that is why both current results and future growth rates of an enterprise depend on how efficiently a company is organized" [14, p. 98]. Such understanding is quite simple and in general it is true but the emphasis is made only on the importance of corporate cash flow as it is; at the same time, it does not reveal the peculiarities of the essence of cash flow management and the differences between this sphere of management and other management processes which also influence a company's functioning.

O.N. Krushelnytskiy supposes that "corporate cash flow management involves identifying the reasons of cash flow deficit in a company, i.e. the factors that cause a shortfall in the required amount of cash inflows and the factors that influence the increase of cash outflows in order to neutralize their effects" [8, p. 23]. This interpretation is narrowed because it does not take into consideration the possibility of surplus cash flows which may testify to inefficient use of timely free funds and thus, it also requires proper measures in order to balance them.

A.M. Poddyeryohin defines cash flow management as "maintenance of an appropriate level of liquidity and solvency of a business entity which is achieved by the appropriate organization of cash flows over time" [12, p. 162]. This interpretation does not show methods or means of cash flows management and does not include the impact of different features of corporate cash flows, with the exception for the two above mentioned.

V.V. Bocharov thinks that "cash flow management involves identification of cash flows by types, determining the total cash flow over the period, its distribution during different periods, and assessment and analysis of factors" [4, p. 479]. This understanding of the process of management involves substantially separate processes or stages of cash flow management but there is not mentioned the aspect of cash flows formation and control.

L.A. Kovalenko and L.M. Remnova suggest that "cash flow management presupposes a goal-directed impact on the process of cash accumulation, its spending and redistribution in order to

balance financial and economic activities of an enterprise" [7, p. 301]. This definition does not include an explanation of the methods or tools due to which cash management process of a company can be implemented.

I.O. Blank notes that "corporate cash flow management is a system of principles and methods for developing and implementing managerial decisions related to formation, distribution and use of funds of a company and its turnover" [3, p. 278]. This interpretation is the most generalized and accurate in terms of the essence, features and characteristics of the process of cash flow management.

Webster's New World Finance and Investment Dictionary offer such definition of cash flow management: "the process of planning a company's schedule for paying bills and estimating when income is likely to be received. Cash flow management helps a company avoid damaging its relationship with creditors by not paying bills on time and being forced into bankruptcy" [15]. Such definition, in our opinion, may take place because it reflects some aims of cash flow management but it is not complex, for example using the process of cash flow management companies are dealing not only with creditors to maintain normal financial state; their relations with debtors are also quite important because they are a source of cash inflow that may cover bills.

In the Dictionary of Construction one can find such a definition: "cash flow management is the planning of project expenditures relative to income or authorized funding in such a way as to minimize the carrying cost of the financing of the project to keep within the constraints of a time-phased budget. This may be achieved by accelerating or delaying some activities but at the risk of ineffective performance, late completion and consequent increased cost" [16]. This definition is generally correct but it outlines only costs minimization of financing of a project; at the same time, we know that this is not the only purpose of cash flow management; a company also strives to have appropriate level of liquidity and solvency in the process of cash flow management considering risks and other factors.

M. Mawdesley, W. Askew and M. O'Reilly understand cash flow management as the process that include financial plan which represents the planned position throughout a project and as such is concerned with the income, expenditure and net cash flow, this enables the cash flow situation to be monitored using approaches such as pre-project cash flow plan or forecast, project phase monitoring/updating and monthly cost/value reconciliation [9]. Such understanding is appropriate but the process of cash flow management may be connected not only with financial plans, we understand that this is day-to-day management which often may be greatly changed under the impact of market conditions and considering internal state of a company; so in order to manage efficiently the companies cannot always fulfil their initial financial plans.

R.Reider and P.B. Heyler consider cash flow management as the most important key of business success which helps company in operational process and influences its long-run position [13]. This understanding of cash flow management is closely connected with a real business activity when companies need to operate their cash flow effectively in order to remain stable and have opportunities for the future growth.

Foreign scientific resources [9, 13] often introduce the term "cash management" for describing the processes, tool and methodology which are used in cash flow management; thus, the last notion becomes identical to that of cash management. In our opinion, it would be better to use the term "cash flow management", the main reason for this is understanding of the difference between "cash" and "cash flow" by both native and foreign scientists. "Cash is ready money in a bank or in business. Cash flow refers to the movement of cash into and out of a business" [17]. Taking into account this perception, the term "cash management" may be considered as narrower and remains a component of corporate cash flow management.

Analyzing all the above mentioned definitions, we can assume that corporate cash flow management is a purposeful influence on the process of formation, distribution and use of funds, applying the system of principles and methods of making and implementing managerial decisions.

Formulation of the main goal of cash flow management has changed with the development of financial management and economists' views, while there often exists a confusion of identification of the goals and objectives of the corporate cash flow management.

N.S. Barabash, M.O. Nykonovych noted that "the main purpose of cash flow management is to ensure financial balance of an enterprise in the process of its functioning and development by balancing inflows and outflows of funds and representing such changes in accounting" [2, p. 167]. In our opinion, in this case, the objective of management includes its main task which essentially provides basic understanding of the necessity of cash flow management, pointing on the main essential difference between cash flows and other processes of financial management.

I.O. Blank considers the main purpose of cash flow management which is: "providing maximization of owners' welfare in a company at present and in the future periods" [18, p. 135]. This definition of the purpose is the most general and meets the main goal of a company which is logical because cash flow management is part of company's activity.

In our opinion, the main objective of corporate cash flow management is to ensure growth of the market value of a company by keeping its financial equilibrium with cash flows balancing and synchronization.

A.A. Mazaraki defines the main objectives of cash flow management which are: "to ensure sustainable solvency and to optimize cash inventories" [10, p. 579].

I.T. Balabanov thinks that "the main objectives of corporate cash flow management are formation of sufficient bulk of funds to meet the needs of economic activity implementation and to balance cash flows and synchronize them over time" [1, p. 297].

According to Z.V. Herasymchuk and I.M. Vahovych, the objectives of cash flow management are: "balancing cash flows by the types of business activity, finding a compromise between the needs to provide liquidity of the funds and the desire to invest available cash in order to increase its profitability, balancing the bulk of inpayments and expenditures of funds over time" [5, p. 274].

In the process of cash flow management goal implementation, I.O. Blank specifies a number of tasks, including: 1. Formation of sufficient cash resources to meet the needs of a company's activity. 2. Optimization of available financial resources by types of economic activities and areas of use. 3. Ensuring financial stability. 4. Ensuring corporate dynamic solvency. 5. Maximization of a net cash flow which ensures the given economic growth rates of a company in terms of self-financing. 6. Ensuring minimization of the loss of the funds value in the process of their economic use at an enterprise [3, p. 295].

Such tasks of corporate cash flow management definitely take place; in our opinion, they should be considered aggregated, namely in terms of operating, financial and investment activity of a company. Thus, we consider that, it is feasible to complement the above mentioned tasks of cash flow management by other ones, such as: optimization of cash outflow and maximization of cash inflow in terms of investment activity of a company.

Cash flow management system implements its main purpose and main tasks by performing certain functions. Cash flows functions are outlined the most completely in the book "Corporate cash flow management" written by I.O. Blank [18].

Functions of corporate cash flow management are divided into two main groups:

1. Functions of cash flow management as a management system (common functions). These functions are part of any managerial process. They are:

- development of policy of corporate cash flow management,
- creation of effective information systems of corporate cash flow management which provide alternative arguments for managerial decisions,
- analysis of cash flows formation,
- cash flows planning,
- development of an effective system of stimulation of implementing the managerial decisions concerning cash flows formation,
- providing effective control over implementation of managerial decisions concerning cash flows formation.

2. Functions of cash flows management as a special area of corporate management (specific functions). They are:

- cash flow management in operating activity of an enterprise,
- cash flow management in investment activity of an enterprise,

- cash flow management in financial activity of an enterprise [18, p. 138].

The scholars A.M. Poddyeryogin and I.J. Nevmerzhitsky consider four stages of cash flow management: planning, implementation, controlling and correction [11, p.138]. Planning is considered as a process that combines planning, forecasting and preparation of internal financial documents; implementation is considered as a process of direct consolidation with operating, investment and financial activities; controlling is considered as a set of measures for systemizing, analyzing, and monitoring cash flow budget and planned indicators of the cash flow statement fulfilment; correction involves changing of the planned indicators according to the changes of external and internal terms of cash flows budget implementation. We suggest that a significant disadvantage of this understanding of cash flow management process is the absence of the stage of cash flow analysis for the previous period because this formulation may concern only new businesses and it is definitely more feasible to analyze dynamics of cash flows for efficient cash management of an existing enterprise.

H.H. Kireytsev identifies the following components of a cash flow management process: calculation of time of cash turnover, cash flow analysis and its forecast, determination of the optimal level of funds, formation of cash budgets [6, p. 232]. In this representation there is no process of the company cash flows control that is why it is unacceptable both in terms of actual cash flows of a company and other elements of financial management.

I.O. Blank defines the following stages of cash flow management: cash flow analysis for the previous period, investigation of the factors which influence the corporate cash flows, expanding a choice of a type of cash flow management policy, a choice of direction and methods of cash flows optimization, cash flows planning according to their different types, providing effective control over corporate cash flows [3, p. 296].

In our view, the necessity to single out different cash flow management steps in a company is the most acute and meets the objectives of cash flows. We offer to supplement the existing algorithm by adding another one step which is aimed at ensuring full and fair accounting of corporate cash flows provided by statements that are relevant for the existing businesses, as this is an absolute prerequisite for making a realistic analysis of cash flows, choosing management policy which determines the direction of managing cash flow, using appropriate principles, methods and tools and also peculiarities of planning and controlling corporate cash flows efficiently.

Thus, considering everything that was mentioned before, we suggest a block diagram of the process of corporate cash flow management (figure 1).

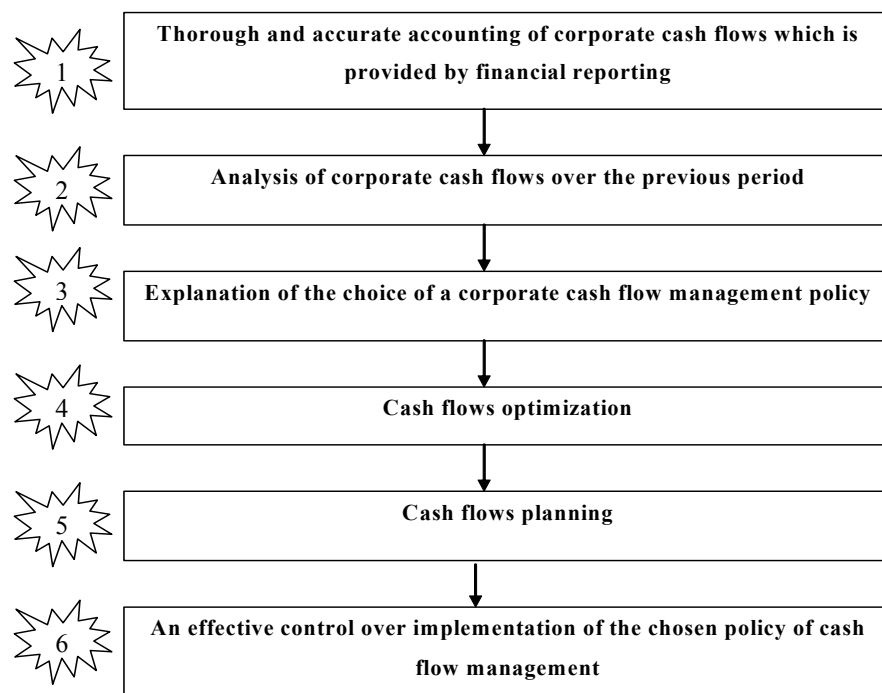


Fig.1. Block diagram of the process of corporate cash flow management

Conclusion. According to the investigated by the scholars approaches to determine the essence of corporate cash flow management, its goals, tasks and stages of implementation, we made a block-diagram of cash flow management process which, in our opinion, will ensure more efficient cash flow management that is important for every business and its activity. In the future, such a diagram may be developed by pointing a more detailed description of the essence of the stages and explaining the means which help provide these stages of management.

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