



IMPROVING APPROACHES TO STRENGTHENING THE FINANCIAL STABILITY OF ENTERPRISES

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Article history:		Abstract:
Received:	28 th April 2026	Financial stability is one of the fundamental conditions for the sustainable operation, competitiveness, and long-term development of enterprises. In an environment characterized by inflationary pressures, volatile financial markets, increasing borrowing costs, supply-chain disruptions, and uncertainty in demand, enterprises need to improve not only their profitability but also their liquidity, solvency, capital structure, and risk-management systems. This article examines the main approaches to improving enterprise financial stability and develops practical recommendations for their enhancement. The study applies a systematic literature review, comparative analysis, financial-ratio approach, and synthesis of theoretical and empirical findings from international research and institutional reports. The results indicate that financial stability should be managed as an integrated system rather than through isolated improvement of individual financial indicators. Particular importance should be given to optimizing working capital, maintaining adequate liquidity reserves, diversifying financing sources, controlling financial leverage, improving profitability, introducing early-warning systems, and strengthening financial planning. The study also argues that digital financial management and scenario-based planning can significantly improve enterprises' ability to anticipate financial risks. The proposed approach can be applied by enterprises of different sizes and sectors, particularly small and medium-sized enterprises that face greater constraints in accessing external finance.
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INTRODUCTION

Financial stability is an essential prerequisite for the continuity and sustainable development of an enterprise. A financially stable enterprise is generally capable of meeting its short-term and long-term obligations, maintaining sufficient liquidity, financing productive investment, absorbing external shocks, and generating sustainable profits. Financial stability therefore extends beyond the traditional concept of profitability and incorporates the interconnected dimensions of liquidity, solvency, capital structure, cash-flow management, operational efficiency, and financial risk.

The importance of enterprise financial stability has increased considerably in recent years. Enterprises operate in an environment affected by changing interest rates, inflation, geopolitical uncertainty, technological transformation, supply-chain disruptions, and fluctuations in consumer demand. These factors can rapidly affect cash flows and financing conditions. The

latest OECD evidence shows that financing conditions for small and medium-sized enterprises remain challenging, while the diversification of financing instruments and the strengthening of long-term investment are increasingly important for enterprise resilience and competitiveness [1]. The OECD also reports that access to finance remains a structural constraint for many SMEs and that firms with limited financial resources are particularly vulnerable to rising costs and economic uncertainty [2].

Financial stability is closely connected with working capital management. Working capital determines an enterprise's ability to finance its everyday operations and meet short-term obligations. Recent empirical research on European SMEs demonstrates that the relationship between working capital investment and profitability is not linear: excessive working capital can reduce profitability, while insufficient working capital can create liquidity problems [3]. Earlier research similarly found an inverted U-shaped relationship



between working capital investment and firm performance, suggesting that enterprises should seek an optimal rather than simply a high level of working capital [4].

Capital structure is another major component of financial stability. Excessive dependence on borrowed capital can increase interest expenses, refinancing risks, and the probability of financial distress. At the same time, an excessively conservative capital structure may limit investment and growth opportunities. Myers' capital-structure research emphasizes the importance of balancing debt financing with internal funds and maintaining financial flexibility [5]. Myers and Majluf further demonstrated that information asymmetry can influence financing decisions and encourage firms to rely on internal financing before seeking external sources [6].

The traditional financial-ratio approach also remains relevant. Liquidity, profitability, leverage, activity, and solvency ratios can provide managers with early signals of deterioration in the financial condition of an enterprise. Altman's pioneering research demonstrated that combinations of financial ratios could be used to identify firms with a higher probability of financial distress [7].

Despite the substantial literature on financial management, many enterprises continue to treat financial stability as a consequence of profitable operations rather than as a separate strategic management objective. This approach can be problematic because an enterprise may report accounting profits while simultaneously experiencing cash-flow shortages, excessive debt, or inefficient working capital.

Therefore, the objective of this study is to identify and systematize the most effective approaches to improving enterprise financial stability and to develop an integrated framework for their practical implementation.

The main research questions are:

1. What financial factors have the greatest influence on enterprise financial stability?
2. How can working capital and liquidity management be improved?
3. How can enterprises optimize their capital structure and reduce financial risks?
4. What management mechanisms can improve the long-term financial resilience of enterprises?

LITERATURE REVIEW

Academic publications concerning working capital management, capital structure, financial constraints,

corporate performance, and financial distress were reviewed. Particular attention was given to empirical studies examining the relationship between financial management decisions and enterprise performance.

The theoretical foundation includes the capital-structure theories associated with Modigliani and Miller, Myers, and Myers and Majluf, as well as research on working capital management and corporate financial distress [5–8].

Financial stability can be assessed through a set of interrelated indicators. The following groups of indicators are particularly useful:

Liquidity indicators

Current Ratio:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Quick Ratio:

$$QR = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

These indicators measure an enterprise's capacity to meet short-term obligations.

Solvency and leverage indicators

Debt-to-Equity Ratio:

$$D/E = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}$$

Debt Ratio:

$$DR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

These indicators help determine the extent to which enterprise assets are financed through debt.

Profitability indicators

Return on Assets:

$$ROA = \frac{\text{Net Profit}}{\text{Average Total Assets}} \times 100$$

Return on Equity:

$$ROE = \frac{\text{Net Profit}}{\text{Average Equity}} \times 100$$

Profitability indicators demonstrate the enterprise's ability to generate financial returns from its resources.

RESULTS

The analysis indicates that enterprise financial stability depends on several interconnected factors rather than one individual financial indicator. The most important areas for improvement are liquidity management, working capital optimization, capital-structure management, profitability enhancement, risk management, financial planning, and financing diversification.

Improving liquidity management

Liquidity is the first line of financial defense for an enterprise. Even profitable enterprises may encounter financial difficulties when cash inflows do not arrive on time to cover current obligations.

Therefore, enterprises should establish minimum liquidity reserves based on their operating-cycle characteristics. Instead of maintaining an unnecessarily



large volume of idle cash, firms should determine an economically justified liquidity buffer.

Cash-flow forecasting should become a regular management process. Enterprises can prepare:

- weekly operational cash-flow forecasts;
- monthly cash budgets;
- quarterly liquidity scenarios;
- annual financing plans.

A rolling cash-flow forecast is particularly useful because it allows managers to identify potential liquidity shortages before they occur.

The OECD's recent analysis emphasizes that restricted access to finance can directly affect SME liquidity and investment capacity, highlighting the importance of strengthening internal financial resilience [1].

Optimizing working capital

Working capital optimization is one of the most practical ways to improve financial stability.

Enterprises should pay particular attention to three components: inventories, accounts receivable, and accounts payable.

First, inventory levels should correspond to actual demand. Excessive inventories increase storage costs and tie up financial resources. At the same time, excessively low inventories may interrupt production and cause lost sales.

Second, enterprises should strengthen accounts-receivable management. Credit limits, customer scoring, payment deadlines, advance payments, and systematic monitoring of overdue receivables can reduce the risk of cash-flow disruptions.

Third, payment terms with suppliers should be negotiated carefully. Extending payment periods may improve short-term liquidity, but excessive delays can damage supplier relationships and increase future financing costs.

Academic evidence indicates that there is an optimal level of working capital investment rather than a simple rule that either higher or lower working capital is always preferable [3,4]. Consequently, enterprises should develop sector-specific working-capital targets.

DISCUSSION

The findings indicate that financial stability should be viewed as a multidimensional management objective. A firm may have a satisfactory current ratio but still face financial instability because of excessive debt or weak profitability. Similarly, a profitable enterprise can experience financial distress if customers delay payments or if excessive inventories absorb available cash.

This means that individual financial ratios should not be interpreted independently. A more effective approach is to analyze liquidity, profitability, leverage, activity, and cash flow simultaneously.

The results concerning working capital are consistent with previous empirical research. Baños-Caballero, García-Teruel, and Martínez-Solano found an inverted U-shaped relationship between working capital investment and corporate performance, suggesting that both excessive and insufficient working capital can be problematic [4]. More recent research based on EU SMEs also identifies an optimal level of working capital investment and shows that financially constrained firms are particularly sensitive to deviations from that optimum [3].

These findings have important managerial implications. Enterprises should not adopt a universal policy such as "minimize inventory" or "maximize liquidity." Instead, financial policies should be based on the characteristics of the enterprise's production cycle, customer behavior, supplier relationships, industry risks, and access to finance.

Capital structure is equally important. Theoretical research suggests that financing decisions are influenced by the cost of debt, financial distress, information asymmetry, and the availability of internal funds [5,6]. This implies that the optimal capital structure cannot be determined exclusively by applying a fixed debt-to-equity ratio.

Financial flexibility should therefore be regarded as a strategic asset. An enterprise with moderate leverage and sufficient unused borrowing capacity can respond more effectively to unexpected investment opportunities or temporary cash-flow shocks.

The importance of financing diversification has also increased. According to the OECD, SME financing conditions remain affected by uncertainty, while alternative financing mechanisms such as asset-based finance, equity, and fintech-related instruments are becoming increasingly relevant [1]. Consequently, enterprises should establish relationships with several financial institutions and explore financing instruments appropriate to their business models.

Another important implication is the growing role of digital financial management. Accounting and enterprise-resource-planning systems can provide managers with faster information about receivables, inventories, expenses, cash flows, and debt obligations. When combined with forecasting tools, these systems can facilitate early identification of financial risks.

However, digitalization alone does not guarantee financial stability. Its effectiveness depends on the



quality of financial data, managerial competence, internal controls, and the ability of management to translate information into timely decisions.

The analysis also suggests that financial stability should be integrated with strategic planning. Financial decisions should support productive investment, innovation, human capital development, and market expansion. Excessive financial conservatism may protect short-term liquidity but reduce long-term competitiveness.

Thus, the most effective model is a balanced financial-stability system based on five principles:

1. **Liquidity protection** — maintaining sufficient cash and liquid assets.
2. **Capital efficiency** — ensuring that financial resources generate adequate returns.
3. **Debt discipline** — controlling leverage and refinancing risks.
4. **Financing diversification** — reducing dependence on one source of capital.
5. **Forward-looking risk management** — using forecasting and early-warning indicators.

CONCLUSION

The study concludes that improving enterprise financial stability requires an integrated and continuous financial-management approach. Financial stability should not be reduced to a single indicator such as profitability, liquidity, or debt ratio. Instead, it should be understood as the enterprise's ability to maintain liquidity, meet financial obligations, generate sustainable profits, manage debt, finance investment, and withstand economic shocks.

The most important directions for strengthening financial stability include the optimization of working capital, improvement of cash-flow management, development of effective receivables policies, rational inventory management, balanced capital-structure formation, diversification of financing sources, improvement of operational profitability, and implementation of early-warning risk systems.

Enterprises should also adopt scenario-based financial planning and use digital technologies to improve the speed and quality of financial decision-making. Special attention should be given to SMEs because their access to external financing is often more restricted and their liquidity positions can be more vulnerable to economic shocks.

The practical contribution of this study is the proposed integrated approach in which financial stability is managed through the simultaneous coordination of liquidity, profitability, working capital,

capital structure, financing diversification, and risk management.

Ultimately, sustainable financial stability is not achieved through a single financial decision. It is the result of consistent financial discipline, efficient use of resources, appropriate financing decisions, effective risk management, and the ability of management to anticipate changes in the business environment.

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