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IMPROVING THE FINANCIAL MECHANISM OF ENTERPRISES: A MODERN APPROACH TO FINANCIAL MANAGEMENT

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Abstract:
The financial mechanism of an enterprise plays a fundamental role in ensuring financial stability, efficient allocation of resources, investment activity, and sustainable economic development. In the context of increasing market competition, digital transformation, inflationary pressures, and changes in financial markets, enterprises need to continuously improve their financial management mechanisms. This article examines the theoretical and practical aspects of improving the financial mechanism of enterprises. The study focuses on the optimization of financial planning, effective management of financial resources, improvement of cash flow management, strengthening of financial control, and implementation of digital financial technologies. The research applies comparative analysis, systematic analysis, and financial management approaches to identify the major factors influencing the effectiveness of enterprise financial mechanisms. The results demonstrate that the integration of strategic financial planning, digital technologies, risk management, and performance-based financial control can significantly improve the financial sustainability and competitiveness of enterprises. The study concludes that an effective financial mechanism should be flexible, transparent, technology-oriented, and closely aligned with the strategic objectives of an enterprise.

Keywords: *financial mechanism, enterprise, financial management, financial resources, financial planning, cash flow, financial control, digitalization, financial stability.*

1. INTRODUCTION

In modern economic conditions, the effective management of financial resources has become one of the most important factors determining the sustainability and competitiveness of enterprises. Financial resources provide enterprises with the opportunity to finance current operations, invest in development projects, introduce new technologies, expand production capacity, and fulfill financial obligations. Therefore, the quality of the financial mechanism directly affects the overall efficiency of an enterprise.

The financial mechanism of an enterprise can be defined as a system of financial methods, instruments, principles, and organizational measures used to form, distribute, and utilize financial resources. It includes financial planning and forecasting, budgeting, financial analysis, taxation, credit management, investment decisions, cash flow management, financial control, and risk management.

The contemporary business environment is characterized by rapid technological development, economic uncertainty, increasing competition, and changing consumer demand. These factors create new requirements for enterprise financial management. Traditional approaches based mainly on historical financial information may not provide sufficient support for timely and effective decision-making. Enterprises increasingly need real-time financial information, accurate forecasting, automated accounting systems, and modern analytical tools.

The purpose of this study is to analyze the main directions for improving the financial mechanism of enterprises and to identify practical measures that can increase financial efficiency, stability, and competitiveness.

The main research objectives are:

- to examine the theoretical foundations of the financial mechanism of enterprises;
- to identify the major problems affecting the effectiveness of enterprise financial management;
- to analyze modern approaches to improving financial planning and resource management;
- to determine the role of digital technologies in improving financial management;
- to develop recommendations for strengthening the financial sustainability of enterprises.

2. METHODS

The study applies a combination of theoretical and analytical research methods. A systematic approach is used to examine the financial mechanism as an integrated system consisting of interconnected financial processes and instruments.

The **comparative analysis method** is used to identify differences between traditional and modern approaches to enterprise financial management. The **systematic analysis method** is applied to examine the relationship between financial planning, financing decisions, cash flow management, investment activity, and financial control.

The study also applies elements of **financial ratio analysis**. Important indicators for evaluating the financial condition of enterprises include liquidity, solvency, profitability, financial independence, and asset turnover.

For example, the current ratio can be calculated as:

Current Ratio = Current Assets / Current Liabilities

This indicator demonstrates the ability of an enterprise to meet its short-term financial obligations.

The profitability of assets can be assessed using:

ROA = Net Profit / Average Total Assets × 100%

Return on assets indicates how effectively an enterprise uses its assets to generate profit.

The study also considers qualitative factors, including the quality of financial planning, effectiveness of internal control, level of digitalization, financial risk management, and the competence of financial managers.

Based on these methods, the research develops a conceptual framework for improving the financial mechanism of enterprises.

3. RESULTS

The analysis demonstrates that improving the financial mechanism of enterprises requires simultaneous development in several interconnected areas.

3.1. Improvement of Financial Planning

Financial planning is one of the core components of the financial mechanism. An effective financial planning system allows enterprises to forecast revenues and expenditures, determine financing requirements, and identify potential financial risks.

Enterprises should move from short-term and mainly retrospective planning toward strategic and scenario-based financial planning. Financial plans should include several scenarios, such as optimistic, realistic, and pessimistic scenarios. This approach enables enterprises to respond more effectively to changes in market conditions.

The use of rolling forecasts can also improve financial planning. Instead of preparing a financial forecast only once a year, enterprises can regularly update their forecasts based on current financial and market information.

3.2. Optimization of Financial Resource Management

Efficient financial resource management requires the rational allocation of available funds among operational, investment, and strategic activities. Enterprises should establish clear priorities for the use of financial resources.

Particular attention should be given to working capital management. Excessive working capital may reduce the efficiency of resource utilization, while insufficient working capital can create liquidity problems.

Therefore, enterprises should optimize inventory levels, accelerate accounts receivable collection, and negotiate favorable payment conditions with suppliers.

3.3. Improvement of Cash Flow Management

Cash flow management is another critical element of financial stability. An enterprise may have accounting profits but still experience financial difficulties if cash inflows and outflows are poorly coordinated.

To improve cash flow management, enterprises should:

- prepare regular cash flow forecasts;
- monitor accounts receivable and accounts payable;
- establish minimum liquidity reserves;
- optimize payment schedules;
- accelerate collection of receivables;
- monitor major cash expenditures.

Effective cash flow management reduces the probability of liquidity crises and improves the enterprise's ability to finance its operational activities.

3.4. Strengthening Financial Control

Internal financial control contributes to the prevention of inefficient expenditures, fraud, errors, and financial losses. A modern financial control system should not be limited to checking historical transactions. It should also provide continuous monitoring and early identification of financial risks.

The implementation of key performance indicators (KPIs) can make financial control more effective. KPIs may include revenue growth, operating margin, return on assets, cash conversion cycle, debt-to-equity ratio, and cost efficiency.

3.5. Digitalization of Financial Management

Digital transformation provides significant opportunities for improving enterprise financial mechanisms. Modern accounting and financial management systems can automate routine operations, improve data accuracy, and provide managers with timely information.

The use of enterprise resource planning systems, business intelligence tools, automated budgeting, and data analytics can increase the speed and quality of financial decision-making.

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Digitalization also facilitates real-time monitoring of financial indicators. As a result, managers can identify deviations from planned indicators and take corrective measures more quickly.

3.6. Improvement of Financial Risk Management

Financial risks are an unavoidable part of enterprise activity. They may arise from changes in interest rates, exchange rates, inflation, market demand, credit conditions, or the financial condition of business partners.

The analysis indicates that enterprises should establish an integrated risk management system. Such a system should include risk identification, assessment, monitoring, and mitigation.

Diversification of financing sources is also important. Excessive dependence on a single source of financing may increase financial vulnerability. Enterprises should therefore consider an appropriate combination of retained earnings, bank loans, investment resources, and other financing instruments.

4. DISCUSSION

The results demonstrate that the financial mechanism of an enterprise should be viewed as a dynamic system rather than a set of separate financial operations. Improvements in one area of financial management can affect other components of the system.

For example, better financial planning can improve cash flow management, while improved cash flow can reduce the need for expensive short-term borrowing. Similarly, stronger financial control can reduce unnecessary expenditures and increase profitability.

One of the most important findings is the growing role of digital technologies. Traditional financial management relies heavily on periodic reports, whereas digital financial management enables continuous monitoring of financial indicators. This creates opportunities for faster decision-making and more accurate forecasting.

However, digitalization alone cannot guarantee financial efficiency. The effectiveness of digital financial systems depends on the quality of data, organizational processes, cybersecurity, and the professional competence of employees. Therefore, enterprises should combine technological investment with improvements in financial management practices and staff development.

Another important issue is the balance between financial stability and profitability. Excessive liquidity may reduce profitability because idle financial resources do not generate sufficient returns. At the same time, excessive use of debt may increase financial risks. Therefore, financial managers need to determine an optimal.

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