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DEVELOPMENT OF THE FINANCIAL MECHANISM OF ENTERPRISES IN THE CONTEXT OF MODERN ECONOMIC TRANSFORMATION

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Abstract:
The development of an effective financial mechanism is one of the key conditions for improving the sustainability, competitiveness, and investment capacity of enterprises. The financial mechanism of an enterprise includes a set of financial instruments, methods, principles, and organizational approaches used to mobilize, allocate, and control financial resources. This study examines the major directions for improving the financial mechanism of enterprises, with particular attention to capital structure, working capital management, access to external financing, financial planning, risk management, and digitalization of financial processes. The research applies a comparative analysis of academic literature, international empirical studies, and recent data concerning enterprises in Uzbekistan. The results indicate that effective financial management requires an integrated approach combining optimal working capital levels, diversified sources of financing, improved financial planning, and digital financial technologies. Evidence from recent studies suggests that the relationship between working capital and profitability is nonlinear, meaning that both insufficient and excessive working capital may negatively affect enterprise performance. The study also identifies limited access to affordable external finance as an important constraint for enterprises in Uzbekistan.

Keywords: financial mechanism, enterprise finance, working capital, capital structure, financial management, profitability, financial risk, financing, Uzbekistan, digitalization.

INTRODUCTION

The financial mechanism of an enterprise represents an important component of the overall corporate management system. It determines how financial resources are generated, distributed, invested, and controlled in order to achieve the strategic and operational objectives of an enterprise. In a competitive economic environment, the effectiveness of the financial mechanism directly affects liquidity, profitability, financial stability, investment activity, and long-term enterprise development.

Modern enterprises operate under conditions of increasing uncertainty, inflationary pressures, changing interest rates, technological transformation, and growing competition for financial resources. Consequently, traditional approaches to financial management are increasingly insufficient. Enterprises need flexible financial mechanisms that allow them to respond rapidly to changes in market conditions while maintaining an appropriate balance between profitability and financial risk.

One of the most important components of the financial mechanism is working capital management. Recent research demonstrates that the relationship between working capital and profitability is not necessarily linear. A 2026 study of European Union small and medium-sized enterprises found an inverted U-shaped relationship between working capital investment and profitability, indicating that there is an optimal level of working capital beyond which additional investment can reduce profitability.

Similar conclusions have been reported in earlier research, which found that an optimal working capital level can contribute to maximizing enterprise profitability. The development of the financial mechanism is also important for enterprises in Uzbekistan. According to the World Bank, micro, small, and medium-sized enterprises account for more than 90% of businesses in Uzbekistan, approximately 75% of employment, and around 55% of GDP. At the same time, enterprises continue to experience constraints in accessing external finance. The World Bank estimates

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that MSME credit demand in Uzbekistan has a substantial financing gap.

METHODS

The study employs a qualitative and analytical research approach based on the analysis and synthesis of academic literature, empirical research, and international institutional data.

The research methodology consists of four main stages.

First, a theoretical analysis of the concept of the financial mechanism was conducted. The study considers financial resources, financial planning, capital structure, working capital, investment decisions, financial control, and risk management as interconnected components of the enterprise financial mechanism.

Second, previous empirical studies concerning working capital management and enterprise profitability were analyzed. Previous research has demonstrated that working capital management can have a significant effect on profitability, although the direction and strength of the relationship may depend on enterprise characteristics and economic conditions. Third, the study analyzes evidence concerning financing constraints in Uzbekistan. The World Bank Enterprise Survey 2024 provides firm-level information on access to loans, financing needs, and reasons why enterprises do not apply for new loans or credit lines. Fourth, a comparative synthesis was conducted to identify practical directions for improving the financial mechanism of enterprises. The analysis focuses on five dimensions:

- working capital management;
- capital structure optimization;
- financial planning and cash-flow management;
- financial risk management;
- diversification and digitalization of financing mechanisms.

The study is conceptual and analytical rather than based on an original econometric estimation. Therefore, the findings should be interpreted as a synthesis of existing empirical evidence and institutional data rather than as estimates of causal effects for all enterprises.

RESULTS

Main components of the enterprise financial mechanism

1 -Tabel

The analysis indicates that the financial mechanism of an enterprise can be represented as an interconnected system consisting of several major elements.

Component	Main instruments	Expected financial effect
Financial planning	Budgets, forecasts, financial models	Better resource allocation
Capital management	Equity, debt, retained earnings	Optimization of financing costs
Working capital management	Cash, inventories, receivables, payables	Improved liquidity and profitability
Investment management	Investment appraisal, NPV, IRR, payback period	More efficient capital allocation
Risk management	Hedging, insurance, diversification	Reduction of financial losses
Financial control	Financial ratios, internal controls, audits	Greater transparency and efficiency
Digital finance	ERP, accounting software, financial analytics	Faster and more accurate decisions

An effective financial mechanism should not treat these elements independently. For example, an enterprise may have high profitability but simultaneously experience liquidity problems if its receivables are collected slowly. Similarly, excessive reliance on debt may increase the availability of investment resources but also increase financial risk and interest expenses.

Thus, the development of the financial mechanism requires balancing profitability, liquidity, solvency, risk, and investment objectives. Working capital management is one of the most important operational elements of corporate finance. It involves managing cash, inventories, accounts receivable, and accounts payable.

The cash conversion cycle (CCC) can be expressed as:

$$\mathbf{CCC = DIO + DSO - DPO}$$

where:

- **DIO** — Days Inventory Outstanding;
- **DSO** — Days Sales Outstanding;
- **DPO** — Days Payables Outstanding.

A shorter cash conversion cycle generally means that the enterprise converts its investment in inventories and receivables into cash more rapidly. However, the objective should not simply be to minimize working capital. Recent empirical evidence suggests

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that an excessive reduction in working capital can also create operational problems. The 2026 study of EU SMEs found an inverted U-shaped relationship between working capital investment and profitability, suggesting that enterprises should seek an optimal rather than a minimum level of working capital.

The study shows that financial planning should become a central element of the financial mechanism. Enterprises need to move from predominantly retrospective accounting toward forward-looking financial management.

An effective financial planning system should include:

1. annual and quarterly financial budgets;
2. monthly cash-flow forecasts;
3. scenario analysis;
4. investment planning;
5. debt-service planning;
6. working capital targets;
7. financial risk indicators.

Cash-flow forecasting is particularly important for enterprises with unstable revenues or substantial working capital requirements. An enterprise can be profitable according to accounting standards while simultaneously experiencing a shortage of cash. Therefore, profitability indicators should be analyzed together with liquidity and cash-flow indicators.

Discussion

The findings indicate that the development of the financial mechanism should be understood as a continuous process rather than as a single financial reform. The financial mechanism must adapt to changes in market conditions, enterprise growth, technological development, and financial risks. One of the most important implications is that enterprises should avoid focusing exclusively on profitability. Financial stability requires simultaneous consideration of profitability, liquidity, solvency, and risk.For example, an enterprise may increase sales by offering customers longer payment periods. This can stimulate revenue growth but may also increase accounts receivable and reduce available cash. Conversely, excessively strict credit policies can improve liquidity but potentially reduce sales. Therefore, financial decisions require an optimal balance between competing objectives.The same principle applies to inventory management. Excessive inventories tie up financial resources and increase storage costs, whereas insufficient inventories can disrupt production and sales. Consequently, inventory management should be based on demand forecasts, production cycles, supplier reliability, and the cost of capital.The evidence also suggests that the development of enterprise finance in Uzbekistan requires improvements not only within individual enterprises but also in the broader financial environment. The World Bank reports that Uzbekistan has been implementing reforms aimed at improving the business environment and strengthening the transition toward a more inclusive and resilient market economy. This framework creates a continuous financial management cycle.An enterprise can strengthen this mechanism by introducing a set of key performance indicators (KPIs), including:

- Return on Assets (ROA);
- Return on Equity (ROE);
- Current Ratio;
- Debt-to-Equity Ratio;
- Interest Coverage Ratio;
- Inventory Turnover;
- Receivables Turnover;
- Cash Conversion Cycle;
- Operating Cash Flow;
- Free Cash Flow.

The simultaneous use of these indicators provides a more comprehensive picture of financial performance than reliance on a single profitability indicator.

CONCLUSIONS

The study demonstrates that the development of an effective financial mechanism is essential for improving enterprise sustainability, profitability, liquidity, and investment capacity. The financial mechanism should integrate financial planning, capital management, working capital optimization, investment management, risk control, and digital financial technologies.The analysis of international empirical research indicates that working capital management has a significant relationship with enterprise performance. Importantly, recent evidence suggests that the relationship may be nonlinear, meaning that enterprises should seek an optimal level of working capital rather than simply minimizing current assets.

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