European Research Studies Journal
Volume XXVII, Issue 2, 2024

pp. 155-162

Cash Flow Management in Small and Medium Enterprises in Times of Economic Uncertainty

Submitted 18/02/24, 1st revision 10/03/24, 2nd revision 22/03/24, accepted 25/04/24

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Abstract:

Purpose: *The aim of this article is to show the key role of financial liquidity management in the face of economic uncertainty, especially in the context of companies, including SMEs, by presenting practical strategies and tools for risk identification, cost optimization and the use of modern technological solutions to enable enterprises to operate effectively and adapt to changing market conditions.*
Design/Methodology/Approach: *Analysis of the impact of macro- and microeconomic factors, such as the COVID-19 pandemic, Russia's attack on Ukraine or rising inflation, on economic uncertainty and consequences for enterprises, especially in the SME sector. A proposal for a practical approach, focusing on the identification of liquidity risks and the presentation of a range of strategies and tools for financial management in conditions of economic uncertainty.*
Findings: *In an environment of economic uncertainty, businesses, especially SMEs, need to focus on cash flow analysis and identify and respond to risks accordingly, which requires a proactive approach and the use of modern financial management tools. In addition, it is necessary to develop a contingency plan, prioritize expenses, and build stable relationships with suppliers to increase the company's flexibility and resilience to changing market conditions.*
Practical Implications: *Regularly monitor liquidity indicators, such as the current liquidity ratio or the quick liquidity ratio, to quickly identify potential issues and take appropriate corrective action. Creating a flexible action plan that takes into account different crisis scenarios and defines strategies to manage reduced cash flows, alternative sources of revenue, and cost reductions. Consciously determine which of the costs are necessary for the further functioning of the company, and then apply a cost management strategy. At the same time, actively negotiating payment terms and prices with suppliers, striving for long-term cooperation based on trust and mutual benefits, and looking for alternative suppliers.*
Originality/Value: *Specific tips on cash flow management in times of economic uncertainty and contingency strategies that can be used by companies, especially SMEs, in the event of financial difficulties.*

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Keywords: *Management, finance, small and medium-sized enterprises, economy, financial liquidity.*

JEL Classification: *M10, JEL, K10, JEL, A10.*

Paper type: *Research article.*

1. Introduction

The confluence of macro and microeconomic events, including the COVID-19 pandemic, Russia's attack on Ukraine or the level of inflation, affects economic uncertainty, which has a significant impact on the further functioning of small and medium-sized enterprises (SMEs), but not only.

As a result, enterprises are faced with the challenge of maintaining their business at a profitable level. For this reason, financial statements are becoming increasingly important, as they make it possible to understand the risk, its specification, as well as to assess the company's financial liquidity, which is necessary for the continuation of the company's operations.

Proper identification and response to liquidity risk is the basis for the further operation of the company, regardless of its size or the sector to which it belongs. Taking these factors into account, business management must be extremely vigilant and treat this area of the business as a priority.

Proper involvement, i.e., analysis, drawing conclusions and making decisions of people in managerial positions, combined with effective labor force (the actions of people who perform individual elements of the plan/strategy) are the basis for keeping the company on the market in times of economic uncertainty.

2. Financial Statements and the Actual Situation of the Company

An important element in the context of financial statements is the assessment of potential conditions and events that may raise doubts in terms of the company's financial capacity. The report should include the most up-to-date information possible in order to allow for a real assessment of the financial position. Conclusions drawn on the basis of the results of meticulously prepared financial statements will make it possible to assess whether and for how long the company will be able to continue functioning (Thalassinos *et al.*, 2023; Grima and Thalassinos, 2018).

The most common rule is that the company's situation is safe if, thanks to the company's current financial resources, it is possible to secure its operation (including covering all financial liabilities) for a year ahead. To this end, the management of the company concerned may have to assess the following factors:

- Changes in projected operating results and cash flows, which may depend on:
    - a decrease in demand for services, which reduces the level of income of the company;
    - threats to the security of the supply chain, e.g. lack of goods necessary for production – increase in the price of the final product; inability to obtain the product or its components – increasing the cost of production;
    - rising inflation;
    - penalties or financial losses incurred in connection with non-compliance with contracts with contractors;
    - the increased level of interest to be paid due to the increase in the price of loans;
    - complications related to the workforce (workforce);
    - additional charges or costs resulting from provisions or restructuring plans and their effects;
- Changes in the assessment of short- or long-term funding opportunities, taking into account:
    - the ability to finance all liabilities for the next year of operation, taking into account current cash as well as projected cash flows;
    - the likelihood of default on current financial obligations, which may contribute to an increase in debt or an acceleration of its repayment date;
    - the possibility of raising interest rates in the case of variable interest rates and their impact on creditworthiness;
    - the possibility of a decrease in the company's profitability, which will result in a downgrade of the credit rating;
- The impact of external conditions, m.in.: actions taken by banks and governments to provide assistance to entities exposed to liquidity complications, such as downtime or dependence on counterparty success.

The assessment and correct interpretation of the discussed risks requires a conscious and objective review of the baseline forecasts, taking into account the characteristics of a given business, as well as the capabilities of the business and the team of people working in the company. The appropriate level of knowledge of the company's managers, as well as their skills, determines the correctness of the objective assessment and effective testing of the proposed solutions.

Financial statements are the first element of a company's operations in times of economic uncertainty, which makes it possible to assess risks and plan further actions aimed at leading the company out of the crisis or improving its position on the market[4]. In addition to the report, it is extremely important to adopt an appropriate strategy that will enable the implementation of the assumptions step by step, while minimizing the risk of failure as much as possible.

The next step a company should take is a comprehensive financial assessment to determine a solid foundation for dealing with fluctuations in economic stability. To this end, it is necessary to identify areas where it will be possible to reduce costs and increase the level of income. Thanks to this, entrepreneurs will be able to make rational and well-thought-out decisions, as well as effectively allocate their financial resources. When conducting a financial assessment, you should consider issues such as:

- Income – an assessment of potential sources of revenue and the level of their stability, including their sources and the risk of potential fluctuations;
- Expenses – the assessment of planned expenses will allow you to identify areas where you will be able to save money. This is where you need to prioritise your expenditure so that you can secure the funds to cover it. Priority should be given to those costs without which the functioning of the company would not be possible;
- Financial inflows – it is necessary to assess the sources of revenue, their patterns and the forecast of potential profit, which will allow you to locate possible financial gaps and take actions to fill them. An assessment of this element is also useful for managing cash flows during periods of economic uncertainty.

3. Contingency Plan Strategy in the Functioning of the Company

Times of economic uncertainty also force companies, especially those from the SME sector, to create a contingency plan due to the difficulty in quickly obtaining additional funds[5]. It is an essential part of managing a business during periods of economic instability. The contingency plan should include strategies to manage reduced cash flows, alternative sources of revenue, as well as potential cost reductions (Grima *et al.*, 2020.

A properly prepared contingency plan can act as a kind of map for entrepreneurs, which will enable efficient and effective action in the event of the consequences of economic uncertainty in the country and in the world. When creating a contingency plan, you should pay attention to issues such as:

- Risk identification – it is necessary to assess the risk that the company may incur and assess its severity. These risks may include: a drop in demand, disruptions in the supply chain, regulatory changes;

[4]*Grabowska, A. 2023. Liquidity management of enterprises, CeDeWu, p. 25.*
[5]*Koźminski, A., Zagórski, K., Strumińska-Kutra, M., Morawski, W., Rae, G., Piotrowska, K. 2015. Economic Attitudes in Times of Uncertainty, Scholar, p. 37.*

- Mitigation strategy – it is necessary to determine what strategy the company will take in the event of the effects of the anticipated threat. Strategies that may be chosen include, m.in, the adjustment of the pricing strategy, diversification of the targeted market, an alternative source of materials necessary for production in the event of a supply chain disruption;
- Cash flow management – it is necessary to plan a cash flow management strategy in the event of a crisis situation in order to maintain the continuity of the company's operations, as well as to obtain an additional source of financing, negotiate expanded repayment options for current debts or implement stricter credit control measures;
- Planning of action scenarios – taking into account various types of economic results, action scenarios should be developed. Actions that can be used in the discussed scenarios may be, for example: cost reduction measures, alternative strategies for generating revenue. Dynamically changing economic conditions should also be taken into account in the scenarios.

The next step that a company should take in the event of economic uncertainty is to prioritize spending. Determining which of the incurred costs are necessary for the functioning of the enterprise will ensure its further operation. Costs that cannot be avoided are, m.in, salaries, utilities, basic services or materials necessary to continue the production process. This action is a guarantee of securing funds for basic functions that determine the operation and operational stability of the business[6].

4. Building Relationships with Contractors

Building stable and positive relationships with suppliers is an element that can prevent supply chain breaks. Such action additionally allows you to start negotiations on issues such as the price or extension of the payment deadline for the ordered goods. When starting negotiations with contractors-suppliers, you should pay attention to:

- Openness of communication – a clear and honest conversation allows you to find mutual benefits that may be necessary for both parties;
- Long-term relations – long-term cooperation based on commitment from both parties is the basis for negotiation talks. A good relationship can also contribute to a greater willingness of the supplier company to implement or accept the contractor's proposals;
- Volume discounts – checking the possibility of volume discounts by consolidating purchases with suppliers contributes to increasing the level of savings, as well as improving the outcome of the negotiation process;

[6]*Kozminski, A. 2023. Management in conditions of uncertainty, PWN Scientific Publishing House, Warsaw, p. 46.*

- Payment terms – extended payment terms are a prerequisite for improving cash flow. It is worth trying to get longer loan periods, the possibility of spreading the payment into installments. This will alleviate immediate financial pressures, provide greater flexibility and the ability to adapt to economic forecasts;
- Alternative suppliers – it is worth looking at the offers of alternative suppliers who offer more competitive prices or better terms of cooperation. Competitive activity between supplier companies can be a beneficial solution to reduce basic costs.

5. Optimization of Operations in the Enterprise

The implementation of financial control measures is an activity that covers every area of the company's operation. Cost control helps you optimize processes, reduce waste, and eliminate unnecessary expenses[7]. Active and thoughtful financial management will help improve profits and build resilience in the event of crises. Steps to take when implementing financial control measures are:

- Process optimisation – it is necessary to analyse the existing business processes in order to identify ineffective areas and those that require improvement. This activity is designed to streamline flows, eliminate bottlenecks, and automate repetitive tasks;
- Waste re-education – identification of areas of activity in which waste generation is recorded (e.g. excessive inventories, energy consumption, material waste) and reduction of their level will save costs, but will also support the environmental protection process. Actions that can be taken in this area include, m.in: just-in-time inventory management, energy conservation or the implementation of recycling policies;
- Expense tracking and analysis – the implementation of expense tracking systems to monitor and analyze expenses is possible with the right financial programs. Regular analysis of this data area allows you to increase the level of savings in areas that allow you to reduce expenses;
- Employee engagement – employees play an important role in any company, so their actions should be in line with the company's policy. It is worth encouraging employees to take actions that will reduce costs. An element that can be useful are rewards.

The use of modern technological solutions is crucial in terms of optimizing the process of undertaken activities and reducing their costs[8]. Automation of processes previously performed manually improves efficiency and enables informed decision-

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[7]*Wędzki, D., Sierpińska, M. 2023. Financial Liquidity Management in the Enterprise, PWN Scientific Publishing House, Warsaw, p. 71.*
[8]*Kozminski, A. 2023. Management in conditions of uncertainty, PWN Scientific Publishing House, Warsaw, p. 39.*

making based on meticulously collected data without the risk of making a mistake, e.g. in calculations. Therefore, it is worth considering the introduction of solutions such as:

- Financial management software that will enable you to streamline your processes for tracking expenses, budgeting, and forecasting. These types of tools allow real-time data analysis, which leads to informed decision-making and quick identification of areas that need improvement;
- Cloud-based solutions, e.g., accounting, project management and customer relations. These types of solutions increase flexibility, which leads to effective management of operations without the risk of incurring additional costs;
- Online collaboration tools that result in faster and easier communication between the company's employees. In addition, they give you the opportunity to switch to remote work, which reduces office space costs and increases productivity;
- Data analysis with the use of modern technologies is an opportunity to gain real-time insight into operations, customer behavior and market trends. The analysis contributes to the identification of areas where it is possible to save expenses, optimize pricing strategies and identify areas for improvement;
- Use of e-commerce platforms – selling products online has gained popularity in recent years, which has been facilitated by, m.in, the COVID-19 pandemic. With these types of sales area, you can reach a wider range of customers, reduce traditional retail costs, and increase sales without increasing overheads.

6. Conclusion

Summarizing the above analysis and research on liquidity management in enterprises from the SME sector, it can be stated that conducting business in times of economic uncertainty requires a proactive approach and the ability to plan and manage strategically.

The implementation of the strategies described above can strengthen the company's position in the market and adapt it to the challenges of economic fluctuations. SMEs in particular must be highly flexible in the face of the changing economic situation, both domestically and globally.

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