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FINANCIAL MANAGEMENT AND RISK MANAGEMENT SYSTEM IMPROVEMENT IN SMALL BUSINESS ENTITIES

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Abstract

This article analyzes the theoretical and practical foundations of financial management and risk management systems in small business entities. The study examines financial risk management, ways to enhance investment activity, effective allocation of capital flows, and ensuring financial stability in small business operations. The research also explores the specific features of financial management in small enterprises, evaluates risk levels, and reviews advanced approaches to minimizing risks based on the opinions of foreign and domestic experts. The article considers the financial risk management system as a key factor in ensuring the sustainability and strategic development of small businesses.

Keywords

small business, financial management, financial risk, risk management, investment activity, capital management, financial stability.

Introduction

According to the Decree of the President of the Republic of Uzbekistan No. 5614, issued on January 8, 2019, within the framework of the “Concept for the Comprehensive Socio-Economic Development of the Republic of Uzbekistan until 2030,” special attention has been given to ensuring the appropriate role and significance of small businesses in the national economy.

As a result of the measures taken over the past five years, Uzbekistan has significantly improved its ranking in the World Bank's and International Finance Corporation’s “Doing Business” rating, moving from 146th place to 76th among 190 countries.

Indeed, Uzbekistan is actively fostering a favorable and attractive investment climate, promoting fair competition, and encouraging the rapid development of small businesses and private entrepreneurship. This approach is primarily explained by the prioritization of private sector development in the national economy [1], which, in turn, necessitates the effective organization of financial risk management in small business enterprises.

Currently, the expansion of the private sector's share in the national economy, increasing self-employment opportunities, especially for young people, and raising the share of entrepreneurial income in the total household income structure to 70%, are among the primary objectives of small business development.

As a result, by 2030, the share of small businesses in GDP is expected to reach 70.1% (compared to 59.4% in 2018), in industry up to 54.3% (34.7% in 2018), in investments up to 52.3% (34.9% in 2018), and in exports up to 45.2% (26.5% in 2018) [2].

Literature Review

According to L.M. Burmistrova, "The financial mechanism of an enterprise is a financial management system aimed at maximizing profit" [3]. Enterprises operating in a market economy strive not only for profit but also for leadership in the market.

Uzbek economists E. Gadoev and H. Qurbanov define financial management in enterprises as "a set of relationships related to the formation and utilization of financial resources" [4]. Meanwhile, economist I. Alimov emphasizes that "the finances of economic entities ensure the supply of monetary funds for production processes" [5].

In the context of economic modernization, effective management aims to optimize the resource potential of enterprises. O. Rashidov states that "Monetary resources, in this case, have primary importance, as they represent the only resource that can directly and quickly transform into any form of enterprise resources" [6]. Financial resources play a crucial role in all levels of management, particularly in the strategic development of enterprises.

From the perspectives presented above, it can be concluded that the financial risk management system in enterprises is of paramount importance in ensuring their continuous operation. Therefore, financial risk management is considered one of the key elements of overall financial management [7].

Analysis and Discussion of Results

The activities of small businesses are inseparable from financial relationships, which act as intermediaries at all stages of the reproduction process.

The main challenges faced by such enterprises highlight the need to use both traditional and specific financial management methods, incorporating principles of financial risk management to ensure sustainable operations.

Small businesses typically possess limited financial resources and capacities, which are often insufficient to achieve their strategic objectives. Key financial issues for these enterprises include: allocation of financial resources, formation of capital, monitoring the utilization of financial resources, and other financial management aspects.

These challenges must be addressed considering the size and constrained opportunities of small businesses, especially in risk-prone conditions.

It is essential to note that small businesses are highly vulnerable to financial losses resulting from risks and lack effective mechanisms to guarantee financial stability. Most enterprises do not have sufficient financial resources and face limited access to credit financing. While large enterprises experiencing financial difficulties due to economic crises or ineffective management can rely on government support, small enterprises often lack such access. This significantly increases their financial risk level, leading not only to temporary financial difficulties but also, in some cases, to bankruptcy.

The implementation of financial risk management in small enterprises should address all key business issues, ensuring the rational management of assets and liabilities, reducing financial risks, and securing adequate financial resources.

In recent years, financial risk management has become a crucial tool for establishing and maintaining a balance between expected income and risk levels. However, to effectively integrate financial risk management in small enterprises, it is essential to conduct theoretical research and practical developments aimed at identifying and managing financial resources efficiently.

All these factors highlight the relevance of this research topic and emphasize the necessity of developing effective financial risk management strategies for small enterprises.

In financial management, financial risk management is formed at the intersection of two branches of economics: financial management and risk management, integrating a set of financial instruments and methods.

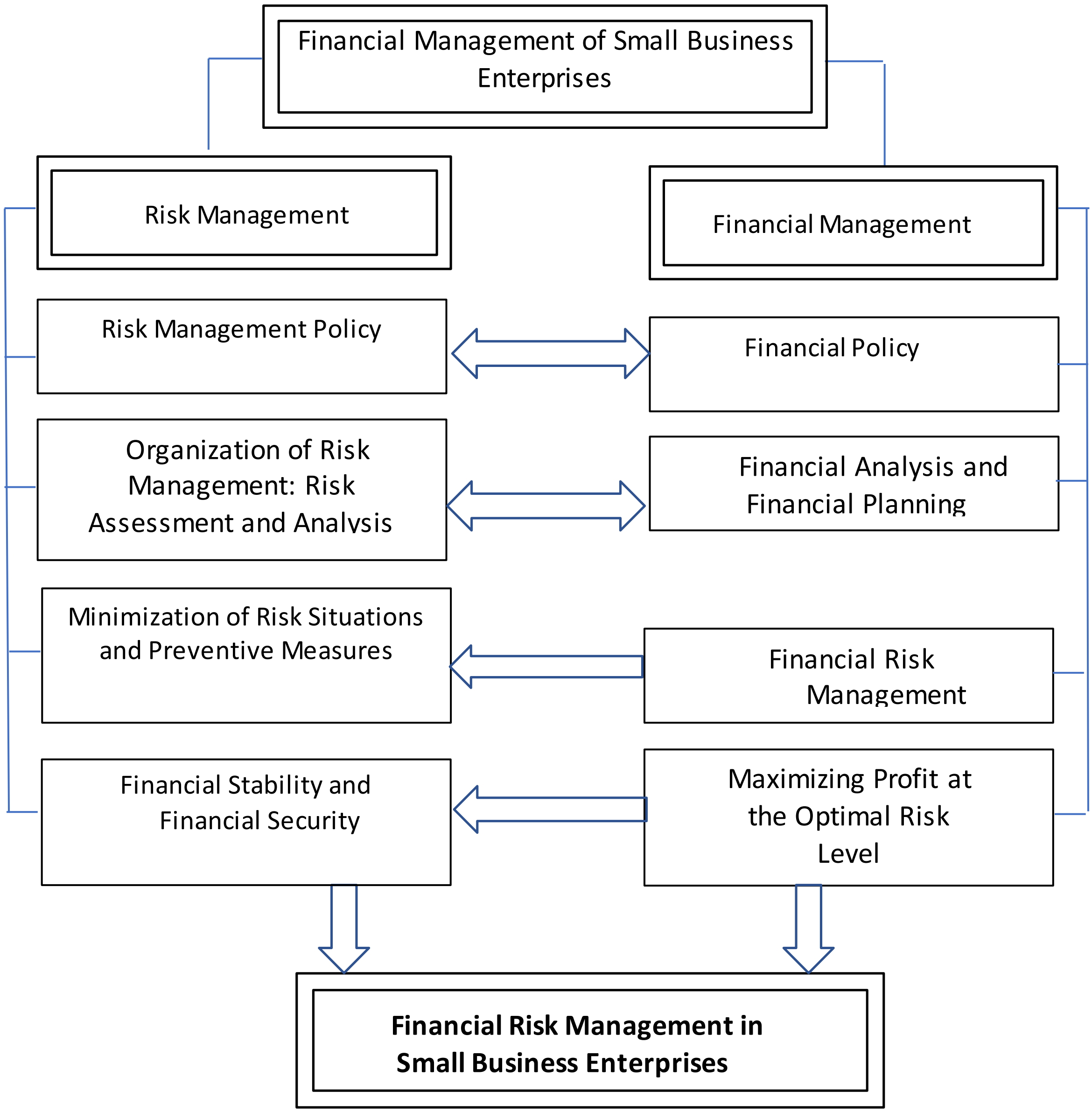

Figure 1. Financial Risk Management in Small Business Enterprises

The necessity of distinguishing risk management within the scope of financial management arises from the need for entrepreneurs to enhance financial management in conditions of uncertainty in both external and internal business environments.

The role of risk management in the financial management system of small business enterprises is illustrated in Figure 1.

Financial risk management enables enterprises to quickly adapt to operating under risky conditions, ensuring financial stability and allowing adjustments to financial and economic activities in response to changing legislation and external environmental factors without leading to bankruptcy.

It optimizes the value of cash flows and ensures the alignment of financial resources involved in the reproduction process, capital formation sources, and the overall assessment of needs emerging in various areas of business operations.

Thus, financial risk management in small business enterprises is a system of measures aimed at analyzing the level of financial risks and their contributing factors. Based on this analysis, financial resource and capital management policies are developed to enhance financial stability, liquidity, and profitability by utilizing financial instruments and methods to minimize financial risks.

Features of Financial Management in Small Business Enterprises

Due to the limited number of employees and their lower qualification levels in some cases, small businesses tend to rely on short-term financial planning rather than long-term (strategic) financial planning.

Financial resource shortages remain a pressing issue for small businesses due to various existing constraints.

The liquidity level tends to decrease due to high current liabilities, along with lower investments in inventories and accounts receivable.

In the financial management system of small enterprises, the business owner or an individual entrepreneur typically assumes the management role.

Limited access to a well-structured information base restricts the ability to conduct a comprehensive financial analysis.

High risk exposure – the primary objective of financial management is to neutralize or minimize risks associated with individual business operations and the overall financial activity of the enterprise.

The primary goal is not necessarily to maximize profit rapidly but rather to achieve a stable level of income and maintain business independence.

Limited utilization of financial resource management tools and methods.

Thus, it can be said that the activities of small businesses are a high-risk area. The financial management system for small businesses differs significantly from that of large companies. A large enterprise is characterized by the division of financial services under the leadership of the financial director, including accounting and finance departments.

The role of the financial director for small businesses is performed by the chief accountant or the head of the enterprise.

The methods of risk management for small businesses include: risk prevention, insurance, transfer of risk to suppliers of raw materials and materials, transfer of risk through contracts, diversification of sales and deliveries, diversification of activities, limitation, methods of risk coverage, including self-insurance; attraction of external resources, etc. (Figure 2).

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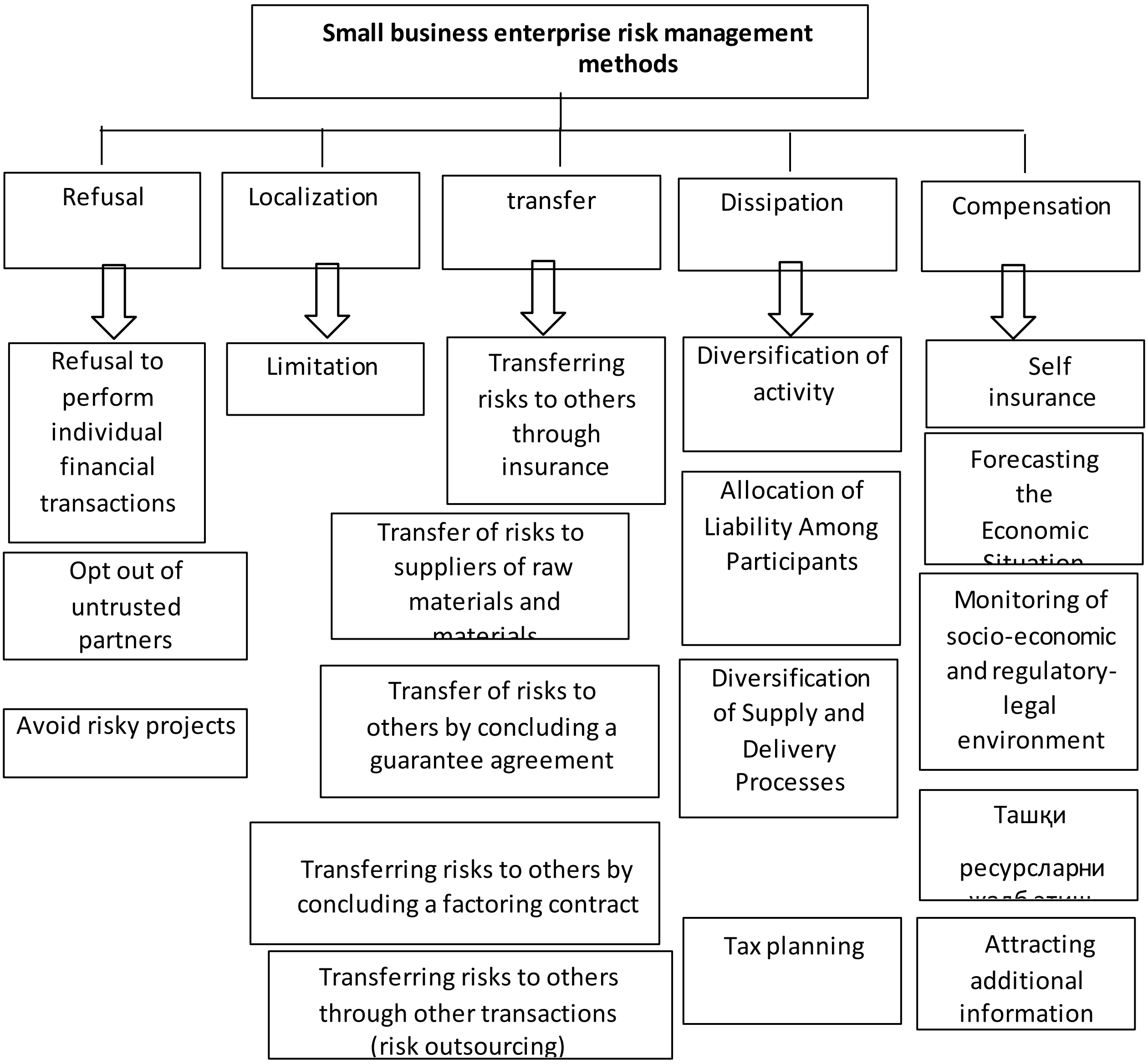

Figure 2. Risk Management Methods in Small Business Enterprises

Risk management has now become an integral and important part of financial management.

Financial methods of risk management in small business enterprises are understood as a set of methods and techniques aimed at reducing the likelihood of a risky situation occurring in the course of activities.

The main groups of financial risk management methods for small businesses include risk prevention, risk transfer, risk diversification, distribution, risk coverage (optimization).

When a small business is unable to cover all losses, external resources are attracted. Some of them can be covered by attracting credit resources. Problems with attracting capital are not only an initial problem, but also a constant obstacle for small businesses. External financing methods include financing from the budget, bank loans, leasing, factoring, attracting funds from credit unions, and venture financing.

Conclusion

1. The financial management system of small business enterprises is viewed as a combination of risk management and effective financial management methods and techniques. Financial risk management, as a crucial component, provides key analytical tools to achieve defined objectives. Its primary task is to enhance financial performance through effective risk management. This involves selecting optimal financial resource management strategies, applying efficient economic strengthening methods, utilizing opportunities for business value growth, and improving financial stability.

2. The application of financial risk management principles in small business enterprises requires considering their unique characteristics and analyzing contemporary challenges within this process.

3. Financial managers of enterprises should evaluate all critical decisions regarding resource management from two perspectives for effective risk management: first, analyzing the impact of these decisions on the company's economic condition; second, understanding the founders' perspectives on these decisions. However, in any situation, it is crucial for managers to adhere strictly to the principle that "every financial decision should contribute to improving the company's rating." This principle reflects the true essence and significance of financial management.

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