ECONOMIC FACTORS LEADING TO BANKRUPTCY OF ENTERPRISES

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Abstract. In the context of modernizing Uzbekistan's national economy, the issue of enterprises' financial stability is becoming increasingly urgent. Despite government support, some enterprises face insolvency problems that may lead to bankruptcy. The article highlights that, through financial analysis, it is possible to detect factors leading Uzbek enterprises toward bankruptcy at an early stage. It also examines the application of foreign models (Altman, Taffler) in local practice.

Keywords. bankruptcy, financial analysis, ratios, Altman model, Taffler model, liquidity, solvency, crisis management.

Introduction

The financial condition of an enterprise is one of the most important indicators reflecting the "health" of its economic activity. It does not merely signify the balance between income and expenses, but also encompasses the enterprise's ability to manage its financial resources, make timely payments, adapt to both external and internal financial environments, make investment decisions aligned with market conditions, regulate debt burdens prudently, and maintain overall stability. In other words, the financial condition is the reality behind the numbers — a signal of how the enterprise is living and where it is heading.

A financially healthy enterprise typically operates on the basis of stable income sources, fulfills its financial obligations on time, and has sufficient free cash flow to support investment projects. Such an enterprise not only maintains its current position but also creates opportunities for growth and expansion. Moreover, financial health is determined not only by current revenues but also by the efficiency of existing assets, the level of profitability, and the reliability and stability in the markets it serves.

However, if an enterprise's liquidity declines, its debt burden is high, or its profit potential decreases, this signals financial instability or even a crisis. In such conditions, the enterprise faces difficulties in meeting its day-to-day financial needs, its ability to engage in strategic planning becomes limited, and as a result, its competitiveness in the market declines.

In today's world of globalization and intensifying competition, the financial stability of an enterprise is becoming even more important. This is because external economic shocks, exchange rate fluctuations, uncertainties in the credit market, inflationary processes, and other factors have a direct impact on the financial condition of an enterprise. Under such circumstances, regular monitoring of financial performance, the ability to assess risks in advance, and the timely implementation of necessary measures are key to success.

Financial condition is not just a collection of figures; it reflects the internal order of the enterprise, its external partnerships, management culture, and strategic vision.

Therefore, having a decisive, knowledgeable, and forward-looking approach in financial management is a crucial factor for the long-term success of an enterprise.

Understanding and assessing the financial condition of an enterprise cannot be limited to figures alone — it is also necessary to conduct an in-depth analysis of the factors that influence it. Financial condition is a general indicator of an enterprise's ability to meet its financial obligations, generate profits, maintain strong financing sources, and use these resources effectively. However, this condition does not form on its own — it is strongly influenced by external and internal economic factors, market conditions, political stability, the internal management culture of the enterprise, the level of technological development, labor productivity, and even consumer confidence.

In analyses, "factors" are understood as the reasons that define the conditions under which economic processes occur. For example, an increase in loan interest rates, high inflation levels, or fluctuations in exchange rates directly affect financial balance. Internal factors include cost management, inventory turnover, management decisions, innovation capacity, and many other aspects. Today, two main approaches have developed in the study of enterprises' financial distress.

Accounting-based models – in this approach, the main focus is on analyzing an enterprise's financial indicators through financial statements (balance sheet, income statement, and cash flow statement). These models are simple, easy to understand, and widely applied in practice. For example, profitability ratios, liquidity indicators, and the level of debt burden play a key role in this approach.

Structural models – this approach, on the other hand, serves to analyze the probability of bankruptcy in greater depth. In determining an enterprise's financial health, they also take into account factors such as market uncertainties, the probability of default, and changes in asset values. Examples of advanced approaches include the Altman Z-score model, the Enyin relative stability model, or the Merton model.

Both approaches have their own advantages and disadvantages. Accounting-based models present the actual financial condition in a simple and quick manner; however, they often fall short in anticipating strategic uncertainties. Structural models are more complex but are more effective in forecasting stability levels and identifying potential risks early on.

Therefore, when analyzing financial condition, enterprise management or investors can combine both approaches to achieve a more comprehensive and thorough assessment. This, in turn, helps improve the quality of strategic decisions, ensure financial stability, and reduce risks (Figure 1).

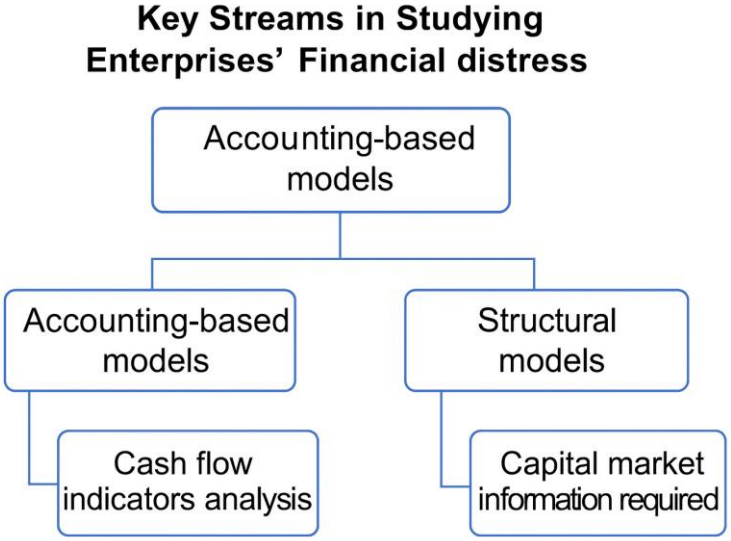


Figure 1. Main Streams in Studying Financial Distress[1]

The structural model approach is considered by many to be superior to the accounting-based approach. However, its application requires data from capital markets, which limits its use for private companies or in environments where the capital market is underdeveloped. Our aim is to contribute to the study of a problematic accounting-based model. In our view, analyzing the usefulness of cash flow–based indicators as predictors of financial distress is the most appropriate method.

There are three main reasons why we chose to analyze cash flow indicators. First, authors of accounting-based analyses often rely on traditional financial ratios (particularly those based on profit), which can be easily manipulated by financially distressed companies that tend to conceal their unfavorable situation in this way.

Second, from a theoretical perspective, there is a strong correlation between cash flow shortages and business difficulties, which underlines the importance of such analysis.

Third, the cash flow approach is a widely recognized method for assessing business value for financially stable companies, as it enables monitoring of business continuity.

The formation of enterprises' financial stability is a complex, multi-factor process. Understanding this stability requires not only looking at numbers but also deeply analyzing the underlying content and mechanisms of influence.

First and foremost, an enterprise's internal financial policy—how financial resources are utilized, its investment strategy, and its approach to debt obligations—directly determines the level of stability. In addition, external economic factors such as inflation rates, exchange rate fluctuations, and interest rates also significantly affect the financial condition of the enterprise.

The quality of management is another crucial internal factor influencing financial stability. Strategic decisions, cost and revenue management, production efficiency, and labor productivity all have a direct impact on financial performance.

Furthermore, an enterprise's market position—its relationships with competitors, brand value, and quality of customer relations—also influences its stability. According to international experience, companies with strong market positions are more resilient to external shocks (Porter, 1985). Therefore, when assessing the likelihood of bankruptcy, it is necessary to consider not only financial indicators but also market and competitive factors.

Today, technological factors play a particularly important role. The level of digital transformation, automation, and development of innovative activities are key tools for reducing costs, optimizing processes, and ensuring stability. The positive impact of digitalization on financial health has also been widely covered in relevant research, such as by Brynjolfsson and McAfee (2014)[2].

Shu asosda aytish mumkinki, korxona moliyaviy barqarorligiga ta'sir etuvchi omillar ko'p qirrali bo'lib, ularni har tomonlama tahlil qilmasdan turib, holatni to'liq baholash yoki uni barqaror holatda ushlab turish deyarli mumkin emas. Bu yondashuv nafaqat moliyaviy tahlilchilarga, balki menejerlarga, investorlar va siyosatchilarga ham foydali bo'lishi mumkin.

Methods and analysis

[1] Muallif tomonidan tuzildi

[2] Brynjolfsson, E., & McAfee, A. (2014). *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies*. W. W. Norton & Company.

As Mai and others have noted, researchers typically use accounting-based variables and market-based variables. In addition, recent studies have examined the importance of governance indicators and country-specific characteristics. Mai introduced a model that uses a combination of textual data along with accounting-based and market-based variables.

Table 1.

Indicators Measuring the Financial Stability of Enterprises [3]

№	**Indicator Name**	**Formula**	**Description**
1	Financial Independence Ratio	Equity / Total Assets	The extent to which the enterprise operates relying on its own funds.
2	Debt Ratio	Borrowed Funds / Equity	Indicates the level of reliance on external funds.
3	Current Liquidity Ratio	Current Assets / Current Liabilities	Reflects the ability to cover short-term liabilities.
4	Return on Assets (ROA)	Net Profit / Total Assets	Shows the extent to which the enterprise is generating profit from its assets.
5	Return on Equity (ROE)	Net Profit / Equity	Assesses the efficiency of the enterprise's own capital.
6	Liquidity Level Indicator	Cash / Current Liabilities	Indicates the enterprise's immediate payment capability.
7	Safety Ratio	(Equity – Fixed Assets) / Current Assets	The ability to finance current operations with own funds.
8	Financial Stability Index	Determined by a comprehensive evaluation method	Summarizes several indicators to reflect overall stability.

The **financial independence ratio** shows the extent to which an enterprise operates relying on its own funds. If this indicator is high, it means the enterprise is developing mainly by relying on its internal resources rather than external debt. This reduces financial risks, as risks associated with external borrowing are always present. Especially during periods of economic instability, this indicator serves as a sign of confidence for investors and creditors.

The **debt ratio** indicates the degree to which an enterprise's financial resources depend on external sources. Here, balance is important: if it is too low, the enterprise may not be fully utilizing its potential; if it is too high, the debt burden increases, interest expenses rise, and the probability of bankruptcy becomes a significant risk. This indicator is often one of the main criteria used by investors to assess the enterprise's risk profile.

The **current liquidity ratio** reflects whether there are sufficient funds to cover short-term liabilities. In other words, if all creditors demanded their money back at once, could the enterprise pay them? This is the question it answers. In a healthy financial system, this indicator must always be monitored, as it is a measure of solvency.

The **return on assets (ROA)** shows how effectively an enterprise is generating profit from its existing assets. This indicator is particularly useful for investors and management — it helps them determine whether assets are being used to their fullest potential. A high ROA may result from effective management and the production of competitive goods.

[3] Muallif tomonidan shakllantirildi

The **return on equity (ROE)** expresses the relationship between net profit and equity. It shows how much profit the enterprise generates from its own capital. This is arguably one of the most important indicators for shareholders, as they expect to earn returns on their equity investment.

The **liquidity level indicator** assesses the enterprise's readiness to make immediate payments. Here, the focus is not just on assets in general but specifically on cash or assets that can be quickly converted into cash. Such an indicator demonstrates how the enterprise might act in emergency situations.

The **safety ratio** measures the extent to which own funds can cover fixed assets. If this indicator is high, it means the enterprise is unlikely to face serious problems in financing its short-term operations with its own resources.

Finally, the **financial stability index** is a composite indicator that summarizes several metrics to provide an overall assessment of the enterprise's condition. Such indices reflect the level of security, growth prospects, and overall financial capacity of the enterprise in a single figure. In recent years, the development of such indices and their monitoring through automated systems has become widespread in modern management practices.

Cash flow–based indicators are often cited as strong predictive indicators, particularly in relation to total debt. Beaver was one of the first to examine the ratio of potential cash flow to total debt. However, cash flow was defined only as the sum of net income and depreciation/amortization. Ong and others likewise concluded that cash flow relative to total debt was a strong predictor of bankruptcy for Malaysian companies; in their work, cash flow is measured from the perspective of EBITDA. EBITDA is often used as a simplified surrogate for operating cash flow.

A 2017 study by Welch compared the predictive power of EBITDA and cash flow in forecasting bankruptcy. Welch's research noted several shortcomings in both types of measures. For example, not adjusting for changes in working capital is often referred to as the "EBITDA trap" in the work of Fridson and Alvarez. On the other hand, cash flow measures can also have limitations, such as selling accounts receivable in factoring operations or liquidating inventories at "fire sale" discounts.

For these reasons, we believe that the potential of accounting-based ratios has not been fully exhausted; at the same time, cash flow–based indicators are often overlooked in the mainstream bankruptcy prediction literature or are measured only as the sum of net income and depreciation/amortization.

Financial stability of an enterprise, simply put, is its ability to operate successfully over the long term, meet its financial obligations on time, and preserve opportunities for future development. Many factors influence such stability, and each of them relates to processes ranging from the enterprise's day-to-day operations to its strategic decisions.

First and foremost, attention is paid to internal factors. The quality of financial management — that is, elements such as controlling expenses, planning profits, and managing debts — directly affects the stability of an enterprise. Research has shown that improper maintenance or lack of analysis of financial statements has led many small and medium-sized enterprises into financial difficulties. Likewise, having a balanced capital structure — meaning a healthy ratio between equity and external debt — plays an important role in preventing an enterprise from becoming over-indebted. Excessive debt increases interest expenses and, as a result, leads to liquidity problems.

Operational efficiency is also an internal factor directly linked to financial performance. Production costs, labor productivity, and the structure of expenses all

influence profitability. An efficient production system enables the enterprise to reduce costs and increase profits.

External factors, on the other hand, are related to macroeconomic and institutional conditions. Macroeconomic indicators such as inflation, exchange rates, interest rates, and economic growth rates have a broad impact on the enterprise's operations. High inflation, for example, can lead to increased production costs and reduced profits. The competitive environment in the market pushes enterprises to continuously innovate, improve quality, and revise their pricing strategies.

The legal and regulatory environment also directly affects enterprise activities. Heavy tax burdens, the approach of regulatory authorities, and uncertainty in legislation force enterprises to reconsider their financial strategies. If an enterprise cannot adapt to such factors, this poses a threat to its stability.

The introduction of modern technologies, on the one hand, offers the opportunity to increase efficiency, but on the other hand, requires adaptability. Enterprises that fail to adequately adopt technologies during digital transformation risk falling behind in competition.

Finally, social factors — customer behavior, social responsibility, partnerships, and brand trust — are also reflected in financial stability. If an enterprise correctly understands customer needs and tailors its products and services accordingly, it can build a loyal customer base, which in turn stabilizes revenues.

These factors can have varying impacts depending on the specific characteristics of each enterprise. What is important is to identify them, monitor them, and take them into account when making strategic decisions. It is precisely this approach that serves to ensure the long-term stability of the enterprise.

Now, let us examine the macroeconomic factors affecting an enterprise's financial stability, along with their level and direction of impact.

Table 2.

Macroeconomic Factors Affecting the Financial Stability of an Enterprise [4]

Macroeconomic Factor	**Affected Financial Indicator**	**Impact Level**	**Impact Direction**	**Explanation**
Inflation rate	Current liquidity ratio	High	Negative	Inflation increases costs, which puts pressure on cash flow.
Interest rates (monetary policy)	Debt ratio	High	Negative	The cost of credit rises, increasing the enterprise's external financial obligations.
Exchange rate fluctuations	Financial independence ratio	Medium	Negative / Positive	For companies engaged in imports and exports, it may result in either gains or losses.
Economic growth rate	Return on assets (ROA)	High	Positive	When economic activity rises, demand

[4] Pera, J. (2017). An enterprise's financial stability and its sustainable growth. A risk-based perspective. Przedsiębiorczość Międzynarodowa, 3(2), 49-62 (in: M. Maciejewski (ed.), Ekonomia międzynarodowa wobec współczesnych wyzwań. Kraków: Uniwersytet Ekonomiczny w Krakowie)

				increases, which boosts revenue and profitability.

The financial stability of an enterprise depends on many factors, with macroeconomic indicators making up the majority of them. Among these indicators, the inflation rate holds a particularly important place. An increase in inflation puts pressure on cash flow and raises costs, which in turn leads to a decline in the current liquidity ratio. As a result, enterprises may face difficulties in meeting their short-term financial obligations.

Interest rates, which are a component of monetary policy, also have a significant impact on financial stability. When interest rates rise, the cost of credit resources increases, thereby raising an enterprise's external financial obligations and worsening its debt ratio. Under such conditions, enterprises may refrain from financing new investment projects or may encounter difficulties in repaying existing loans.

Exchange rate volatility directly affects the level of financial independence for enterprises engaged in export–import activities. While sharp exchange rate fluctuations can be profitable for some enterprises, in most cases they lead to negative consequences. Adverse changes in exchange rates can increase import costs or reduce export revenues.

Economic growth rates, on the other hand, contribute to improving the overall profitability ratio. Increased market activity, higher consumer incomes, and greater demand for products enable enterprises to achieve higher revenues. Thus, economic growth creates a favorable macroeconomic environment and lays the groundwork for strengthening financial stability.

The unemployment rate among the population also has a direct impact on the financial condition of enterprises. As unemployment rises, household incomes decrease, which leads to a contraction in domestic market demand. Consequently, the enterprise's working capital declines, and current liquidity indicators deteriorate.

Tax policy, especially when the tax burden increases, negatively affects return on equity. A decrease in profits reduces the incentive to invest in capital and leads to a deterioration in financial results. This, in turn, forces the enterprise to reconsider its long-term development strategies.

The volatility of energy resource prices destabilizes the safety ratio. An increase in energy costs leads to higher production costs, which reduces reserve funds, slows down production, and lowers stability.

Changes in market conditions and the level of competition have a complex impact on financial stability. As competition intensifies, enterprises are forced to develop innovative technologies and efficient cost policies. This is directly reflected in the financial stability index of their operations.

The above macroeconomic factors play a significant role in shaping the financial stability of enterprises. By deeply analyzing the impact of each factor and taking them into account in strategic planning, it is possible to assess financial risks in advance and ensure stable operations.

The article *"Improving the Practice of Forming the Financial Resources of Enterprises"* by Dilnoza Baxtiyorovna Tojibekova provides a detailed analysis of how enterprises can effectively form and manage their financial resources to ensure financial stability and long-term development.

As key approaches, the article examines optimizing capital structure, financial planning, risk management, diversification of financing sources, integration of financial

technologies, sustainable finance practices, and the role of government policy. The author highlights the advantages of an optimal combination of internal and external financing sources, fintech-based alternative financing tools (such as crowdfunding and DeFi), as well as sustainable investments based on ESG principles.

Practical recommendations are offered for enterprises, emphasizing financial flexibility and a proactive approach as important strategic factors in conditions of economic uncertainty. The article also explores the new opportunities provided by digital transformation, artificial intelligence, and big data analytics in financial decision-making.

Conclusion

The analysis presented in this paper underscores that the financial stability of enterprises is a multifaceted concept shaped by a combination of internal, external, and macroeconomic factors. Internal determinants — such as the quality of financial management, capital structure balance, operational efficiency, and technological adaptability — directly influence an enterprise's capacity to sustain operations and meet obligations. External and macroeconomic variables — including inflation, interest rates, exchange rate volatility, economic growth rates, unemployment, tax policy, energy prices, and competitive market conditions — exert significant pressure on financial performance, often determining whether an enterprise can maintain resilience in times of uncertainty.

The research highlights that no single analytical model is sufficient for accurately predicting financial distress. A comprehensive assessment combining accounting-based and structural models, along with cash flow–based indicators, offers the most robust framework for identifying potential risks. Moreover, the growing importance of non-financial factors — such as governance quality, ESG principles, and technological innovation — reflects the evolving nature of competitiveness in the modern economy.

Practical recommendations, including diversification of financing sources, integration of fintech solutions, adoption of digital transformation strategies, and proactive risk management, emerge as critical strategies for enhancing financial stability. By systematically monitoring key indicators and adapting to dynamic market conditions, enterprises can not only withstand short-term disruptions but also build a solid foundation for long-term sustainable growth.

Ultimately, the paper concludes that financial stability is not a static state but an ongoing strategic process. Enterprises that cultivate adaptability, transparency, and forward-looking financial policies will be best positioned to thrive amid economic volatility and competitive pressures.

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