ESTIMATION OF PROFIT GROWTH RESERVE OF RUSSIAN COMPANIES AS A RESULT OF CHANGES IN THE APPROACH TO CASH BALANCE MANAGEMENT

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Abstract

This article estimates profit growth reserves of big and medium-sized Russian companies over 2008-2011 as a result of changes in their approach to cash balance management. This approach is based on the fact that a company must keep enough cash in its current account to cover current payments to remain solvent. First of all, we are to analyze traditional models of cash balance management. The main negative feature of these models is the assumption that an optimal amount of cash to be kept in a current account of a company depends only on its cash flows. So, unforeseen changes in future cash flows can lead to the lack of cash and, consequently, to company's financial insolvency. That is why it is reasonable to suggest that the optimal cash flow should depend on company's creditworthiness. In case a company lacks cash it can restructure its debts. Then, problems with financial solvency can arise only during the period while the company is trying to obtain credit. Hence, the amount of the liabilities that must be satisfied during this period should be covered by the company's cash balance. To test our hypothesis we conduct empirical analysis of financial performance of Russian companies. The results let us come to the conclusion that this method allows companies to reduce cash balances and direct these funds to core activities and, therefore, increase profits.

JEL: G32

Key words: cash balance, cash flow, financial solvency, creditworthiness, short-term debt turnover period, profit.

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