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# BUSINESS ANALYSIS OF INVESTMENT ACTIVITIES AND OPTIMIZATION OF CASH FLOWS IN INTERNATIONAL MANAGEMENT

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## БІЗНЕС-АНАЛІЗ ІНВЕСТИЦІЙНОЇ ДІЯЛЬНОСТІ ТА ОПТИМІЗАЦІЯ ГРОШОВИХ ПОТОКІВ У МІЖНАРОДНОМУ МЕНЕДЖМЕНТІ

***The article deals with the improvement of tools for analyzing cash flows from investments made by a company, which is topical due to the required productivity and competitiveness of business. The research puts general description and provides improved steps for analyzing cash flows generated through investing activities. Under current conditions of heavily restricted financial markets, Ukrainian companies suffer from the huge money deficit and no access to the financial resources. Foreign investors do not will to finance local projects through the invasion of the Russian Federation. Thus, the primary objective pursued by the top management of any company is to maintain the relative stability of the cash flow and provide operations based on investment and paying the debts.***

***There is a topical task of improving the conceptual framework for analyzing cash flows from investing activities, which will allow enhancing the company's competitiveness. There are several reasons for analyzing company's cash flows: results gained through the cash flows analysis are used for assessment of investment projects; company's competitiveness is achieved through reallocating cash to investment and financial activities as well as operations; the investment strategy of a company is developed and changed on the basis of the cash flow analysis; the effective cash flow regulation provides the company with speeding-up turnover of the working capital and release of additional financial resources for further investing activity. By analyzing cash flows from investing activities of a company, one should take into account the full set of indicators of variable industries highly impacting the company and its life cycle.***

*Thus, the conducted research systemized tools for analyzing cash flows from investing activities, investigates them and developed improved stages included in the analysis procedure. It can be employed for assessing the efficiency of managing the cash flows from investing activities.*

**Статтю присвячено вдосконаленню інструментарію аналізу грошових потоків від міжнародних інвестицій, здійснених компанією, у зв'язку з необхідною продуктивністю та конкурентоспроможністю бізнесу. У дослідженні дається загальний опис і пропонуються вдосконалені кроки для аналізу грошових потоків, що генеруються в результаті інвестиційної діяльності. У нинішніх умовах жорстко обмежених фінансових ринків українські компанії потерпають від величезного дефіциту грошей і відсутності доступу до фінансових ресурсів. Іноземні інвестори не бажають фінансувати місцеві проекти через вторгнення РФ. Таким чином, першочерговим завданням, яке переслідує топ-менеджмент будь-якої компанії, є підтримання відносної стабільності грошового потоку і забезпечення операцій, заснованих на інвестиціях і погашенні боргів.**

**Актуальним є завдання удосконалення концептуальних засад аналізу грошових потоків від інвестиційної діяльності, що дозволить підвищити конкурентоспроможність підприємства. Існує кілька причин для аналізу грошових потоків компанії: результати, які отримані від бізнес-аналізу грошових потоків, використовуються для оцінки інвестиційних проектів; Конкурентоспроможність компанії досягається за рахунок перерозподілу грошових коштів на інвестиційну та фінансову діяльність; розробляється і змінюється інвестиційна стратегія компанії на основі аналізу грошових потоків; ефективно регулювання руху грошових коштів забезпечує підприємству прискорення обігу оборотних коштів і вивільнення додаткових фінансових ресурсів для подальшої інвестиційної діяльності. Аналізуючи грошові потоки від інвестиційної діяльності компанії, слід враховувати повний набір показників змінних галузей, що мають великий вплив на компанію та її життєвий цикл.**

**Таким чином, в дослідженні систематизовано інструментарій аналізу грошових потоків від інвестиційної діяльності, досліджено їх та розроблено вдосконалені етапи, що входять до процедури бізнес-аналізу.**

*Key words: scash flow, international management, business analysis, investment activities of enterprises.*

*Ключові слова: грошовий потік, міжнародний менеджмент, бізнес-аналіз, інвестиційна діяльність підприємств.*

## TARGET SETTING

Under current conditions of heavily restricted financial markets, Ukrainian companies suffer from the huge money deficit and no access to the financial resources. Foreign investors do not will to finance local projects through the invasion of the Russian Federation. Thus, the primary objective pursued by the top management of any company is to maintain the relative stability of the cash flow and provide operations based on investment and paying the debts.

There is a topical task of improving the conceptual framework for analyzing cash flows from investing activities, which will allow enhancing the company's competitiveness. There are several reasons for analyzing company's cash flows:

1) results gained through the cash flows analysis are used for assessment of investment projects;

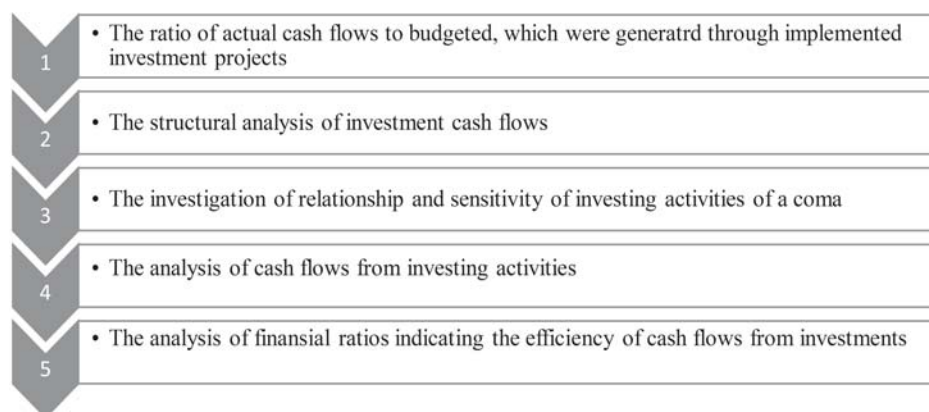
2) company's competitiveness is achieved through reallocating cash to investment and financial activities as well as operations;

3) the investment strategy of a company is developed and changed on the basis of the cash flow analysis;

4) the effective cash flow regulation provides the company with speeding-up turnover of the working capital and release of additional financial resources for further investing activity.

## BRIEF LITERATURE REVIEW

The tools of the cash flow analysis are investigated by many foreign and Ukrainian economists. Among them are



**Figure 1. Basic Steps for the Analysis of Cash Flows from Investing Activities**

J. C. Van Horne, V. Dickinson, Ye. Brihkhem, E. Nikhbkakht, T. Rays, V. V. Bocharov, L. N. Pavlova, H. V. Savyts'ka, I. A. Blank, F. F. Butynets, H. H. Kireytsev, O. Lihnenko, A. M. Podder'ohin, O. O. Tereshchenko, R. B. and other.

Most scientists argue that the cash flow analysis should include the following stages:

1. Analysis of the cash inflow (a pattern of cash inflows, changes in cash inflows, the ratio of the growth of cash inflow to the growth of output and sales);

2. Analysis of the cash outflow (a pattern of cash outflow, changes in cash outflow);

3. Analysis of the net cash flow (the balance between inflows and outflows, the quality of the net cash flow and the level of sufficiency of cash inflows);

4. Analysis of cash flows generated by different activities (historical analysis of the balance sheet with revealing cash flows from operations, investments and financial activity and defining the direct and indirect factors of cash flows changes);

5. Analysis of the gap between the net cash flow and net profit (assessment of available cash and the gap between the net cash flow and net profit);

6. Analysis of cash inflows sufficiency and cash outflows efficiency.

The Ukrainian economic contributions either do not entirely provide tools for the analysis of cash flows generated through investing activities or have a substantial imperfection, as well as foreign research works do, following the main focus on the total amount of cash flows and sometimes on operations cash flows. Thus, tools for the analysis of cash flows from investing activities require improvements towards expanding theoretical concepts and practices.

### THE PURPOSE

The article aims at considering and improving tools for the analysis of cash flows from investing activities. During the research, we employed such general scientific methods as analysis, synthesis, logic chains and dialectic.

### RESULTS

The overviewed scientific works allowed clarifying and generalizing the common tools for the analysis of cash flows generated from investing activities based on financial reports. Main tools being considered more often than others are:

1. Horizontal analysis provides trends in cash flow in terms of the sources of its generation over a period and its growth rate.

2. Vertical analysis shows the pattern of cash inflows and outflows.

3. Benchmarking implies comparing the main indicators of a company with those of competitors within the industry and other close industries.

4. Ratio analysis provides a range of relative indicators showing competitiveness, liquidity etc.

We consider the primary goal of the analysis is the detection of:

1. Reserves for increasing company's efficiency;

2. Facts of managerial failures;

3. Better ways of financial resources allocation and negative factors impacting company's productivity and competitiveness.

For efficient analysis of cash flows generated from investing activities, we should outline the main principles of it. Among them are objectivity and correctness of the data, consistency and integrity of calculations as well as readable and scientific-based results.

By taking into account available tools for analysis of cash flows from investing activities [1] and current political, economic and financial conditions in Ukraine, we consider it necessary to introduce the following stages of the analysis of cash flows from investments (Figure 1).

The first stage of the analysis of cash flows from investing activities of a company provides comparison of the actual cash flow and planned one generated from either a single investment project or the investment portfolio.

So, the first stage of the analysis of cash flows is proposed to compare suggested and actual increase in the cash flow during the period. The analysis of investment cash flows involves the use of such absolute indicators of investment cash flows as:

1. Cash inflows and outflows;

2. Net cash flow from investing activities;

3. Cash outflows for uncompleted investment projects being conducted at the moment;

4. Budgeted cash flows including net cash flow from completed investment projects;

5. Amount of cash reserved on bank accounts and company's cash department [2].

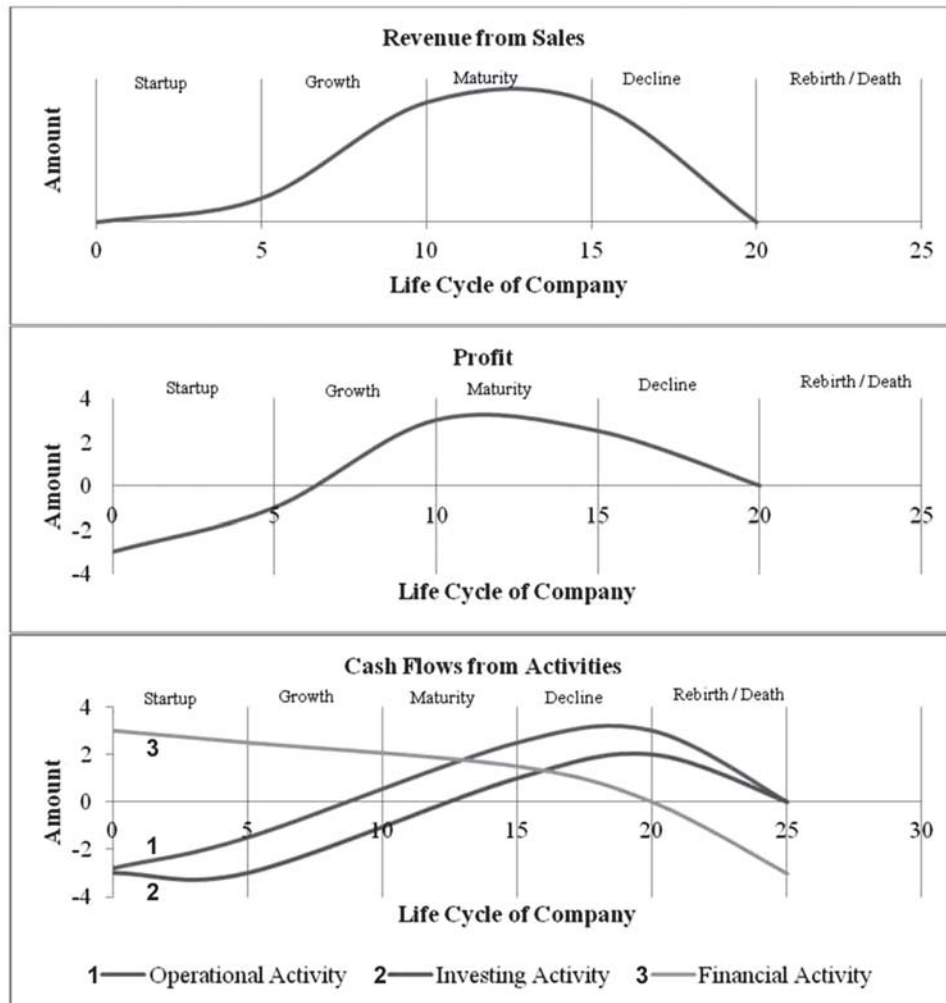


Figure 2. A Pattern of Cash Flows through Life Cycle of Company (6)

The second stage of the analysis of the cash flows from investing activities involves determining the structure and dynamics of changes in investments cash flows as well as comparing these indicators. In the analysis, it is important to consider that the structure of the cash flow varies according to the stage of the life cycle of a company (Figure 2), as the misinterpretation of results gained through the cash flow analysis can negatively impact the further development of the company. Such scientists as Dickinson and Brikhem [3] identify the following stages of the company's life cycle and consistent to them cash flows:

Stage 1 — Startup. This period is characterized by the cash inflow from financing activities and cash outflow from investing and operating activities.

Stage 2 — Rapid Growth. This period faces high rates of profit growth and company's own investments into R&D.

Stage 3 — Maturity. This period is characterized by growing sales and revenues. Total cash inflows slow down despite growing cash flows from investing and operating activities.

Stage 4 — Stability. A company maintains profitability at an optimal level. Cash flows from all activities remain unchanged.

Stage 5 — Decline. Profitability and financial stability of a company are falling down. Cash flows from all activities are slowing down [4].

Dependently on the owners' and managers' decision, the last stage of the company's life cycle may bring either rebirth through reengineered business processes and involved investments in innovations or death through liquidation or acquisition.

Investing activities following the company's life cycle is expected to reduce cost of capital and improve financial flexibility. According to the contributions made by Ivashkovs'ka I. V., financial flexibility of a company is a growing financial stability through diversified capital involved from different groups of investors [5].

Analyzing cash flows generated from investing activities requires conditions of external environment to be taken into account and results to be matched to the macroeconomic indicators.

The third stage of analysis of cash flow generated from investing activities implies establishing relationship between investment amounts and current assets for evaluating the elasticity of investing activity of a company.

The importance of investigating the relationship between investing activities and variable cash flows can

explained by the fact that investments are vital for business development and competitiveness in the marketplace though cash is a highly restricted resource underlying investment activity [6].

Cash flows generated from operations are very often invested. Thus, it is advisable to match investments to the net operational cash flows. In the case of net operational cash flow exceeding investment amounts, then an investing policy of a company should be considered efficient with growing financial investments.

The fourth stage of the analysis of cash flows from investing activities covers changes in assets of a company resulted from investing activities. The analysis of investments' impact on cash flows allows managers to observe cash through accounts, assess liquidity of activities and conclude whether available cash fits investment goals of a company [6].

At the fifth stage of the analysis, financial ratios showing the efficiency of investing activities are calculated. As a rule, scientists distinguish the following financial ratios for investing activities to be analyzed:

1. Ratio of cash flows from investing activities to net cash flow shows cash flow from investing activities per monetary unit (USD, EUR, UAH etc.) of net cash flow.

2. Coefficient of cash inflows from investing activities shows amounts of cash inflow per monetary unit of cash flows.

3. Ratio of long-term liabilities to net cash flow shows the extent to which short-term and long-term liabilities cover cash outflows from investing activities of a company.

4. Coefficient of cash outflows from investing activities shows cash outflow from investing activities per monetary unit of cash flows.

5. Ratio of cash inflows from investing activities to liabilities shows the amount of investments needed for purchasing a monetary unit of non-current assets.

6. Ratio of cash inflows from investing activities to non-current assets shows the amount of investments needed for purchasing a monetary unit of non-current assets.

7. Coefficient of liquidity of cash flow from investing activities shows cash inflow to cash outflow ratio.

8. Efficiency of cash flows from investing activities shows general net cash flow to cash outflow from investing activities.

9. Ratio of long-term liabilities to cash outflow from investing activities shows the amount of cash outflow from investing activities that can be compensated by long-term liabilities.

10. Ratio of short-term liabilities to cash outflows from investing activities shows the amount of short-term liabilities used for making investments as cash outflow from investing activities.

11. Coefficient of cash inflows from investing activities shows the share of cash inflows from investing activities in total cash inflow of a company.

The offered approach to the analysis of cash flows from investing activities is expected to match to companies (their legal status, industry) and macroeconomic conditions individually [5].

## CONCLUSION AND RESEARCH PERSPECTIVES

By analyzing cash flows from investing activities of a company, one should take into account the full set of indicators of variable industries highly impacting the company and its life cycle.

Thus, the conducted research systemized tools for analyzing cash flows from investing activities, investigates them and developed improved stages included in the analysis procedure. It can be employed for assessing the efficiency of managing the cash flows from investing activities.

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