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INCREASING ENTERPRISE PROFITABILITY THROUGH FINANCIAL REHABILITATION

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Abstract:
Financial rehabilitation is an important mechanism for restoring the financial health and improving the profitability of enterprises experiencing financial difficulties. In a competitive economic environment, enterprises may face declining revenues, increasing operating costs, excessive debt, insufficient liquidity, inefficient asset utilization, and weak cash-flow management. These factors can reduce profitability and negatively affect long-term business sustainability. This thesis examines the role of financial rehabilitation in increasing enterprise profitability and identifies the principal mechanisms that can be applied to restore financial stability. The study is based on a review of theoretical approaches and contemporary financial-management practices. The analysis demonstrates that effective financial rehabilitation should combine cost optimization, working-capital improvement, debt restructuring, asset utilization, revenue diversification, cash-flow management, and financial planning. The study argues that financial rehabilitation should not be limited to eliminating short-term financial difficulties but should also create conditions for sustainable profitability and long-term enterprise development. The proposed approach can be particularly relevant for enterprises with declining financial performance, high financial leverage, inefficient resource allocation, or temporary liquidity constraints.

Keywords: financial rehabilitation, enterprise profitability, financial stability, cost optimization, debt restructuring, working capital, cash flow, financial management.

Enterprise profitability is one of the most important indicators of financial performance and business sustainability. Profit enables enterprises to finance investments, expand production, improve employee incentives, introduce new technologies, repay financial obligations, and create reserves for future development. However, many enterprises experience periods of declining profitability as a result of increasing costs, reduced demand, excessive borrowing, inefficient asset utilization, or inadequate financial management. Financial difficulties do not necessarily mean that an enterprise is fundamentally unviable. In many cases, temporary financial problems can be overcome through appropriate financial rehabilitation measures. Financial rehabilitation refers to a set of managerial, financial, and organizational actions aimed at restoring an enterprise's financial capacity and improving its future performance.The relationship between financial health and profitability is particularly important because weak financial conditions can create a negative cycle. Declining profitability reduces internal sources of finance, which increases dependence on external borrowing. Higher debt increases interest expenses, while insufficient liquidity may delay payments to suppliers and employees. These factors can further reduce operational efficiency and profitability.Therefore, financial rehabilitation should be considered not only as a crisis-management mechanism but also as a strategic approach to improving enterprise profitability.The objective of this thesis is to examine how financial rehabilitation measures can contribute to increasing enterprise profitability and to identify the major directions for improving the financial condition of enterprises. The study uses theoretical analysis, comparative analysis, financial-ratio analysis, and synthesis of approaches to enterprise financial rehabilitation.

Financial rehabilitation is assessed through several major dimensions: liquidity, solvency, profitability, working-capital efficiency, debt burden, and asset utilization.

The following financial indicators can be used to evaluate the effectiveness of rehabilitation measures.

Return on Assets

ROA=Net ProfitAverage Total Assets×100

ROA indicates how effectively an enterprise uses its assets to generate profit.

Return on Equity

ROE=Net ProfitAverage Equity×100

ROE measures the profitability generated from shareholders' capital.

Debt-to-Equity Ratio

D/E=Total DebtShareholders′Equity

This indicator helps determine the degree of financial dependence on borrowed resources.

Current Ratio

CR=Current AssetsCurrent Liabilities

The current ratio provides information about the enterprise's ability to meet short-term financial obligations.

In addition to financial ratios, cash-flow analysis and working-capital indicators should be incorporated into the rehabilitation process. This makes it possible to distinguish between accounting profitability and actual financial capacity. The results indicate that financial rehabilitation should be viewed as a comprehensive management process rather than a single financial intervention.

The most important relationship can be expressed as follows:

Financial rehabilitation → improved liquidity → lower financial pressure → higher operational efficiency → increased profitability → stronger financial stability.

This sequence demonstrates that profitability improvement often requires the restoration of financial stability first.

For example, reducing excessive debt can lower interest expenses. Lower interest expenses improve net profit. At the same time, restructuring debt can release cash resources that can be redirected toward productive activities.

Similarly, improving accounts-receivable collection can increase liquidity. Higher liquidity enables the enterprise to purchase raw materials on time and avoid interruptions in production.

Cost optimization has a similar effect. When unnecessary expenditures are removed, the enterprise can increase operating margins. However, managers must distinguish between strategic and non-strategic costs.

The rehabilitation process should therefore be based on a diagnostic analysis.

The recommended sequence consists of five stages:

1. Financial diagnosis — identifying the main sources of financial weakness.
2. Rehabilitation planning — establishing measurable financial targets.
3. Implementation — applying operational and financial measures.
4. Monitoring — tracking financial indicators and cash flows.
5. Strategic adjustment — modifying the rehabilitation program when market conditions change.

Conclusion

Financial rehabilitation is an effective mechanism for restoring the financial health of enterprises and creating conditions for sustainable profitability. The analysis demonstrates that profitability can be increased through a combination of cost optimization, working-capital improvement, debt restructuring, cash-flow management, asset optimization, revenue diversification, and improved financial planning.The most important principle is that rehabilitation measures should address the underlying causes of financial difficulties rather than only their symptoms. Debt restructuring without operational improvement, for example, may postpone financial problems but cannot guarantee long-term profitability.Enterprises should therefore implement an integrated rehabilitation strategy based on continuous financial diagnosis and measurable performance indicators.The following recommendations can be proposed:

Conduct regular financial health assessments.
Optimize operating and administrative costs.
Improve accounts-receivable and inventory management.
Restructure high-cost and short-term debt where appropriate.
Strengthen cash-flow forecasting.
Improve the utilization of productive assets.
Diversify revenue sources and markets.
Introduce scenario-based financial planning.
Establish early-warning financial indicators.
Link financial rehabilitation with long-term strategic development.

In conclusion, financial rehabilitation should be understood not merely as a response to financial distress but as a strategic mechanism for improving enterprise efficiency, profitability, resilience, and long-term competitiveness.

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