

Strategic Financial Management in Small and Medium-Sized Enterprises: Balancing Liquidity, Profitability, and Growth Under Market Volatility

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ABSTRACT: The article examines strategic financial management in small and medium-sized enterprises in the context of achieving a balance between liquidity, profitability, and growth amid market volatility. The mechanisms of liquidity, profitability, and risk management are analyzed, along with approaches to financial flow forecasting and the formation of a sustainable capital structure. The role of strategic financial planning instruments – budgeting, scenario modeling, KPIs, and digital analytics – is emphasized as essential for ensuring long-term stability and competitiveness. It is concluded that the integration of these tools into a unified management system enables small and medium-sized enterprises to maintain financial stability and adapt flexibly to changes in the external environment.

KEYWORDS: financial management, small and medium-sized enterprises, liquidity, profitability, risk management, financial planning, market volatility.

I. INTRODUCTION

Modern conditions for the functioning of small and medium-sized enterprises (SMEs) are characterized by high market volatility, fluctuating demand, rising borrowing costs, and intensifying competition. Under these circumstances, the financial stability of enterprises directly depends on their ability to effectively balance liquidity, profitability, and growth rates. SMEs, because of scarce financial resources and opportunities for diversification, are particularly vulnerable to changes in external factors. This makes strategic financial management a central instrument to provide flexibility and long-term stability so companies can mitigate risk and optimize capital structure.

The goal of the study is to reveal and systematize mechanisms of strategic financial management that will provide a balance among liquidity, profitability, and growth in development in SMEs. The timeliness of the topic is determined by the need to develop scientifically grounded techniques of managing the passage of finances and investment processes in a volatile economic situation, when resource misallocations may lead to loss of competitiveness and reduction of development capabilities.

II. MAIN PART. KEY CHALLENGES FOR FINANCIAL MANAGEMENT IN SMES

The modern economy imposes greater stress on SMEs in terms of flexibility and sustainability of financial policy. Escalating external environment changes, price instability, rising costs, and tightening regulatory policies create additional barriers to resource management. Under these conditions, the main risk determinants are market condition variability, limited sources of finance, and barriers to accessing credit and investment instruments, necessitating the development of comprehensive approaches to strategic financial planning (table 1).

TABLE 1. KEY CHALLENGES FOR FINANCIAL MANAGEMENT IN SMES [1, 2]

Main challenges	Nature of the problem	Consequences for SMEs	Possible adaptation strategies
Market volatility and limited financial resources	Price fluctuations, supply and demand level variations, rising cost of production, and stress in working capital carrying.	Reduced liquidity, deteriorating financial stability indicators, and intensified debt burden.	Generation of liquidity buffer, budgeting on the basis of scenarios, and improving cash flow management.
Changes in	Increasing tax and	Higher operational risks,	Automation of financial

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macroeconomic and regulatory conditions	administrative burden, currency control regime changes, and additional reporting obligations.	increased adaptation costs, and reduced profitability.	management, use of digital planning tools, and enhancement of the transparency of reporting.
Limited access to credit and investment resources	Stricter bank lending conditions, decreased availability of long-term funding, and low investor confidence.	Inadequate working capital, insufficient possibilities for modernization and development of business.	Diversification of financing sources, cooperation with venture funds, and participation in government support programs.

The interaction of these factors develops a multi-dimensional environment in which financial management in SMEs requires a flexibility-influenced, analytical precision-oriented, and anticipatory forecasting strategy. The ability of companies to develop balanced financial plans, anticipate macroeconomic conditions, and build flexible liquidity structures becomes the survival and sustainable development factor in the event of market uncertainty.

III. FINANCIAL LIQUIDITY AND ITS STRATEGIC SIGNIFICANCE

Financial liquidity refers to the ability of the company to meet short-term obligations using available current assets [3]. In strategic management, liquidity not only serves as a measure of solvency but also as a driver for a company's flexibility and responsiveness in changing market environments. For SMEs, the right level of liquidity is particularly important, as it ensures stability in the event of fluctuations in demand, delays in payment, and instability in the cost of financed capital (fig. 1).

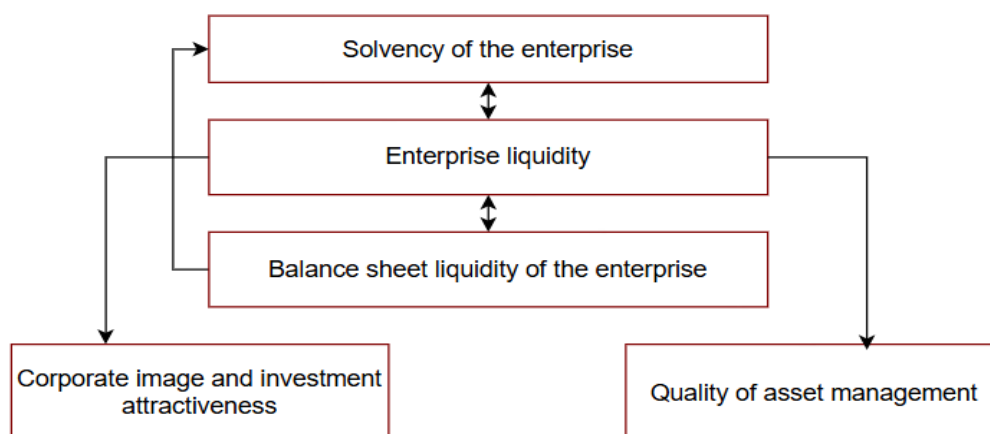


FIGURE 1. INTERRELATION BETWEEN ENTERPRISE LIQUIDITY, SOLVENCY, AND INVESTMENT ATTRACTIVENESS

The interaction of liquidity, solvency, asset management quality, and company investment appeal underlines its multifunctional nature. In order for strategic analysis to work, there is a need to view liquidity not only as a static ratio but as a dynamic quality that reveals itself in its structure and effect on the overall financial stability of the company. To this end, a series of quantitative indices is applied, allowing for the general assessment of the relationship between assets and liabilities and the identification of potential imbalance risk.

The assessment of liquidity is carried out using a set of financial ratios that reflect the correlation between assets and liabilities (table 2).

TABLE 2. KEY LIQUIDITY RATIOS OF LIQUIDITY

Indicator	Definition	Optimal value
Current ratio	Indicates the extent to which current assets cover the company's short-term liabilities, reflecting overall solvency.	1.5–2.0
Quick ratio	Measures the ability to meet short-term obligations without relying on the sale of inventories.	1.0–1.5
Cash ratio	Shows the share of liabilities that can be immediately covered by the most liquid assets, such as cash and equivalents.	0.2–0.5

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These ratios are an important analytical instrument in estimating the financial condition of a business. They enable one to determine how well current assets are utilized, if their turnover is constant, and if the amount of liquid funds is sufficient to cover repayment for short-term liabilities in due time. The basic formula for calculating the current ratio is as follows:

$$CR = \frac{CA}{CL} \quad (1)$$

where:

CR– current ratio;

CA– current assets;

CL– current liabilities.

The optimal value of this indicator for SMEs, according to international studies, typically ranges between 1.5 and 2.0, reflecting a balanced relationship between liquid assets and liabilities [4, 5]. A higher ratio may indicate inefficient use of capital, while a lower one suggests a risk of losing solvency.

The level of liquidity has a direct impact on a company's stability and investment attractiveness. Recent studies in the field of production management also indicate that the implementation of digital and robotic technologies contributes to improved asset utilization and the growth of value added, particularly in capital-intensive sectors. This emphasizes the interrelation between liquidity management and technological modernization as a factor of financial resilience [6].

Enterprises with a sufficient reserve of liquid assets are able to respond more quickly to changes in market conditions, finance short-term projects without relying on external capital, and demonstrate a higher level of trust from investors and creditors. Conversely, excess concentration of liquid capital can reduce overall profitability of capital, limiting prospects for development and in-house growth. Therefore, tactical management of liquidity should reconcile financial security on the one hand with efficient utilization of resources on the other.

IV. PROFITABILITY AND ENTERPRISE GROWTH AS A STRATEGIC DEVELOPMENT PRIORITY

In an unstable market environment, a company's profitability serves not only as an indicator of the efficiency of its current operations but also as a key source of internal financing for further growth (fig. 2).

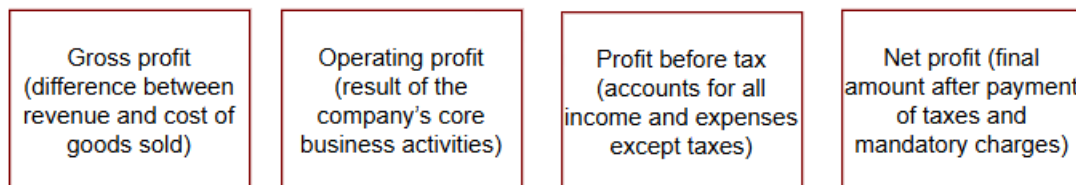


FIGURE 2. ENTERPRISE PROFITABILITY INDICATORS

For SMEs, which have limited access to external capital, profit becomes the main factor of self-financing, determining the possibilities for technological renewal, market expansion, and strengthening of competitive positions.

The level of profitability can be expressed through the return on assets (ROA) ratio, which reflects how efficiently a company uses its assets to generate profit:

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100 \% \quad (2)$$

The optimal ratio between profit and assets reflects not only the efficiency of resource utilization but also the degree of stability of the enterprise's financial model. The profitability indicator analysis provides for an identification of trends in the distribution of income, identification of sources of generating profit, and assessment of stability of the business model over time. It is significant that increasing profitability is traditionally connected with rising financial risks, which implies that a wise, well-balanced strategic approach to managing returns is in demand.

It is in direct proportion to risk that profitability is defined, determining the strategic balance between fiscal performance and business security. According to the trade-off concept, an increase in profitability or in the share of debt capital is associated with higher risk and the rising costs of financial instability [7]. The optimal balance between profit and risk is achieved when the overall value of the enterprise reaches its maximum at an acceptable level of debt burden (fig. 3).

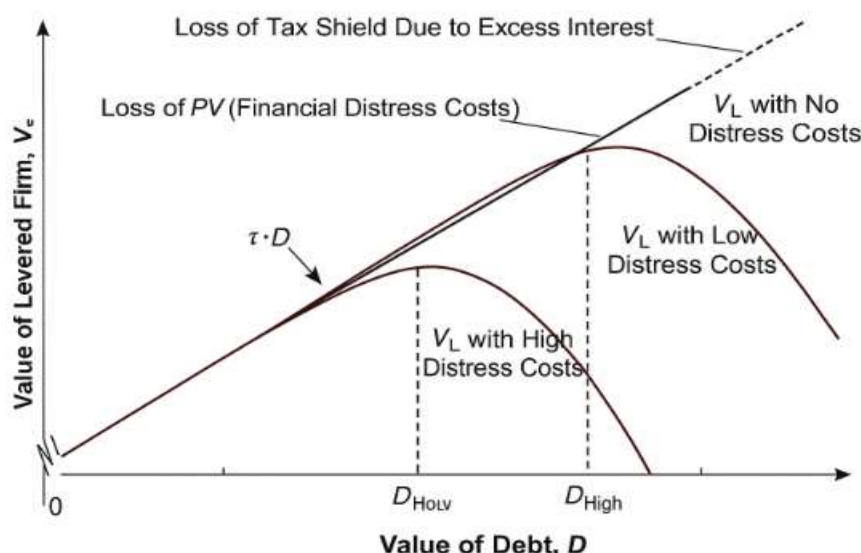


FIGURE 3. THE TRADE-OFF CONCEPT ILLUSTRATING THE RELATIONSHIP BETWEEN PROFITABILITY, RISK, AND FIRM VALUE

For SMEs, this relationship is particularly significant due to their limited ability to absorb financial shocks and their high dependence on short-term financing. This necessitates the formation of a balanced structure of assets and liabilities, the application of diversification mechanisms, and the implementation of risk management instruments that help mitigate the impact of market fluctuations (table 3).

TABLE 3. RISK MANAGEMENT INSTRUMENTS IN THE STRATEGIC FINANCIAL MANAGEMENT SYSTEM OF SMES

Risk management area	Instruments and methods	Expected effect
Financial stability	Optimization of capital structure, maintenance of liquidity reserves, stress testing of financial indicators.	Reduction of insolvency risk and prevention of working capital shortages.
Market risk management	Hedging of currency and interest rate risks, use of forwards and options, diversification of suppliers and clients.	Minimization of losses caused by external and price fluctuations.
Credit risk management	Assessment of counterparties' solvency, establishment of credit limits, insurance of accounts receivable.	Reduction of default risk and mitigation of cash flow disruptions.
Operational risk management	Implementation of internal control systems, automation of financial processes, business process audits.	Increased transparency and controllability of financial operations.
Strategic risk management	Scenario planning, cash flow modeling, implementation of KPIs and early warning systems.	Enhanced adaptability and resilience of the business to a changing market environment.

It has been noted in recent research that the effectiveness of risk management systems significantly increases when they are integrated into the broader framework of digital transformation. In such models, financial planning and data analysis become the foundation of managerial stability, allowing enterprises to combine risk assessment with business forecasting and to enhance the accuracy of strategic decisions [8].

An effective risk management system forms the foundation for sustainable growth and enables enterprises to use profit as a strategic resource for development. Risk management and performance management are closely interconnected: reducing financial uncertainty contributes to profit stability, while its rational allocation strengthens the company's competitive position.

Profitability management involves not only the analysis of financial ratios (ROA, ROE, ROS) but also the assessment of profit stability over time, which reflects the enterprise's ability to maintain positive financial results throughout different phases of the economic cycle (fig. 4).

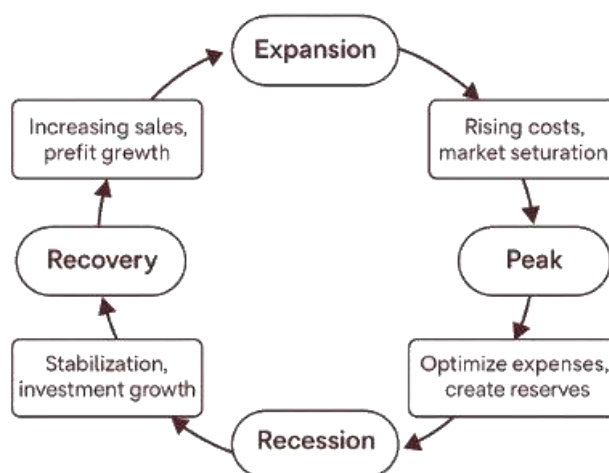


FIGURE 4. RELATIONSHIP BETWEEN PROFIT STABILITY AND THE PHASES OF THE ECONOMIC CYCLE

The presented diagram illustrates the cyclical nature of profit generation and maintenance in relation to the phases of the economic cycle. During the growth phase, the main concern is utilizing positive dynamics for reinvesting profit and expanding the capacity of production. At its peak, the main concern is controlling costs and the generation of financial cushions, which are preparing for potential declines in business activity. During the recession phase, liquidity management and risk minimization are crucial in order to maintain stability and prevent losses. The recovery stage, in turn, requires strategic planning and the resumption of investment activity, enabling a return to a new expansion stage and the establishment of the long-term stability of the enterprise's financial model.

A good profitability and risk management strategy enables SMEs to venture into sustainable financial growth even in conditions of uncertainty in the market. Strategic balancing of profit creation, capital investment, and risk reduction ensures that short-term financial goals do not compromise long-term stability and competitiveness.

V. STRATEGIC FINANCIAL PLANNING INSTRUMENTS FOR SUSTAINABLE SME DEVELOPMENT

In the context of financial uncertainty and limited resources, strategic finance is a crucial determinant of the sustainability of SMEs. Its objective is to develop a long-term financial plan that integrates objectives of profitability, liquidity, and risk management. Strategic planning enables the capacity to forecast financial flows, examine possible market conditions, and effect managerial decisions with minimal effect from external shocks (table 4).

TABLE 4. KEY STRATEGIC FINANCIAL PLANNING INSTRUMENTS FOR SMES

Instrument	Description and purpose	Expected outcome
Budgeting and performance control	Planning revenues and expenses by periods, comparing them with actual results, and analyzing deviations.	Improved financial discipline, identification of inefficiencies, and optimization of cost structure.
Cash flow forecasting	Cash outflow and inflow calculation, cash gap modeling, and cash planning.	Ensured solvency and timely settlement of financial commitments.
Scenario modeling and stress testing	Analysis of potential changes in macroeconomic conditions, demand, and prices under different scenarios.	Increased preparedness for adverse market developments.
Rolling forecast and flexible planning	Constant updating of budgets and projections based on situations that shift.	Enhanced relevance and adaptability of financial plans.
Key performance indicator (KPI) system	Monitoring financial and operational metrics linked to sustainable growth objectives.	Support for strategic decision-making based on objective performance data.
Integrated financial dashboards and business intelligence analytics	Use of digital tools for data analysis, forecasting, and visualization of results.	Improved management transparency and accelerated decision-making processes.

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In the context of digital transformation, financial planning and control tools based on process automation are gaining increasing importance. These instruments minimize the influence of human error, accelerate data processing, and improve transparency in managerial decision-making [9]. Process automation not only reduces operational costs but also enhances forecasting accuracy and budgeting flexibility under changing market parameters.

The strategic financial planning instruments presented above have significant practical value for SME management. Their effectiveness relies upon how persistently they are applied to day-to-day decision-making and customized to the enterprise's operating environment.

In practice, the equilibrium among liquidity, profitability, and growth can be maintained only through repeated application of integrated financial management mechanisms. Liquidity can be managed by managing working capital, applying rolling cash flows, and creating reserve buffers to ensure solvency during market decline. Profitability can be enhanced through managing cost structure, improving operating effectiveness, and aligning pricing policy to achieve long-term strategic targets.

To sustain expansion without compromising economic security means adopting flexible planning models that link investment plans to performance targets and risk levels. SMEs need to focus on moderate leverage, maintain funding diversification, and utilize scenario-based financial simulations for estimating the potential impact of expansion decisions. This reduces the likelihood of over-expansion and ensures that expansion is supported by a solid financial foundation rather than short-term profit maximization.

The growing use of digital technologies fundamentally improves strategic financial management. Cloud accounting software, business intelligence software, and analytics software provide timely insights into financial performance and facilitate evidence-based decision-making. Digitalization of financial planning enables SMEs to respond timely to fluctuations in external conditions, automate monitoring of risks, and enhance forecasting precision – making strategic management a continuous data-driven process.

CONCLUSIONS

The analysis demonstrates that strategic financial management in SMEs is based on the need to achieve an optimal balance between liquidity, profitability, and growth. Under conditions of market volatility, the sustainability of an enterprise depends not so much on the absolute level of individual financial indicators as on its ability to engage in adaptive planning and integrate management tools – from liquidity and profitability analysis to financial flow forecasting and risk assessment. Balancing short-term solvency with long-term profitability ensures not only financial stability but also strategic flexibility, enabling enterprises to respond effectively to macroeconomic and industry-specific fluctuations.

A key factor in the sustainable development of SMEs is the implementation of strategic financial planning instruments that combine budgeting, scenario modeling, KPIs, and digital analytics. The comprehensive application of these tools fosters the creation of a transparent financial architecture, enhances resource efficiency, and reduces vulnerability to external shocks. Thus, strategic financial management serves not merely as a control function but as a systemic mechanism for ensuring competitiveness and sustainable growth of SMEs in an environment of uncertainty and market transformation.

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