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Financial analysis and a course in reducing financial crises in medium industrial companies in the Republic of Yemen

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Abstract

The article's first section discusses how the corporation declined as a result of its subpar response to its financial instability. We concentrate on the approaching fall of the corporation in Yemen as well as a new legal definition of company decline. Companies can also reverse the drop by putting company crisis management into place and using both formal and informal methods to handle crises. The financial facets of corporate crisis management are covered next in relation to financial management. In the second section, we go into the methods and working methodology that were applied to the study of a particular sample of businesses. The statistics of testing reductions in a chosen sample of institutions are included in the application section of the paper, and we utilize financial analysis to show the decline of the sample of institutions. The study's findings and discussion help us identify the characteristics of the factors that contributed to the company's decline, and the study's conclusion offers suggestions for economic action in the area of the company's financial health with the main objective of preventing or delaying the company's decline with the fewest losses possible.

Keywords: Financial management; Financial ratios; Liquidity ratio; Profitability ratio; Financial crises

1. Introduction

The functions of financial management have evolved as they no longer seek to provide the necessary funds to meet the needs of the institution and business organizations and their economic and financial activity, but rather its goal has expanded to include the flow of funds, planning, controlling them, and making financial decisions. Among the functions of financial management is the function of making financial decisions, the function of financial planning, and the function of control. Finance The function of financial regulation The function of obtaining funds (finance) The function of investing money (money management) The function of meeting special problems. The financial management in particular, and the company's management in general, has been concerned with the function of financial planning, due to the fact that the contemporary concept of financial management is based on sound financial planning for all aspects of work within the institution, and this interest has emerged in recent years clearly due to the suffering that the institution is exposed to in order Ensuring continuity in the market and achieving profits, and because of the large number and complexity of financial relations between the institution and its external surroundings, and because of the scarcity of funds available for investment, which made the financial management concerned with financial planning, preparing and preparing for it, that is, preparing to visualize the total financial relations among the executive departments within the institution from On the one hand, and between the institution and the economic environment on the other, and from that, this willingness will ensure a balance between the institution's need for funds and its ability to achieve these funds, whether in terms of amount or in terms of time, and by using these two variables (amount and time) you will be able to choose investment opportunities, Add to this the financial management's interest in the type of funds sources that can be relied upon to finance the needs of the institution in case of financial deficit, and the

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resulting from It has its sources of money and its expected uses, as these sources must be appropriate in terms of cost and in terms of payment. The importance of financial planning appears as an effective tool to improve the use of material capabilities and financial means with the highest degree of productivity, so we resort to financial planning in order to apply the principles of saving and not Waste and waste, that is, in order to increase labor productivity, reduce costs, expand the volume of sources of accumulation, and use financial and in-kind accounts rationally. Among the objectives of financial planning, and in general, we rely on financial planning to achieve a set of objectives, including drawing up policies and rules guiding individuals' thinking in financial affairs, the most important of which are the policies of sources of finance and the comparison between the policy of buying or leasing assets and the policy of foreign investment and the development of financial procedures regulating operational operations and financial forecasting and determining the quality of The sources that are required to be available to implement the various plans and determine the sources of funds that can be created or self-provided within the company, in addition to determining the best means to use each of the sources for the purpose of implementing the established plans One of the functions of financial management is also the function of financial control. Financial control is considered one of the main functions of the financial manager, and financial control is intended to evaluate decisions made regarding planning after determining the quality of criteria that can be used for comparison, so it is considered an integral part of financial planning and control does not stop at the limit of detecting deviations between The results of the financial plan and its actual implementation. Rather, it falls within the framework of correcting deviations after determining their causes and the responsible parties, and the type of decisions that must be taken and followed. Effective and good communication that secures the delivery of information by a feedback method One of the most important functions of financial management is the function of making financial decisions. Making financial decisions is the basis of the administrative process in financial management. These decisions aim to achieve a strategic goal of maximizing the wealth of owners and maximizing the market value of a single share, in addition to achieving the maximum possible returns for the institution, with Maintaining liquidity These decisions are represented in investment decisions, financing decisions and profit distribution decisions.

2. Review of literature

Shane et al., 2016 examined and validated stock prices as well as financial performance and profit indicators. They discovered that there is demand for expensive securities since speculators are acceptable for their level of risk tolerance and these securities are useful as tools. Paranque (2016) examined the financial management decisions made by small and medium-sized businesses, specifically the financial decisions and financial analysis through six variables: liquidity, diversification, capacity, flexibility, control, and responsibility, and came to the conclusion that the financial decisions made by small and medium-sized businesses are entirely different from those made by larger businesses. Prior to that, (Bennouna et al.,2010) assessed the use of modern technology in Canadian large firms, including capital budgeting. They came to the conclusion that there are ongoing tendencies toward the development of advanced technology. At the same time, (Mansour ,2010) clarified the extent of its contribution to determining the value of the companies taking part in the merger and how to settle the financial transactions of these companies, shedding light on the role played by financial analysis in rationalizing the decision to merge between companies. In their study, (Bian et al ,2013). used (24) of the 56 financial parameters that had been taken from earlier studies in the Chinese telecommunications and computer industries in order to forecast the failure of enterprises. By using logistical analysis to analyze the financial data that was extracted from the lists of companies, six financial ratios that can be used to forecast a company's failure were found. These ratios are the ratio of trading and net income to total assets, cash flow to total debt, sales to total assets, net income to equity, and current liabilities to total debt. Additionally, utilizing 36 widely used financial criteria for financing, (Singhand et al,2013) did a study to identify the most crucial financial ratios for executives making decisions in hotels in the United States of America. They discovered the prospect of depending on financial research to create models to forecast the company's financial future. (Karsh ,2013) set out to show the effects of credit risk management in the banking sector as well as the significance of the role played by financial and credit analysis in the process of taking credit risks, making financially responsible decisions, and analyzing the financial tools used to predict the financial failure of projects. They advised placing a high priority on training and educating the credit facilities personnel in public banks in Palestine and abroad in this area, as well as emphasizing the necessity of financial and credit analysis for employees in financial and banking organizations. (Angular ,2013) made an effort to show the relative weight that financial analysis has for the banks that were the subject of the these banks. The study concluded by advising the bank to keep up its training programs for staff members, particularly in the area of credit, and to base credit decisions more on financial analysis than largely on client guarantees. By identifying the function of financial analysis using financial ratios, (Al-Helou ,2016) sought to clarify the degree of dependence on financial ratios in financing decisions in Palestinian Islamic banks. The study discovered that Islamic banks are interested in examining the profitability indicators of the borrower. The study recommended that the bank should keep improving the process it uses to decide whether to grant financing by conducting financial analyses of all client activities and by identifying any indicators that might catch the analyst's eye. This will help the banking management make the best choice possible based on efficient scientific and practical analyses. In order to expose the truth about the financial status of the Algerian National Corporation for the Manufacturing of Measurement and Control Devices, (Al-Yaman ,2015) tried to identify the most significant financial analysis techniques utilized in evaluating the performance of the institution. The study came to the conclusion that the institution was able to attain financial balance during the study period, which indicates that by analyzing the financing ratios, it was able to finance its investments using its fixed resources. (Elmabrok's ,2014) goal was to analyze the status of companies listed in the services sector on the Malaysian market using the Altman model in order to determine whether or not they were experiencing financial difficulties. It was discovered that when utilizing the Altman model to compare the financial positions of unsuccessful and successful companies listed in the services sector on the Malaysian Stock Exchange, there is a difference. To analyze the financial failure of service. (Singh and Schmidgal,2012) used 36 financial ratios in an effort to explain the function of financial ratios in decision-making among executives in the hotel industry in the United States of America. In order to accomplish this, (500) financial managers of hotels in the United States of America were given a questionnaire, which contains data about the extent of ratio use. According to the study's findings, executives base their decisions on the profitability ratio and operating ratios. These ratios are paired with a set of other ratios when creating or making a finance decision, with the need to continue and be cautious in their use. In a research done in 2012, (Kirkham ,2012) evaluated the liquidity of Australian telecom companies using cash flow ratios to those using traditional standards. Over the course of five years, the study was applied to 25 companies in the telecom industry. In addition to the necessity to consider cash flow ratios, businesses that exclusively rely on conventional liquidity ratios run the risk of making poor judgments. Study (Eric & Jardin, 2011) (Eric & Jardin, 2011) The study aims to clarify how the paths method (Kohonen maps) is used to extend the prediction horizon of financial failure models after concluding that the paths method is more effective in the short and medium term than traditional analysis models when the forecast period is only one year, but less effective when the year is combined. In the long run, it was advised that the pathways technique be used to forecast the company's financial status and potential dangers. in order to give management of firms the ability to take early action to solve any potential financial issues the company may encounter. It has a strong ability to anticipate the future financial status in the medium and long term. In order to evaluate the financial performance of institutions, study (Saada, 2019) aims to identify the tools used in financial analysis. It also emphasizes the significance of financial analysis as a follow-up to institution performance assessment and its function in rationalizing administrative decisions. to the organization. The study produced findings, some of which were pertinent to the institution's administrative structure. It has been noted that the organization's discretionary budget, which serves as the foundation for all actual and discretionary management activities, is missing. In an effort to assess the effectiveness of financial performance, the study (Al-Shammari, 2010) examined the usage of the two most popular traditional methodologies (horizontal analysis and financial ratios). The study's findings were attained by the application of contemporary financial analysis techniques, which comprised (10) models inside statistical procedures. The ratio of loss to profit between the years (2002–2006) was derived from it, and it came to (26 times) in accordance with the model outlined earlier. Loss signs first surfaced in 2002, while the financial ratio indicated a drop in financial performance and the realization of losses in 2004. The study suggests, for example, that the financial analysis The business doesn't provide any importance. an investigation (Dalbouh, 2012) The study's goals are to identify different credit risks in commercial banks, particularly those that result from their interactions with businesses, and to determine how using financial analysis tools (such as ratios measuring liquidity, profitability, debt, activity analysis, and organizational structure) can help to lower risks. A sample of (200) branch heads and staff members from the Department of Finance in (50) branches of commercial banks in Jordan were subjected to the study. The study came to a number of conclusions, including the fact that banks heavily rely on liquidity and profitability ratios, which helps to rationalize and lower credit risks, but that organizational structure analysis and the usage of debt ratio analysis tools were insufficient. A study's goals include achieving management control practices through the use of the budget as a tool for administrative control and examining how this has an impact on the company's financial performance (John & Ngoasong, 2018). (Nigeria Gunes). Interviews conducted in compliance with the organization's procedures and (50) questionnaires given to employees and the Nigeria Company were used to collect the data (PLC). The study came to a number of conclusions, the most significant of which is that by enabling the following administrative functions—forecasting, planning, communication, coordination, motivation, evaluation, and decision making—the budget can facilitate the creation and maintenance of competitive advantage. a project from earlier years. an investigation (Kumbirai & Webb, 2010) The purpose of the study is to assess a South African commercial bank's financial performance using financial ratios. The study used financial analysis to gauge profitability, liquidity, and credit ratios in order to assess the performance of services in the South African commercial banking industry during the years 2005 to 2009. The five biggest banks in the world and one of the biggest commercial banks in Africa were included in the study. According to the study's findings, the financial performance of banks increased noticeably in the first two years of the analysis, peaking in the year 2007; however, due to the global financial crisis, the percentages of profitability and liquidity in the banking sector fell in the two years (2008–2009). Study (Huerta, I.FR ,2021) (Huerta, I.FR ,2021) This field study in Egyptian public business sector enterprises aims to create a proposed accounting approach to quantify and predict corporate default. The investigation discovered a six-financial-ratio established model to forecast organizational failure. The report made the recommendation that work be done on creating accounting systems to gauge and forecast virtual businesses in public firms. In addition, there is a need to pay closer attention to the financial statements' compliance with accounting and financial rules, principles, and controls. The study's goals are to establish a theoretical framework for the idea of financial ratios, where financial factors are used to create ratios that are thought of as a condition (Trigueiros, McLeay, 2015). To employ appropriate and right financial ratios. The study reevaluated the factors that affect financial ratios, and the findings were as follows: The study recommended the following: the need to rely on financial ratios and the variables that make up these Ratios, which is a requirement to use correct and accurate financial ratios. In order to use financial ratios, the variables must be proportional, which must be an independent factor from the size of the company. The study's goals are to develop two models based on the past movement of the company's liquidity for the first model and on various financial ratios for the second model through the released financial statements. The study came to the conclusion that the model based on the movement of liquidity is better able to predict financial failure than models based on financial ratios taken over a longer period of time. The study also found that models based on financial ratios taken during a troubled year were better able to predict than models taken over a longer period of time. The report suggested that models based on financial ratios obtained in the default year be adopted. The purpose of the study (GUZ, 2009) was to develop a model to forecast restaurant failure. and the study sample included (279) failing restaurant businesses and (27) flourishing restaurant businesses between the years of 1987 and 1998. The study used the multiple discriminant analysis method to analyze the data and developed a model that included three financial indicators: profit before interest and taxes to total liabilities, retained earnings to total assets, and total liabilities to total assets. The accuracy of the model reached (91%) a year before failure, and the study was therefore required to adopt a failure prediction model for restaurants. The research (Al-Gharibeh 2017) Purpose A sample of twenty industrial businesses listed on the Amman Stock Exchange were utilized in the study to determine the optimal set of financial ratios that can be used to forecast the failure of Jordanian shareholding enterprises. According to the study's findings, six financial ratios have been included in a model that can assist predict a company's demise several years before it really happens. This study (Al Mualla 2017) aims to ascertain the extent to which the management of Jordanian banks relies on objective standards upon which to assess a customer's eligibility for direct credit facilities. Regarding their respective weight in the decision to grant credit facilities, the factors vary. . Study (Matar, 2018) This study aims to determine the relative significance of the audited financial statements released by Kuwaiti joint stock companies as a source of information for each investor and lender. The study also intends to establish a broad framework for adequate disclosure of the data to be included in joint stock businesses operating in the State of Kuwait's published financial statements. The study came to a number of conclusions, including: - Greater investor interest. Lenders' financial statements have been audited in order to provide them with relevant data. The study's (KWADWO, SA 2017) main goal is to apply the Altman model of financial analysis to companies listed in the Malaysian market's services sector. It was discovered that there is a discrepancy in determining the financial status of troubled and non-failed companies listed in the services sector after the financial statements of (28) companies were accepted and listed in the services sector at Bursa Malaysia. The Altman model was used to predict the failure of service companies registered on the Malaysian Stock Exchange, and this study dispelled any concerns about the model's accuracy. Study (Masruki, , 2008) (Masruki, , 2008) In order to analyze the performance of two Islamic banks in Malaysia, Bank of Islam and Muamalat Bank, this study used a t-test and various key metrics, including profitability, liquidity, and risk. It was utilized to check for any discrepancies in the study. According to the study's analysis and comparison, Islamic banks are less profitable than regular banks, but they also benefit from more liquidity.

2.1. Relationship between Financial Management and Crisis Management

Being unable to pay at least two debts that are 30 days past due to several creditors constitutes insolvency. An extended entity is one that has multiple creditors, is required to maintain accounts in accordance with particular requirements, and has more obligations than assets. The law, which will go into force at the start of 2016, defines an imminent bankruptcy as one that threatens a debtor, particularly if they are in difficulty. Thus, the idea of a corporation in crisis was introduced by the Commercial Code. If the equity to liability ratio, also known as the self-financing ratio, is low, the company is in crisis a low self-financing ratio, or a low ratio of equity to liabilities Own resources only make up 4% of all corporate resources in 2016, according to a ratio of 4 to 100. This ratio becomes more difficult in 2017 and increases to 8 to 100 in 2018. By implementing crisis management, a company's fall or impending decline is resolved. According to Coombs (2007), crisis management is a fundamental responsibility for organization's since poor management can have major repercussions for owners and stockholders, produce losses for the company, or even put its continued operation in jeopardy. Our understanding of crisis management is that it is a collection of activities with the primary goals of overcoming the crisis state and averting potential negative outcomes. These activities include planning, organizing, directing, and managing operations inside an organization. We also keep in mind that a crisis management program's components fall under the umbrella of preventative programmers, with a focus on identifying possible dangers to the company and bolstering the required safeguards. Organizations and individuals should always be ready to respond quickly, including with a variety of assessments and the appropriate answers (Bernstein & Rakowitz, 2012).
Crisis management can be used to address declines by implementing both formal and informal procedures; formal

procedures include bankruptcy and restructuring, which are authorized by the law. The more preferred informal procedures, such as consolidation, informal restructuring, and remediation, are introduced without the involvement of the court. If a firm can't solve its decline by using informal processes, it should try as hard as it can to utilize restructuring procedures from formal procedures since they ensure the continuation of commercial operations and progressively reduce debt while saving the company. We view the financial parts of crisis management as being the most crucial, whether used to stop processing or resolve declining processes. Since a company's financial status is how it is perceived by its surroundings, its financial features and results are the most essential factors, therefore financial management is one of the top 10 elements of company management. Its duty is to oversee the financial operations. it features four fundamental financial planning, decision-making, process organization for managing finances, and controlled financial analysis. Its fundamental tenet is decision-making, with an emphasis on selecting the best possible capital structure choices, acquiring financial resources, and employing those resources in connection with achieving partial financial goals. Many times, the capacity to make sound financial management decisions alone determines whether or not financial issues will eventually arise. The assumption of the financial health is securing of financial stability, which is one of the financial partial aims of a firm and is achieved by required liquidity, \ indebtedness', and profitability. A company's long-term financial planning is based on its financial strategy, which is a cohesive and interconnected set of strategic financial goals, decision criteria, and regulations (Kráovi & Vlachynsk, 2011). Only businesses that are able to meet the goals outlined in the strategy can be viewed as performing over the long term. Understanding the idea of performance as a company's capacity to assess investments made in business activities is crucial (Frost, 2005). The maximization of a company's market value is one of its fundamental business objectives. In this context, it is appropriate to note that a company's worth is established by its performance, which is a favored performance indicator because it is the only one that necessitates complete data (Neumaierová et al., 2005). A company's performance must improve if we wish to raise its market value. Every business must review and quantify its performance using the best available performance indicators (Hammer, 2007). Despite these realities, firms still disregard financial management, which leads to a range of different types and degrees of financial issues. If a company's management does not secure enough financial resources, either domestically or internationally, eventually its financial stability will be disrupted, performance (subside) will drop below the minimum required level, and the company will enter insolvency, which may exacerbate already-existing problems. Numerous methods were used to illustrate the unfavourable traits of management failure. Failure, insolvency, neglect, and bankruptcy are four generic phrases that frequently appear in literature. (2006) Altman and Hotchkiss We can divide financial issues into three categories based on their severity (Vlachynsk et al., 200): Insufficient profitability occurs when a company's rate of return on invested capital is lower than is typical for that industry. Relative illiquidity (insolvency) is the inability of a corporation to generate enough cash over a lengthy period of time to cover its debts. This inability to generate enough cash can be brief when the cause of the inability to pay is an unfavorable causation, or it can be chronic. We can distinguish between primary and secondary insolvency: When defaulting liabilities are not paid on time and defaulting receivables are not paid on time, primary insolvency results. When a company's primary bankruptcy occurs, its suppliers become secondary insolvent, and secondary insolvency occurs when the total of the company's unpaid receivables exceeds the total of its timely defaulting liabilities. Extension of absolute illiquidity, which happens when a company's obligations are more than actual market value of corporate property In actuality, it indicates that a business has already spent all of their Equity has more debt than possessions.

2.2. Financial Indicators of a Company Decline

The evaluation of a financial company's financial position, which is a summary statement of the level of all company activities that a firm presents itself, is the most crucial component of that company's management. Any financial decision must be supported by financial analysis (Synek et al., 2011). By understanding a collection of operations with the goal of profiting, we may more thoroughly assess the financial status of a corporation through financial analysis. Perspective analysis, which is focused on the future, and retrospective analysis, which is focused on evaluating the present using data from the past, are the two types of financial analysis. Retrospective analysis allows us to identify factors that influenced a company's financial condition, or condition of corporate finance, and so identify the reasons for a company's downfall. We focus our research mostly on the traditional approaches to assessing financial success. Although we are aware that there are currently modern techniques of performance evaluation being utilized, many businesses in Slovakia are still not using these methods correctly and appropriately, thus we want to underline the significance and importance of this. We agree that contemporary techniques should be employed, but only in conjunction with traditional ones. The fact that they play a significant role in a decline indicator that can reveal a lot is another factor in the attention placed on them. It's important to pick indicators that can accurately reflect a decline condition when identifying potential decline indicators that can describe decline causes (Landa, 2009). Indicators of liquidity ratios and net working capital in relation with the golden balance rule can be very instructive in cases of insolvency. Further, equity difference indicators, debt ratio indicators, and other capital structure ratios should be of primary importance to us. Because every organization has a unique structure of assets and liabilities, it is important to stress that indicator values are particularly sensitive to sector and department competency. We can learn a lot about that in relation to the golden ratio guideline, which states that businesses should cover their long-term assets with long-term resources (liabilities). The ability of a firm to pay off its debts is shown by its liquidity ratios, and in any organization, the primary responsibility of the financial manager should be to ensure that the necessary liquidity is present. Debt ratios identify the range in which a corporation can finance its demands using foreign money. A corporation is stable when its equity portion is high, and unstable when its equity portion is low. A corporation must discover the right framework for the allocation of its resources because when debt levels climb, business risks also do so. Profitability ratios provide information regarding the success of a commercial activity. As a well-recognized measure of profitability, they give many types of profit rate. Activity ratios provide information on the level of utilization of specific asset components.

2.3. Research Question and Research Hypotheses

What are the primary financial factors of firm decline formation, according to the study's research question?

The following research hypotheses served as a guide for the study in light of the research question:

- H1: A company's downturn is brought on by a lack of liquidity brought on by an extremely high level of debt.
- H2: Insufficient business profitability also causes a decrease in the economy.

Success in achieving the primary goal depends on the development of supplementary objectives that are intended to evaluate the research topic based on the theoretical knowledge acquired, for analyzing and evaluating the research findings with the creation of draughts of financial materials and economic practice in the areas of the financial aspects of the company in crisis management.

2.4. Method Procedures and Sample of Studies

Selecting a topic that is now most influenced by the present is necessary as the first stage. Obtaining information and its resources is a crucial step in business processes since we gather data from various sources and need to choose the data and resources that are pertinent to the particular topic. The characterization of the research object is the subject of the following technique. It comprises the choice of businesses where the analyses of the particular subject are to be done. The statistical set was produced by all Yemeni business subjects. Some Yemeni industrial companies produced the basic categories, which we refer to as the research's aims. Since it is frequently difficult in practice, as it is in our situation, to study the entire fundamental set, it is required to deal with the selected set, the sample. Our study's sample, which comprises of 12 industrial businesses in Yemen, was chosen based on the following criteria: The industry in which companies operate the distinguishing factor in the statistical classification of economic activity is the choice of an industry sector is influenced by the fact that businesses frequently decline during the industrial production phase. The second criterion is the legal structure of the business, where we consider capital companies that have a significant market presence, such as joint stock companies and limited corporations. Personal companies and state-owned businesses that are not covered by the Act on Bankruptcy and Restructuring were excluded . Another criterion is the subject condition, which separates a group of companies that are in decline and are actively trading from a group of healthy companies. The term "active companies" refers to businesses that are currently operating on the market and are recognized as separate legal persons that are a part of financially stable businesses. A bankruptcy or restructuring action may not result in a bankruptcy or restructuring for the group of declining enterprises.

2.5. Used Methods

After gathering the necessary data, we put theoretical knowledge to use in specific businesses, and this is how we arrive at the research findings. We employ a variety of techniques to achieve this goal, and analysis is one of them. Analysis is the first step in making sensible decisions (Blaha & Jindichovská, 1994). Every decision must be based on the findings of financial analysis. The study's findings and comments include a summary of the outcomes from synthesis. Additionally, we employ a comparison, an inference, and a deduction. We abstract from specific facts in order to conduct the necessary study using a process of scientific abstraction. The primary goal of statistical methods, which are used to apply research findings, is to acquire and provide the necessary data in a format that facilitates its processing and evaluation. We employ quantitative methods of descriptive statistics (which focus on various ways to get, use, and present collected data with a description using certain statistical methods) and mathematical statistics to carry out these procedures (it is used if obtaining of all data is not always possible from various reasons and concludes based on gained partial data and generalization of obtained results about the whole basic set) We decided to base our test's significance level on the 0.05 Alpha threshold. We compare two basic groups because we are primarily interested in identifying the indicators and traits that have a substantial impact on financial companies. To do this, we utilize the u-test, which is a stronger version of the t-test in situations when normalcy is disrupted. The test is run using a Stats Models module in both MS Excel and the statistical programmer Python, where the statistical use is ongoing.The fall in the creation of particular industrial businesses can be attributed to a number of factors. In large part, it is a result of a combination of market effects in the industrial sector, which prevent companies from immediately and drastically reducing fixed costs for investments made in technology equipment. Additionally, issues with resource allocation to assets that do not add value or do not produce value added cause it to be at an insufficient level, which leads to insufficient profitability creates a drop that results in a time loop. Despite corporations' best efforts, no such business transactions that are necessary to secure finance have been seen to reverse. Businesses have experienced financial issues. The golden balancing principle for sloping enterprises is shown in Table 1.

Table 1 The Golden Balance Rule of Decline Companies

Golden Balance Rule	Bankruptcy	Restructuring	All	% Ratio
Overcapitalized	2	2	4	33.3%
Undercapitalized	2	6	8	66.7%
Total	4	8	12	100%

Table 2 Chosen characteristics of healthy companies and decline companies in last following period

Median b	Average b	Median r	Average r	Median z	Average z	
L1	0.02	0.07	0.01	0.01	0.83	2.64
L2	0.23	0.50	0.41	0.38	1.90	4.42
L3	0.24	0.52	0.56	0.53	2.28	5.5
TDTA (%)	157	73890	138	2929	32.6	161.2
TETA (%)	-43	-73792	-29	-2828	69.6	-60.19
LVR	-1.34	-37.65	-1.98	25.26	0.50	16.54
TAE	-0.28	5.72	-0.73	16.10	1.41	2.75
CLTA (%)	97.5	2242	77.6	92	20	19.10
INV	9.57	41.81	3.36	10.54	0.7	1
IC	-17.87	-25102	-15.14	-38.4	20.3	4516
ROA	-	-	-	-	15.50	16.38
ROE	37.34	6.74	40.42	35.89	21.6	31.32
ROS	-	-	-	-	8.76	5.84
TAP	183.76	247.73	331.13	382.70	245.42	304
TLP	270.53	318.68	259.93	343.09	50.49	69.74
TRP	53.70	109.91	97.09	126.98	57.61	76.3

Two of the companies in the bankruptcy group had undercapitalization at least two years prior to their decline; what is the proof that the golden balance rule was broken in these cases? The businesses used short-term resources to cover their non-current assets. Since net working capital was negative from the perspective of current assets, there was an uncovered debt that indicated that businesses did not have enough liquidity. The remaining two businesses had excess capital even though they were barely beyond the acceptable amount. Two of the enterprises in the restructuring group were undercapitalized for at least a year prior to their fall. The primary causes of undercapitalization included a rise in loss and a decline in the total amount of current assets due to a decline in short-term receivables or supplies in connection with a significant rise in short-term liabilities or a rise in short-term firm reserves. The majority of the remaining enterprises' small overcapitalization was caused most frequently by the fact that they took out loans a year before their decline but were unable to pay them back. The majority of the healthy companies were overcapitalized, which meant that non-current assets were covered by long-term sources, and positive net working capital confirmed the companies' high liquidity when comparing decline companies with healthy companies. Undercapitalization happened in the final two enterprises, but just slightly in the remaining six. Of course, businesses should look out for themselves in the future and ensure that the golden ratio rule is followed. The two remaining undercapitalized businesses do not have a solvency issue, as can be seen when we examine their liquidity. In our study, we evaluate the median of the sample of testing companies. We concur that the average offers more details about a given result, but it is also susceptible to extreme extremes. That applies to our case as well because a sample with typical characteristics does not exist. The resulting information can thus be inaccurate. Therefore, for our research, the median has a higher explanatory power than average.

Every liquidity degree's median value falls short of the desired value in declining enterprises. The same is true of the typical two years preceding a decline. Most organization's have low first degree liquidity values, falling short of even the lower-bound of the suggested range of (0.2-0.9), which every company should meet regardless of industry or focus of operations. Short-term obligations far outweigh liquid assets in total. Only a few businesses succeed in reaching a value within the suggested time frame, but in most cases, a decrease occurs two to three years later. The median value, which attests to the solvency of really bad enterprises, does not reach 0.04. Only six of the restructuring companies attained the recommended value in the case of second-degree liquidity, and we are unable to say the same for the other cases (1-1.5). In the case of the bankruptcy companies, ten of them only succeeded because there are situations where businesses are unable to convert their large amount of current receivables into cash and have low first-grade liquidity values. Additionally, first grade liquidity has a year before it starts to diminish. Both an average and a median do not display the necessary values. All 32 bankruptcy firms and the 40 restructuring corporations failed to reach the necessary level of third degree liquidity (2-2.5). In general, it can be said that hardly no company comes close to the required values for the year preceding a decline; in addition, there are incredibly low values for every liquidity grade. The businesses are unable to effectively and timely fulfil their obligations.

The testing of the hypotheses supports the aforementioned findings and demonstrates the significance of the effects of liquidity, debt, and profitability on a company's financial health. According to the p-value results for our research topic, at a significance level of 0.05, we can confirm both hypotheses and claim that a company's decline is brought on by a lack of liquidity in conjunction with an overly high level of debt and a lack of profitability. Activity ratios do not significantly affect the establishment of a decline.

Table 3 Testing of the Hypotheses

Indicator	P-Value	Indicator	P-Value
ROA	1.17	TLP	0.09
ROE	1.19	TDTA	0.28
ROS	3.30	TETA	2.26
L3	2.51	CLTA	1.64
L2	1.58	INV	1.29
L1	5.42	IC	0.04
TAP	0.05	LVR	0.44
TRP	0.00	TAE	0.39

3. Discussion

The profitability ratios, together with the liquidity and indebtedness ratios, are crucial in this context when discussing a company's subpar performance. Additionally, businesses must take into consideration the findings of analyses in a sophisticated manner that is not frequently used in Slovakia. After that, we can draw financial analysis conclusions and make related financial decisions for the future. There are many different reasons for the excessive debt levels, insufficient liquidity, or both. There may be indications of the formation of insolvency if there is insufficient equity production combined with a dearth of foreign sources. There may be a number of causes for this, including the presence of problematic current asset components, when businesses bind an excessive amount of cash in receivables or supplies, a lack of operational resources for financing declining business activity (liquidity risk is not always caused by low profitability; many businesses achieve profit at the expense of liquidity), an inability to obtain sufficient financing due to the occurrence of incidents, and violations of the golden balance rule (it means lack of long-term sources and so companies cover its non-current assets by shorter sources meaning that a company is under the continuous pressure of sources restoration). On the other hand, when businesses experience negative net working capital (uncovered debt), other issues arise, including the elevation of short-term foreign sources above current assets, high profit allocations to owners, and a failure to adhere to a rule where the turnover time of receivables should be less than that of liabilities. These issues frequently result in inadequate liquidity for businesses, which is driven by poor management. Many times, situations arise in which businesses are unaware of the potential effects of changing the turnover of current assets items, the amount of sales, the prolonging or shortening of receivables, and the taking out of loans. A company's financial stability deteriorates as there are more errors in liquidity management. In order to ensure a company's solvency in the future, it is required to manage, monitor, and analyses this process if present assets are funded by short-term liabilities; For instance, in a business, it is important to be clear about what might occur if payment terms for invoices were extended (to ensure that there would be no customer-caused insolvency), payment terms for supplier liabilities were reduced, current asset items were increased and decreased (realizing the impact on weakening or strengthening liquidity in connection with net working capital), and sales were increased or decreased (what would happen with the liquidity when increasing or decreasing sales, how much additional money will be required to guarantee growing sales), and by funding investment initiatives (not to threat operating flows, determine a bearable amount of planning investment). Financial management for a company should continuously plan for liquidity, quantify acceptable bankruptcy risk, and maintain constant control. In order for a company's solvency to be at the needed level, a secure structure of assets, sources for its coverage, and cash flows must be in place. As a result, from the perspective of financial managers, it is imperative to consistently manage current assets and short-term liabilities, understand the effects of lengthening or shortening payment due to customers' invoices – particularly to significant customers – and consistently secure enough cash for payment of corporate liabilities. Even more crucial than profit itself, which cannot guarantee enough cash for debt repayment, guaranteeing liquidity is a management priority in the short term (Cisko & Klietik, 2013). We maintain the necessary liquidity through consistent balance sheet planning. Planning current assets should ensure that business operations are secure and that continuous production is not constrained. Every business has specific needs for current assets, and Ross, Westfield, and Jaffe (2005) noted that financing of current assets also affects a company's financial situation. Days are used to describe the gap between billing and anticipated revenue, and we designate this indicator as DSO (Days Sales Outstanding). DSO is used to estimate receivables, calculate the number of days' worth of liabilities, and calculate the ratio between averaged receivables and averaged daily sale (realization) (Ehrhardt & Brigham, 2009). It conveys the typical amount of time a business must wait between the sale of a product and the acceptance of payments, which aids in overcoming Variations in current assets lead to changes in the demand for short-term cash resources. Financial managers should adhere to the "golden balance rule," which states that current assets should be partially covered by short-term sources and partially by long-term sources (such as equity and long-term foreign sources), while non-current assets should not be partially covered by short-term sources. have their plan as efficient and profitable as possible, and they should consider financing options and unexpected events for which they should have set reserves in an appropriate amount. In order for a corporation to convert the necessary short-term receivables to cash by which will reimburse its short-term obligations, it should also be remembered that the period of received receivables should not exceed the time of liabilities repayment. Depending on the industry a firm operates in, we believe total debt shouldn't be more than 30–60% of total capital. It is crucial for businesses to handle the study of their debt and make an effort to adhere to the suggested values of specific indicators while also conducting their own due diligence. We must include additional indicators because it is impossible to conduct the debt analysis independently. Because profitability is linked to capital costs, which raise the costs of the entire organization, there are primarily profitability ratios that have a significant impact on indebtedness in relation to the development of an appropriate financial structure. When an organization's equity ratio is high, it is stable; when it is low, it is unstable. Because an owner's risk is greater than a creditor's risk, but not always, equity is more expensive. A company's stability and eventual survival may be threatened by an excessive quantity of foreign investment. The relationship between liquidity structure and debt held by the company is negligible. The fact that a company's operating activity is losing money is the cause of the low ratio of its most liquid assets. They only succeed on the market because they fail to achieve one of the primary objectives of commercial activity: profit maximization. The availability of loans that are only used to support the ratio of liquid assets serves as evidence for this. Since insolvency is worsening and there is an expanding bank loans ratio in the foreign sources structure, the loans are ultimately included in non-paid obligations, the crucial ratio of these loans actually serves no curative purpose over the long term. Instead, insolvency is widening. The amount of debt is influenced by the low share of liquid assets. Due to asset financing, the ratio of foreign sources is rising, and the cost of purchasing assets is rising at the same time. The relationship between a company's liquidity structure and debt load should be examined separately. The burden on foreign sources is impacted by the structure of current assets (which inform us about capital bound in assets with lower liquidity grade), followed by the structure of liquid assets and debt. The linkages between the liquidity structure and the degree of debt are defined and explained. The amount of call money in the first-grade liquidity should as closely approximate the amount of short-term liabilities as possible (value 1). Financial accounts should be dominated by the most liquid assets in the second degree of liquidity because high amounts of receivables (which have lower liquidity) can prevent a company from receiving its cash in time and simultaneously permit its illiquid customers to enter its operational cycle and cash flow. If a corporation has too high short-term receivables, it should reduce the amount in favour of the bank accounts that make up the majority of the current assets' liquidity. In an economy with unusually high solvency, a second-grade liquidity structure is negative if the receivables condition is high. The relationship between loan risk and second-grade liquidity is most obvious since a large degree of receivables is not taken into account by standard sources of liquidity, and a turnover receivables period increases solvency level. The total of current assets should exceed the total of short-term obligations in the third degree of liquidity (value 2-2.5). The smallest portion, with less liquidity than short-term receivables, should be supplies. A surplus of supplies makes it more necessary to use foreign suppliers, which directly affects profitability. Of course, each company's unique production cycle has an impact on how much it adds up to. Companies that operate with little or no supply (such as service providers) can still have third-grade liquidity on par with other businesses; this does not imply that their ability to pay obligations is diminished. The ratio of short-term obligations to total current assets shouldn't be higher than 40%. In general, it is accurate to say that a company's objectives of high liquidity and high profitability are at odds with one another. Profitability "goes at the cost of high liquidity" and vice versa. Depending on its existing financial circumstances, every company should try to find the best possible relationship between its liquidity and profitability. While it is good to consider having a necessary amount of cash on hand to cover liabilities, it is also important to avoid holding too much cash at the expense of investment opportunities. Based on how financial capital structure affects profitability, We can state that enterprises should find an adequate ratio between their domestic and foreign sources in a capital structure and account for the leverage effect and leverage risk while developing the capital and financial structure. In light of these realities, we normally cannot make recommendations regarding the percentage of foreign capital a company should have. When raising the foreign capital ratio, a business should take into account the relationship between return on assets and interest rate. Finally, its determination is based on the financial managers' actual evaluation and choice. t's vital to stress that organization's in Yemen still frequently ignore or employ traditional ways of evaluating company performance insufficiently or not at all. We are convinced that if businesses routinely used these techniques to manage their finances, they would avoid going into decline and could take steps to stave off impending decline. If the right indicators are applied in the right interaction combination, we can discuss a specific financial analysis complexion. Modern techniques would be used to take into consideration the maximization of owners' value, giving businesses a reliable representation of their financial status. The interpretation of specific results of selected indicators and their relationships is crucial. First of all, it's critical to understand that while "two plus two does not equal four in mathematics, it does not in economics," and that the outcomes of indicators make economic sense. The usual example in our research is a declining company's positive return on equity that is identified due to its negative equity and realized loss. Therefore, it is crucial for a business to include all economic factors when analyzing.

4. Conclusion

In the current business climate, the significance of companies' financial management and situation evaluation is occasionally overlooked, and the early warning signs of potential financial difficulty creation that may lead to firms' collapse are ignored. The answer is to implement official and informal crisis management protocols. Financial management is directly related to crisis management since these are the most crucial components of crisis management. An effective management team should constantly monitor the company's financial status and stop any downturn. The foundational tenet of a business's financial health is ensuring its financial stability. Financial managers should secure liquidity values at a certain level in order to sustain financial stability. The key performance metric for financial companies is yield, which must be derived from profit and not from management results in order to be measured by profitability ratios. It's crucial to understand that just because a firm makes a certain amount of money, it doesn't necessarily indicate it has enough cash on hand. As a result, a company's performance should not only be measured by its revenues, costs, and profits, but also by the income and expense items that are shown on the cash flow statement. For a firm to retain the essential financial stability, it is important to keep its debt levels manageable and to establish the right balance between its internal and external funding. An influence of debt on profitability is significant in this context since total capital costs are linked to profitability, where they contribute significantly to gains and have an effect on profitability measures. Respecting many theories of the ideal financial structure, in our opinion, a suitable financial structure is one whose determination depends on the management's ultimate decision after taking into account all relevant elements. Is it preferable to have high financial stability and low profitability, or vice versa, or is having a higher return on equity more crucial at the risk of low financial stability? Every organization has a distinct definition of the right response, and it all relies on whatever option the company ultimately decides to go with. Activity indicators demonstrate asset usage and efficacy, whereas these ratios give us an additional view of a company's financial health. When analyzing the relationship between rising loan risk and liquidity structure, a company should also take into account the relationship between liquidity structure and indebtedness; After that, net working capital should be at a level where specific current asset components can be partially financed by long-term sources and partially by short-term sources. Non-current assets must be covered by long-term sources in accordance with the golden balance rule. Various groups of people, such as owners, managers, creditors, and investors, are interested in the best possible financial health of a specific firm, so it is crucial for them to be aware of its current or potential future financial status. Depending on the objective of the financial analysis, it may be desirable to add new techniques for evaluating company performance to the financial analysis to enhance it if the use of independent indicators is unable to give a complete picture of a firm's financial status. The primary research aim was accomplished by achieving the defined partial research goals. We can respond to the research question and declare, based on the study's findings, that a company's downfall is brought on by a lack of liquidity coupled with an extremely high level of debt. It is crucial to remember that a firm's decline is influenced by how profitable a company is.

Compliance with ethical standards

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