Receivables Management in Financial Management: A Critical Review of Credit Policies, Collection Practices, and Their Impact on Organizational Performance

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Abstract

Receivables management has become an increasingly important area of financial management because of its direct influence on an organization's liquidity, profitability, and long-term sustainability. Businesses regularly give trade credit to consumers in an effort to boost sales and improve their competitiveness in the market, but doing so puts them at risk for late collections, bad debts, and cash flow problems. The majority of the literature currently in publication acknowledges that better organizational performance is a result of efficient receivables management; however, opinions on the best credit and collection tactics vary. Some studies contend that more lenient credit terms improve customer relations and foster long-term profitability, while others support stringent credit policies to reduce financial risk. These contrasting viewpoints imply that managing receivables should be seen as a strategic financial management activity that necessitates striking a balance between profitability, liquidity, and customer satisfaction rather than just as an accounting function. The main theories, concepts, and empirical findings on receivables management are examined in this critical literature review, with a focus on credit policies, collection procedures, and their effects on organizational performance. This review makes the case that effective receivables management requires combining sound financial control with strategic decision-making rather than depending on a single strategy by contrasting previous research, pointing out areas of agreement and contradiction, and highlighting research gaps. The need for more context-specific and technology-focused research to address the changing challenges of receivables management in contemporary organizations is emphasized in the paper's conclusion.

Keywords: accounts receivable, financial management, working capital management, credit policy, collection practices, organizational performance

1. Introduction

Receivables management plays a crucial role in financial management as it has a direct impact on an organization's liquidity, cash flow, profitability, and overall financial stability. Companies offer trade credit to boost sales, build better relationships with customers, and stay ahead of competitors. But this practice also brings potential problems like late payments, uncollectible debts, and difficulties in managing cash flow. As business settings grow more complex because of globalization, digital changes, and economic instability, handling accounts receivable has become both more difficult and more crucial from a strategic perspective than ever before.

The significance of managing receivables has drawn a lot of interest from both scholars and professionals in the business world. Early research mainly saw receivables management as a way to boost liquidity and lower financial risks, but newer studies now understand its wider role in enhancing organizational competitiveness, managing customer relationships, and supporting long-term financial success. Although there is an increasing amount of knowledge on the subject, current studies offer varied findings about the effectiveness of different credit policies and collection methods. These discrepancies indicate that the management of receivables needs to be evaluated from both financial and strategic viewpoints, rather than focusing solely on one theoretical approach.

Although many studies have looked into how to manage receivables, a lot of the information written about it is still scattered and not well connected. Many studies focus on traditional financial performance indicators like profitability and liquidity, but there are not as many studies looking into the impact of technological innovation, digital collection systems, and shifts in customer payment behavior. Furthermore, variations in the types of organizations, the industries they operate in, and the economic conditions they face have led to mixed results when it comes to the effectiveness of receivables management strategies. These limitations emphasize the importance of a more in-depth analysis of existing studies rather than just providing a summary of past research. This study conducts a thorough examination of the existing literature on receivables management within financial management, with a particular emphasis on credit policies, collection practices, and how these elements affect the overall performance of an organization. This review seeks to offer a better understanding of receivables management by comparing different theoretical viewpoints with actual research results, pointing out where they align and where they differ, and noting areas that still need more study. It also aims to suggest potential paths for future research and improvements in management practices.

2. Literature Review

2.1 Concept of Receivables Management

Receivables management is considered a key part of working capital management as it involves handling credit sales and making sure that outstanding customer payments are collected on time, which helps keep the company's cash flow steady and supports its day-to-day operations. According to Brigham and Ehrhardt (2022), accounts receivable are considered short-term assets that need to be managed effectively in order to achieve maximum returns and reduce the risks associated with late payments and bad debts. Gitman and others in 2015 explain that managing receivables involves creating credit policies, assessing customers' ability to pay, keeping track of unpaid invoices, and setting up collection methods that ensure a balance between earning profits and managing financial risks.

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Although these traditional definitions are still commonly accepted, recent studies indicate that receivables management should not be considered merely as a standard accounting or cash collection task anymore. Mirón Sanguino and others (2024) conducted a systematic review of research on working capital management and concluded that modern studies increasingly view trade credit and receivables management as important strategies that impact an organization's competitiveness, financial stability, and ability to create long-term value. Van Deventer (2023) also highlights that successful management of receivables depends on organizations combining credit assessment, billing processes, ways to collect payments, and maintaining customer relationships, rather than only trying to shorten the time it takes to collect payments. These viewpoints show that the idea of managing receivables has grown beyond just controlling finances to playing a key role in making important business decisions, especially as business situations become more complicated.

Despite this shift, the literature presents differing views regarding the primary objective of receivables management. Earlier empirical studies generally conclude that stricter credit control and shorter collection periods improve liquidity and profitability by reducing the amount of capital tied up in receivables (Deloof, 2003; García-Teruel & Martínez-Solano, 2007). In contrast, more recent literature argues that extending appropriate trade credit can strengthen customer relationships, improve competitiveness, and contribute to long-term organizational performance when supported by effective credit risk assessment and monitoring (Van Deventer, 2023). Rather than presenting contradictory conclusions, these findings suggest that successful receivables management depends on balancing financial efficiency with strategic business objectives. Consequently, organizations should adopt credit policies that are responsive to their industry, customer characteristics, and overall business strategy instead of relying on a single standardized approach. A common issue in existing research is the ongoing focus on conventional financial measures like liquidity, profitability, and the cash conversion cycle when assessing how well receivables are managed. Although these measures are still significant, they do not completely reflect how technological advancements, digital payment methods, automation, and shifts in customer payment habits affect the performance of receivables. As business activities become more digital, future studies should use wider evaluation methods that include financial, technological, and organizational viewpoints to offer a better understanding of how receivables are managed in modern organizations.

Overall, the literature shows that managing receivables has moved from being a standard financial control task to a key part of financial strategy. While keeping liquidity as its main goal, recent studies show that managing receivables well also helps in building better customer relationships, improving how the business operates, and supporting long-term performance. This development shows that businesses must create receivables management systems that effectively combine strong financial oversight with long-term planning goals.

2.2 Theoretical Foundations of Receivables Management

Receivables management is supported by various financial theories that explain how businesses decide to grant credit and find a balance between earning profits and managing financial risks.

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Among the most significant are the theories of Working Capital Management, Trade Credit, and Agency. Although these theories all aim to enhance organizational performance, they have different views on the role of credit, liquidity, and how managers make decisions.

Working Capital Management Theory considers receivables as a crucial current asset for an organization since they have a direct impact on liquidity, operational efficiency, and profitability. Richards and Laughlin proposed the Cash Conversion Cycle in 1980 as a method to assess how effectively companies transform their investments in inventory and accounts receivable into cash. Based on this viewpoint, Deloof (2003) and García-Teruel and Martínez-Solano (2007) discovered that companies with shorter periods for collecting payments tend to have greater profitability. This is because they use their capital more efficiently by keeping less money tied up in outstanding invoices. These results strongly back up effective receivables collection, but they mainly look at financial performance using accounting measures and don't take much into account the customer relationships or competitive strategies.

Trade Credit Theory provides a more comprehensive view by indicating that offering credit can lead to strategic benefits that go beyond just enhancing short-term financial results. Petersen and Rajan (1997) suggest that trade credit assists companies in lowering information gaps, improving their relationships with customers, and supporting increased sales, especially when customers have difficulty accessing financing. Ng and others in 1999 discovered that credit terms are frequently used as a way to gain a competitive advantage, affecting how customers make their purchasing decisions, not just as a means of providing financing. These findings question the common belief that shorter collection periods are always better, indicating that effectively managed trade credit can improve an organization's long-term performance if it is backed by proper credit risk evaluation.

Agency Theory offers another significant viewpoint by highlighting the importance of how managers make decisions in managing receivables. Jensen and Meckling (1976) suggest that when there is a lack of effective monitoring and control systems, differences in interests between managers and owners can result in poor financial choices. In the area of receivables management, the lack of strong internal controls or the use of poor credit policies can lead to higher credit risk, weaker performance in collecting debts, and a rise in expenses related to bad debts. Recent studies also show that strong governance systems and proper internal controls help make better financial decisions and improve how receivables are managed (Patuan & Hermawan, 2023). These results indicate that how an organization is governed plays a significant role in how effectively it manages its receivables, going beyond just financial policies.

Although each theory offers a unique viewpoint on receivables management, none on its own gives a full picture of current credit management practices. Working Capital Management Theory focuses on maintaining liquidity and improving operational efficiency. Trade Credit Theory stresses the importance of building strong customer relationships and enhancing market competitiveness. Agency Theory, on the other hand, centers on ensuring good governance and holding managers accountable for their decisions. These theories together show that managing receivables is a complex process that demands organizations to balance financial results, customer satisfaction, and strong corporate governance practices. As a result, combining these theoretical viewpoints offers a more complete way to understand how organizations manage receivables in today's business environment compared to using just one theory by itself.

2.3 Credit Policies and Trade Credit Decisions

Credit policies play a key role in managing receivables as they set the rules for when credit is given, outline how payments should be made, and help control the risk of not getting paid. Effective credit policies help organizations manage sales growth while maintaining financial stability by making sure credit is given to customers who pose an acceptable level of risk. Brigham and Ehrhardt (2022) highlight that effective credit policies require assessing a customer's ability to repay, determining suitable credit limits, and creating collection methods that help maintain both profit and sufficient cash flow.

The literature shows varied viewpoints on how effective strict and flexible credit policies are. Traditional studies usually suggest that implementing stricter credit policies can shorten the time it takes to collect payments, decrease the number of bad debts, and enhance profitability by reducing the amount of capital tied up in outstanding receivables (Deloof, 2003; García-Teruel & Martínez-Solano, 2007). From this viewpoint, organizations gain advantages through conservative credit management as quicker collection of payments improves cash flow and lowers the costs of financing. However, these studies mainly focus on financial results and give less attention to how strict credit policies might impact customer relationships and future sales.

In contrast, Trade Credit Theory suggests that providing credit can act as a smart marketing strategy rather than just a way to manage finance. Petersen and Rajan (1997) suggest that trade credit can help decrease information gaps, improve relationships with customers, and support sales, especially for those who have difficulty obtaining financing from outside sources. Similarly, Ng and others in 1999 discovered that companies frequently employ credit terms as a way to gain a competitive edge, shape buyer choices, and foster enduring business connections. In recent times, Van Deventer (2023) highlighted that making good trade credit decisions involves combining customer risk evaluation with adaptable credit policies that help businesses grow while also ensuring strong financial control. These results indicate that credit policies should be assessed not only based on how quickly they help recover payments but also on how effectively they support keeping customers and enhancing the company's competitive position.

Although the literature acknowledges the significance of both conservative and flexible credit policies, there is no single method that consistently leads to better organizational performance. The success of a credit policy is influenced by various elements, such as the nature of the industry, how customers handle payments, the level of competition in the market, and how much financial risk the organization is willing to accept. As a result, using very strict credit rules could lower the chances of making sales, while being too easy with credit might lead to more bad debts and make it harder to manage cash flow. This suggests that companies should create credit policies that are based on risk assessment, ensuring a balance between financial management and long-term business goals, rather than focusing solely on one method.

Recent studies also emphasize the increasing role of digital technologies in shaping credit decision processes. Automated credit scoring, combined with integrated accounting systems and data analytics, has enhanced organizations' capacity to assess customer risk and track receivables in a more efficient manner. Despite these advancements, a significant portion of the existing research still centers on conventional approaches to assessing creditworthiness, offering little insight into the impact of digital financial technologies on the efficiency of trade credit and the sustained performance of organizations over time. Future studies should therefore focus on understanding how technological advancements can help create more flexible and data-driven credit policies that are better suited for rapidly changing business conditions.

2.4 Collection Practices and Receivables Control

Collection practices are vital for managing receivables as they influence how well organizations retrieve unpaid invoices while preserving good relations with their customers. Effective collection practices involve sending invoices on time, consistently checking receivable accounts, reminding customers about pending payments, following up on overdue accounts, and putting in place internal control procedures. Brigham and Ehrhardt (2022) state that effective collection systems enhance cash flow, lower the risk of bad debt losses, and boost an organization's financial stability by reducing the time it takes to convert receivables into cash.

The literature consistently acknowledges the significance of efficient collection methods; nevertheless, scholars have different focuses when it comes to determining the most effective collection approach. Traditional research mainly supports the use of prompt collection methods to reduce the time it takes to collect receivables and enhance liquidity, as noted in studies by Deloof (2003) and García-Teruel and Martínez-Solano (2007). While these studies show the financial advantages of strong collection efforts, they mostly assess success through accounting metrics and give little attention to how collection methods might impact customer satisfaction and long-term business relationships.

Recent studies suggest that effective management of receivables depends on maintaining a balance between strict financial controls and the maintenance of good customer relationships. Van Deventer (2023) highlights that organizations should implement organized methods for gathering information, backed by clear communication, regular check-ins, and precise customer data, instead of depending only on rigid collection strategies. Patuan and Hermawan (2023) also discovered that robust internal control systems greatly enhance receivables management by minimizing errors, stopping fraud, and making collection efforts more effective. These results indicate that successful collection methods rely not just on getting payments on time, but also on the effectiveness of the organization's procedures and its internal management systems.

Although there has been notable progress, the existing research highlights several drawbacks. Many studies keep focusing on traditional collection methods, but they don't discuss much about digital collection technologies, automated payment systems, and predictive credit monitoring. As more organizations use digital financial platforms, their methods for collecting payments are changing from traditional, manual processes to systems that rely on technology. This shift helps

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increase efficiency and lower the costs associated with administrative tasks. However, there is not much research available that looks at how well these technologies work over a long period of time. This suggests that further research is needed to explore how digital innovations impact collection efficiency, customer payment habits, and organizational performance in various industries.

Overall, the literature shows that successful collection methods go beyond just getting back overdue payments. Effective management of receivables depends on combining strong internal controls, clear communication, customer-focused collection methods, and the use of technology. Organizations that incorporate these elements are more likely to enhance their liquidity, maintain strong long-term customer relationships, and ensure consistent financial performance.

2.5 Receivables Management and Organizational Performance

The connection between managing receivables and how well an organization performs has been closely studied in financial management research. Most of these studies show that managing receivables effectively helps improve liquidity, profitability, and the overall financial health of the organization. By keeping a proper balance between selling on credit and collecting payments on time, businesses can enhance their cash flow, lower their financing expenses, and make better use of their working capital. Brigham and Ehrhardt (2022) highlight that managing receivables efficiently enhances an organization's capacity to fulfill its short-term financial commitments and contributes to its long-term financial stability.

Many research studies show that managing receivables effectively is linked to better performance of a company. Deloof (2003) discovered that companies with shorter collection periods typically showed higher profit levels because they reduced the amount of capital that was locked in outstanding receivables. García-Teruel and Martínez-Solano (2007) showed that managing working capital efficiently, particularly by controlling receivables, greatly enhanced the profitability of small and medium-sized businesses. Recent studies also indicate that effective management of receivables helps build stronger financial stability by allowing organizations to handle economic uncertainties and shifts in market conditions more efficiently (Mirón Sanguino et al., 2024). Together, these studies highlight how effective management of receivables plays a key role in determining a company's financial performance.

Although there is broad agreement on this point, the literature also suggests that organizational performance should not be measured only by profitability and liquidity metrics. Petersen and Rajan (1997) suggest that offering trade credit can help build stronger relationships with customers and support sustained sales growth, even though it may lead to a short-term rise in the amount of money tied up in receivables. Van Deventer (2023) also highlights that organizations must assess their receivables management by considering both financial results and customer retention, since long-term profitability relies on keeping good business relationships and managing credit risks effectively. These viewpoints indicate that concentrating solely on short-term financial results might miss the larger strategic importance of managing receivables.

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Another issue that has come up in recent studies is the increasing impact of digital transformation on how well organizations perform. Advancements in automated credit assessment, electronic billing, connected accounting software, and data analysis have enhanced organizations' capacity to track receivables, anticipate payment patterns, and lower the expenses associated with collecting payments. However, there is still limited empirical evidence regarding the long-term effects of these technological innovations on receivables management and how they influence organizational performance in various industries. This gap indicates that future research should explore how digital financial technologies can work alongside traditional methods of managing receivables in order to improve an organization's ability to compete effectively.

The literature examined shows that managing receivables plays a key role in shaping the overall performance of an organization, rather than being just a routine accounting task. Effective management of receivables not only enhances liquidity and profitability but also plays a key role in strengthening customer relationships, building financial resilience, and promoting long-term organizational growth. Therefore, organizations need to implement comprehensive receivables management approaches that connect financial goals with ongoing business growth and the use of new technologies.

3. Research Gaps

Although there is a large amount of research on managing receivables, some areas still need more study. Much of the current research still focuses on traditional financial performance measures like liquidity, profitability, and the cash conversion cycle. However, there is not much attention paid to strategic outcomes such as customer retention, organizational resilience, and long-term competitiveness. As business environments become more complex and fast-paced, relying only on financial metrics to assess receivables management may not give a full picture of its impact on the organization's overall performance.

Second, while digital technologies have changed how financial management is done, there is not enough real-world research on how these technologies are used in managing receivables. Recent advancements like automated credit scoring, artificial intelligence, electronic invoicing, predictive analytics, and integrated enterprise resource planning (ERP) systems have greatly transformed the way organizations assess customer creditworthiness and handle collections. However, existing research offers insufficient empirical support concerning the effectiveness of these technologies in various industries and different organizational settings (Mirón Sanguino et al., 2024). This suggests that more research is needed to explore how digital transformation affects receivables management practices and their impact on financial results.

Another significant drawback is that most current research is focused in a specific geographic area. Many important studies were carried out in developed economies, where financial markets, the rules that govern them, and how customers pay for goods and services are quite different from what is seen in developing countries. As a result, the results from these studies might not be entirely relevant to organizations in emerging economies, where availability of credit, support

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from institutions, and financial systems differ greatly. Future studies should therefore broaden their scope to incorporate developing countries and industry-specific situations in order to enhance the applicability of current findings.

The literature shows that there is not much incorporation of financial, organizational, and behavioral viewpoints when it comes to explaining how receivables are managed. Most studies focus on either financial performance or credit policies on their own, while fewer examine how managerial decisions, organizational governance, customer behavior, and technological capabilities work together to affect the effectiveness of receivables management. Addressing these gaps by conducting interdisciplinary and comparative research would offer a fuller understanding of receivables management and help create more flexible and data-driven financial management strategies.

4. Methodology

This study used a qualitative critical literature review to look at existing research on receivables management, focusing especially on credit policies, collection practices, and how they affect organizational performance. Instead of just listing past studies, the review carefully examined and combined different theories and research results to find where they agree, where they differ, and where more research is needed.

Relevant literature was gathered from databases such as Google Scholar, Scopus, Web of Science, Science Direct, and Emerald Insight. The search used a combination of keywords including "receivables management," "accounts receivable," "working capital management," "trade credit," "credit policy," "collection practices," and "organizational performance." The main focus was on publications from 2000 to 2025, but some important early studies from before 2000 were also included because they provided key foundational insights into the subject area. The selection criteria included peer-reviewed journal articles and well-established finance textbooks written in English that directly covered topics such as receivables management, trade credit, working capital management, or other related financial management concepts. Editorials, conference abstracts, duplicate publications, and studies that did not match the goals of the review were not included.

The first search produced a wide variety of publications. After reviewing the titles, abstracts, and full texts to assess their relevance and methodological quality, 11 important sources were chosen for further detailed analysis. These sources were selected due to their high citation rates, important theoretical contributions, or the inclusion of up-to-date evidence related to receivables management. The chosen literature was grouped together based on key themes such as the idea of receivables management, the theoretical basis, credit policies, methods of collection, how organizations perform, and areas that still need more research. The review analyzed how views on managing receivables have changed over time by combining related themes and comparing different perspectives, and it also highlighted topics that need more study.

5. Results and Discussion

The literature consistently shows that how an organization manages its receivables is a key factor in determining its financial performance. Research in both classical and modern contexts show that properly handling accounts receivable leads to better liquidity, stronger cash flow, and higher profitability. This is because it reduces the amount of capital that is tied up in unpaid invoices (Deloof, 2003; García-Teruel & Martínez-Solano, 2007). These findings support the idea that managing receivables is a crucial part of working capital management and plays a direct role in maintaining an organization's financial stability. Upon closer look at the literature, it becomes clear that the idea of managing receivables has changed a lot over the years. Earlier research mainly assessed its effectiveness by looking at financial measures like collection periods, liquidity ratios, and profitability. In contrast, more recent studies suggest that managing receivables should also be considered a strategic function that helps in maintaining customer relationships, ensuring business continuity, and enhancing organizational resilience (Mirón Sanguino et al., 2024; Van Deventer, 2023). This change shows how the business world is evolving, with companies now focusing more on customer service, digital advancements, and adaptable financing options instead of just relying on efficiency in their operations.

The review also found different views on how credit policy decisions should be made. Traditional financial management studies usually suggest implementing more strict credit rules and reducing the time it takes to collect payments in order to lower financial risks and boost profitability, as noted by Deloof in 2003. Alternatively, Trade Credit Theory indicates that offering suitable credit can help build stronger customer relationships, promote repeat business, and enhance long-term competitiveness, especially when accompanied by thorough credit assessment and ongoing monitoring (Petersen & Rajan, 1997; Ng et al., 1999). These perspectives do not contradict each other; instead, they show that how effective credit policies are depends on the goals of the organization, the nature of the industry, and the risk level of the customers. This implies that companies should implement adaptable credit policies that consider risk rather than sticking solely to either cautious or bold credit approaches.

Another significant observation is the increasing focus on internal controls and governance within receivables management. Recent research shows that having strong internal control systems helps improve the efficiency of collecting payments, lowers the risk of fraud, and leads to better financial decisions (Patuan & Hermawan, 2023). This broadens the conventional understanding of receivables management by acknowledging that an organization's performance is influenced not just by its credit policies, but also by how effective its governance frameworks and internal financial controls are. The review also points out a major difference between new technological advancements and the current body of research based on real-world data. Although digital technologies like automated credit scoring, electronic invoicing, enterprise resource planning (ERP) systems, and predictive analytics are becoming more common in improving receivables management, there is a lack of thorough empirical research that looks at their long-term effects on organizational performance. As a result, a significant portion of current research still depends on conventional financial metrics, offering insufficient understanding of how digital transformation impacts receivables management in today's organizations.

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Overall, the results show that managing receivables has changed from being a typical accounting task to becoming an important part of financial strategy. While keeping liquidity and profitability is important, modern organizations also need to take into account customer relationships, governance, technological advancements, and shifts in market conditions when developing their receivables management approaches. Therefore, future studies should use more integrated and interdisciplinary methods that bring together financial, technological, and organizational viewpoints to gain a better understanding of receivables management and how it contributes to sustainable organizational performance.

6. Conclusion

This comprehensive literature review analyzed the current understanding of receivables management, focusing specifically on credit policies, collection procedures, and their impact on how well an organization performs. The review shows that managing receivables effectively is still a key part of financial management, as it helps improve liquidity, profitability, and the efficient use of working capital. However, the literature also shows that the role of receivables management has gone beyond just financial control, developing into a strategic function that helps with customer relationship management, organizational resilience, and long-term competitiveness.

A close review of earlier studies shows that while traditional research mainly supports tighter credit control to boost financial results, newer studies highlight that managing trade credit flexibly and effectively can enhance customer relationships and build lasting competitive advantages. These differing viewpoints show that there is no one-size-fits-all method for managing receivables. Organizations should implement credit and collection policies that take into account their specific industry, the nature of their customers, their ability to handle risk, and their overall business goals.

The review also pointed out significant areas where more research is needed, especially regarding the lack of practical studies on how digital technologies, artificial intelligence, and automated financial systems play a role in managing receivables. In addition, a significant portion of the current research focuses on developed economies, which underscores the importance of conducting more studies in developing countries and within various sectors. Future research should therefore use interdisciplinary methods that combine financial, technological, organizational, and behavioral viewpoints to gain a more complete understanding of receivables management.

Overall, the results show that managing receivables should not be seen just as an accounting task focused on collecting unpaid amounts. It is actually a strategic approach to financial management that helps organizations achieve a balance between making a profit, maintaining enough cash flow, building strong relationships with customers, and ensuring the organization performs well in the long term. Enhancing future research in this field can lead to better financial decisions and help organizations maintain sustainability in a constantly changing business world.

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