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Financial Management as a Strategic-Tactical Guideline

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ABSTRACT

In theoretical literature it is a fundamental statement that in the lack of proper elements precise planning is unfeasible. Not only for so-called domestic business plans but also in case of the international business plans. Based upon the aforesaid, it is specifically very likely that such defective plans or planning will not provide appropriate support for the operation of the company. Companies may influence the operation of the system by strategic and tactical reasons that overwrite the key figures of the different planning systems, these figures are transferred down also in the system of financial statements.

Keywords: *Financial Management, Business Planning, International Business Planning*

1. INTRODUCTION

1.1 Conceptual System of Financial Management in the Light of the Basic Theoretical Literature

The summary, being the most significantly different from the American literature, of the conceptual system of financial management is provided by C. Paramasivan and T. Subramanian of India (2009). They describe finances and the financial management managing it as a life force playing a fundamental role in satisfying economic needs. It is some kind of an impellent, a moving spirit being the „lifeblood" of all business enterprises. In their opinion, financial management is science and art at the same time and its focus is on delegating the monetary fund's to the appropriate places and in the appropriate manner. The work of C. Paramasivan and T. Subramanian (2009) also presents the American conceptual framework of financial management. In their view, financial management is a part of "general" management.

According to the American economists, e.g. Solomon and S.C. Kuchal, the financial management deals with the efficient utilization of purchase resources. This is complemented by the opinion of Howard and Upton, according to which financial management is part of the general management and financial decision making. In the work of Weston and Brigham financial management is part of the financial decisions harmonized to entrepreneurial objectives. According to Joshep and Massie financial management is an activity being responsible for mapping and efficiently utilizing the resources. According to the definitions in the American literature financial management is identified as corporate finances and business finances (C. Paramasivan-T.

Subramanian (2009). The work of R. Charles Moyer-James, R. McGuigan-William and J. Kretlow (2006) further tinges the conceptual system of the Indian economists by not considering financial management to be an individual and independent discipline. It creates a strong border area mostly in the field of accountancy and micro-macro economy. Approaching in their work from another angle, Eugene F. Brigham and Joel F. Houston (2009) conclude that the corner stone of the corporate financial system is a complex financial management.

Proper management of the flow of monetary fund's subject to a constantly changing system of economic conditions is the most important for every business enterprise. The author duo of Eugene F. Brigham and Joel F. Houston identifies financial management directly with corporate finances. They see the task of financial management in obtaining the means, increasing the capital and maximizing the value of the company (Eugene F. Brigham-Joel F. Houston (2009)). The conceptual system of international financial management has been created by the author duo of Eun and Resnick (2004) seeing the maximization of the efficient and successful assets of shareholders as the fundamental objective of international financial management. In comparison with the so-called domestic financial management they highlight the foreign exchange and political risks and market imperfectness as major differences. The book of author duo Robert L. Brown and Alan S. Gutterman breaks down and concretizes the conceptual system of international financial management. The literature differentiates so-called national business plans and so-called international business plans.

According to authors J. Brinckmann, D. Grichnik and D. Kapsa the phenomenon of entrepreneurial planning is culture dependant. Despite the aforesaid the so-called cross-country studies are by all means progressive in terms of business plans. In addition, the meta-analysis of J. Brinckmann, D. Grichnik and D. Kapsa prove the usefulness of the international approach of business planning. The book of the author duo of Robert L. Brown and Alan S. Gutterman is unparalleled in this respect, basically providing a description for preparing an international business plan. In their opinion the national and international business plans are of similar structure and there are immense similarities. However, the international business plans handle the trans-border and trans-cultural business instruments uniquely. As they remark, the domestic business plan is to be taken by all means into account as a basis and later on it can be a starting point for a global international business plan. In itself, the purpose of the international business plan of a given company is to create global operations whose goal is to diversify the market in order to decrease risk and diminishing demand. New entrants can increase sales and extend their clientele in the foreign market. Accordingly, a business plan has to include significant amounts of financial information and analyses. It has to include three fundamentals: balance sheet, profit and loss statement and cash flow statement. (In case of starting companies the business plan has to include the forecast of these three documents.) In the next three to five years these have to appear in a monthly breakdown for the last two or three years and in a quarterly breakdown for the others. The financial part includes the summary of the three big base documents. Detailed establishments are to be found at the end of the business plan as appendices or other supplementary materials. Contrarily to the above, Jim McMenamin (2005) considers the maximization of the assets of shareholders to be the primary objective of financial management. In his opinion company management is an area becoming more and more important. In their work the author duo of Frank J.

Fabozzi and Pamela P. Peterson (2003) identifies financial management with corporate finances and business finances. The primary objective is to promote the financial decisions of business entities. The decisions of financial managers include acquiring credit and issuing shares. Thinking this further, the author duo of Jae K. Shim and Joel G. Siegel (1998) puts the maximization of shareholders' assets, the maximization of profit and the social assumption of responsibilities among the objectives of financial management and consider them to be of primary importance. According to the work of Jae K. Shim and Joel G. Siegel (2000) financial management is a process and a series of planned (financial and accounting) decisions aimed at maximizing the assets of the owners. The process also includes the accumulation and proper risk management of financial capital.

2. THEORETICAL FINANCIAL MANAGEMENT IN THE SYSTEM OF FINANCIAL STATEMENTS

According to C. Paramasivan and T. Subramanian (2009, pp. 11 to 24) financial statements play a fundamental role in understanding the financial aspects of companies. Preparing an appropriate financial statement is of essential importance both in making financial decisions and in respect of the financial management as a whole business (plan) system. They separate the financial statements into a profit and loss statement and a balance sheet. In the system of financial management, the business plan and its most important parts, i.e. the financial statements, are related to each other in an integrated manner. In case of the so-called more static statements the current cash flow is represented by different flow statements clearly indicating changes in the working capital and in the cash position.

According to authors C. Paramasivan and T. Subramanian (2009, pp. 11 to 24) and Jae K. Shim and Joel G. Siegel (1998, pp. 18 to 68) the capital flowing in the system of financial management and also into the business plan can be verified in an objective manner fundamentally by vertical and horizontal analysis methods and different measurement methods. A horizontal control of the system means decisions made in several years and based on them making clean-cut decisions. Normally, the subject year's data are compared with those of the base year, such data changing year by year. Its dynamic nature can be demonstrated in this. Contrarily to the above, the vertical control system is able to measure the value of the related elements and financial statements of the entire business system and financial statement system in a given period. It measures the relationship between the different elements of static control points and financial statements.

In respect of the measurement methods C. Paramasivan and T. Subramanian (2009, pp. 11 to 24) highlight the comparative statement analyses, the comparative profit and loss statement analyses and the comparative position statement analyses. The risks inherent in the system of financial management are demonstrated by the comparative balance sheet control, the trend analysis, the analysis of the proportion of the base flow and the cash flow and the analysis system of the so-called joint statements. According to C. Paramasivan and T. Subramanian (2009, pp. 11 to 24) by the help of the comparative balance sheet control we can understand the real financial situation of the company in the proportion of assets and liabilities for a given period. Comparative balance sheet controls help to understand the performance of the financial management of the company and also reveal the business risks.

According to the work of Jim McMenamin (2005, pp. 10 to 24 and 37) the planning system of financial management is composed of three well separable sections.

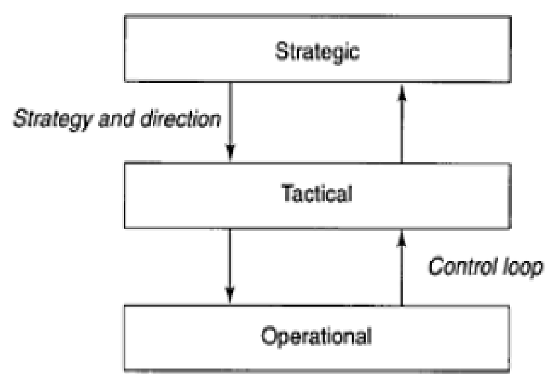

Fig 1: Financial management: Decision making, planning and control. Jim Mcmenamin (2005, pp. 10 to 11)

Strategy planning describes the goals, objectives and plans within a long-term timeframe, in a complex and aggregated manner. Its additional characteristics are the high risk degrees, its complexity and future-orientedness. In case problems occur in the strategic decisions of the financial management, this may give rise to risks and uncertainty in respect of the entire organization and may endanger the survival of the company. Fundamentally, the strategic systems are control points in financial management. For instance, should the company increase its market share or should it double the earnings per share (EPS) or should the investment be returned (ROI) within the next 5 years. The tactical part is an interim dimension between strategic planning and operative execution. In this case there is a mid-term timeframe. This tactical interface serves to connect and integrate the strategic and operative dimension. In this dimension objectives and plans are gradually more concrete than in the strategic part. Typical tactical objectives include the modernization of production and the introduction of new technologies and new types of products. The operative dimension is the executive part characterized by low risk rates and complexity. In terms of impacts and consequences it will not be so deep as in strategic decisions and plans. As the timeframe of the operating dimension is short-term, risks are also smaller. In the system of financial management this decision making system is continuous and dynamic both in terms of planning and control. This is induced by the constantly changing technological and social processes. Financial management consists of such continuous, dynamic and overlapping processes as analysis, decision making, planning and control (Heiko Staroßom (2013), p. 69). The efficiency of the process also depends on the financial plans and decisions that have to be parts of the corporate strategy, as well. In this respect the system can be characterized by a dualism. For instance, as long as the cash-flow is the "life-blood" of financial management and business plans, the information coming down in the cash-flow statement are extremely important because the system operates efficiently if it works with reliable information. The efficient and reliable business information systems make the different functions, in particular decision making, easier and support them. The system will not be continuous and will not show a realistic picture if it is not given appropriate and accurate financial information and does not work with such information (e.g. profit and loss, costs and cash-flow), which results in the company having to modify the plans and the objectives.

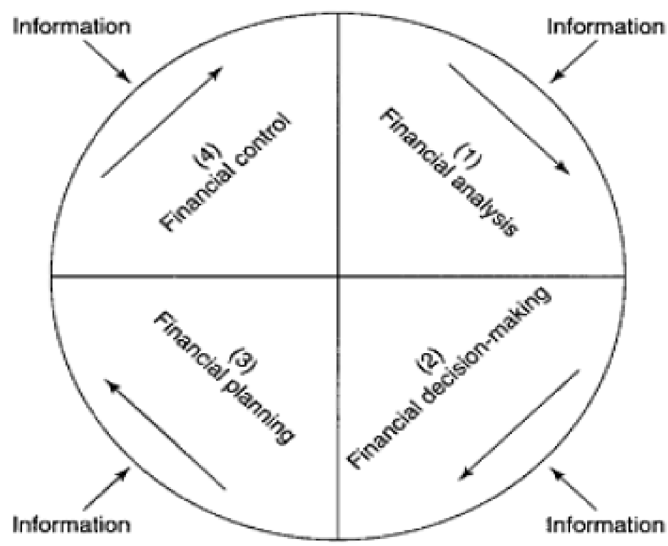

Fig 2: Financial management system
Jim Mcmenamin (2005, pp. 16 to 17)

Jim McMenamin (2005, pp. 10 to 24 and 37) defines the financial objectives of the company in the decision making process: attaining profit, striving for liquidity and maintaining the appropriate capital structure. In the opinion of Jim McMenamin (2005, pp. 10 to 24 and 37), in respect of profit the objective of financial management is striving for continuity both in respect of profit and the level of investments (ROI). The author emphasizes liquidity due to prompt solvency. He sees proper liquidity and cash-flow as a token of the reliability and efficiency of financial control. Jim McMenamin is of the opinion that the "drying out of the cash flow" causes liquidity problems for companies encouraging them to rethink the entire planning system. In respect of the capital structure the author emphasizes that the proportion of the own and the foreign capital also implies the term of financing, which influences the fundamental goal of the company, too. For instance, in order to reach 50% increase in the earnings per share (EPS) or the return of the investment (ROI), long-term strategic objectives have to be set by the company. Strategic plans can be divided into short-term control phases of a smaller breakdown, measuring the entire process.

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3. THEORETIC FINANCIAL MANAGEMENT IN THE SYSTEM OF FINANCIAL STATEMENTS AND THE BUSINESS PLAN

Amongst German economists Willer further specified the correlations of the subparts of financial management. According to the summary of Willer's researches (2007, p. 175) a fundamental token of sustainable economic development is mapping, analysing and evaluating one of the basic means of financial management, the business plan, as a tool. Without the 10 elements defined by him (Willer 2007, p. 175) the company's failure in the market is lot bigger than it would be if these elements were present and were treated appropriately. In respect of business plans preciseness, completeness, consistence, acceptable information, formal and contextual elements and the preparation of the financial plan are basic requirements. Taking all the aforesaid into account, according to the discriminant function of Willer (rating the 50 business plans contained in the sample) 80 percent were showing operability and still exist in the given market. According to his researches, companies preparing business plans and planning their finances are able to survive and to achieve success. Willer took 50 business plans of the business plan competition of Northern Bavaria as a sample. The main objective of his research (Willer 2007, p. 89) was grouped around the 10 elements determined above.

According to the examinations conducted by Willer these independent and changing factors provide information for financial planning and financial plans. Financial planning integrates all these information in the three most fundamental statements: the profit and loss statement, the cash-flow statement and the so-called prognosticated balance sheet in order that the procedure describes a complete financial process and based on this the different processes can be measured. Financial planning is complete if all elements, i.e. the profit and loss statement, the cash-flow and the prognosticated balance sheet are supplied with appropriate information.

The result of planning can show a profit or a loss. However, as Willer remarks, if several are missing from the 10 basic elements, then insufficient information is provided for the whole planning and this comes down as a false result in later planning and in the prognosticated balance sheet. Willer examined the business plans based on the contextual components. He demonstrates the occurrence of the components of business planning in the relatively large number of samples examined. The highest occurrence was produced by financial planning. The average rate of its occurrence in the sample was 84.79 percent, while its scatter showed 13.93 percent. Here the result of the examination shows a higher number of financial planning compared to the other elements of business planning. In Willer's opinion, its practical reason is that the profit and loss statement and the liquidity plan are the most essential requisites of every business plan. Without such requisites business plans cannot be interpreted; therefore, they are essential requisites. So, according to Willer, business success and financial planning are closely related and directly proportional to each other. Results show that business plans containing financial planning will help the given company in being successful in the market in the future.

The theory of target definition related to business plan states that a new company can increase its performance by preparing a written business plan. Consequently, ceteris paribus, the largest the existing knowledge and experience at an enterprise being established, the more likely it prepares a business plan and is able to operate a successful enterprise.

Approaching from another aspect, Christian Hopp clearly sets forth that business planning, as an important part of financial management, does, in itself, not have any significant impact by establishing a successful new enterprise. A much more important momentum is the content of the business plan and the financial forecasts within. In the course of his examinations Christian Hopp received the following six results. In the first test 20% completed the first official version of the business plan, while some 50% created accompanying financial forecasts. In his second test the financial forecasts influence the operation of the enterprises positively, with greater likelihood and significantly. In addition, the interim changes enterprises make in the (financial part of the) business plan are also related to the operation of the enterprise. So all in all, the usual regressions mostly support the assumption that business planning is a valuable activity. The result of the third test showed that the coefficient related to financial forecasts is also positive and strongly significant. In his opinion, the increasing marginal effect of these three results of the research indicate the growing importance of the fact that by completed planning and several financial forecasts the enterprise is more likely to detect unfavorable processes. All in all we can see that business planning is advantageous for enterprises being established but the impacts affect the planning of enterprises differently. The result of the fourth test demonstrated the relationship between a completed business plan, financial forecasts and later changes meaning the increase of the opportunities of the enterprise. The coefficient is significant at a level of at least 5%. This may increase the sensitivity of enterprises to changes. However, a business plan prepared upon start and an official business plan do not show any significant increase in terms of their not looking for any external financing possibility. However, the growth of financial forecasts induces taking actions following the financing opportunities. The marginal impact of financial forecasts is much greater when aimed at acquiring external financing than in case no financing is sought. Therefore, these results support the fact that they diminish business planning negatively. Moreover, a written official business plan and, consequently, the related financial forecasts increase the likelihood of a company detecting the processes at an early stage. Both coefficients are positive and significant. The exponential coefficient is of 63% and it has increased by 84%, just like the likelihood of the company detecting the dangers related to its operation.

Thinking further the above, authors Roland Pruss, Joachim Kurth Bern, Alexander Meinert, Andreas Rams, Ralf Sänger and Jochem Schlürscheid are of the opinion that financial planning has to appear in a business plan at an optimised level. They handle the optimisation of financial assets, the cash-flow in its every aspect and liquidity in all financial structures as the most important view-point of financing.

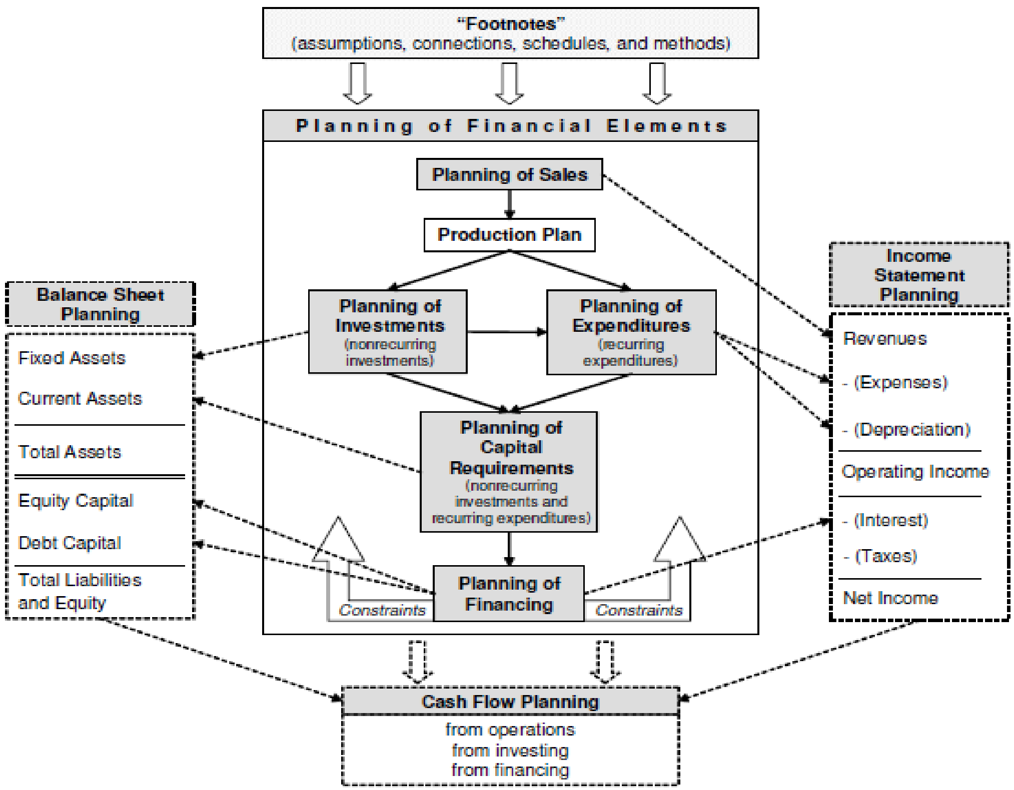

Fig 3: Conceptual Framework of Financial Planning in Financial Management (Gansel, Benjamin B.(2004)).

In his study, Benjamin B. Gansel represents the processes of financial management the best, differently from those mentioned before. The relationship between the business plan and its financial part can be represented through the following figure (Figure 3) the best: The whole can also be interpreted as a framework, as a connection to the decisions, within which the planning of entrepreneurial earnings and the quantification of strategies take place. Based on these enterprises make decisions and then actions are taken. The planning process includes five financial planning elements related to each other: sales, recurring expenditures, investments, capital requirements and financing. All these support the financial statement serving as and generating a keystone. As a consequence of the aforesaid the financial plan can be tested with a sensitivity test, scenario analysis and applying simulation. Consequences can be dual. Firstly, financial planning gives a framework and practical guidance for making financial decisions. Secondly, financial planning unfolds the correlation between strategies.

The theses of Gansel are made more specific by the study of authors J. Brinckmann, D. Grichnik and D. Kapsa, according to which there are not generally accepted descriptions that can be used as practical guidance and that harmonise financial planning with the establishment of a business enterprise. A coherent and comprehensive framework can draw the attention to the fact that the functions of planning and the financial items are still missing among the mutual dependencies. In their opinion there is a significant positive relationship between formal planning, small companies and their financial performance.

As regards the Hungarian literature related to the analysis of business plans and their financial parts, three relevant literatures can be highlighted. In the following I compare these and the relevant foreign literature. According to the author duo of János Herceg and Lajos Huszár we can say, as a summary, that in a financial plan we have to get an answer to the questions whether the business is profitable (economical) and the return and, through this, the increase of the asset value can be ensured. The establishments of the author duo of János Herceg and Lajos Huszár are parallel to the establishments of the international literature. The financial plan has to be in harmony also with the other chapters of the plan. According to Lukács, however, the financial plan and the business plan cannot be considered to be one and the same document. The financial part is one section of the business plan. The objective of the financial section of the business plan is to provide a series of authentic and comprehensive forecasts reflecting the planned financial performance of enterprises. In Szirmai's opinion cash-flow preparing is the most important means of operative entrepreneurship. It shows the stage the development of the firm is at and the quantity of supplemental resources to be taken. Contrarily, it prefers the quarterly breakdown of profit and loss. It describes overoptimistic cash-flow as a criterion. On the contrary, in her latest fundamental work Anna Nagl sees the bases of financial planning in the profit and loss statement, in the balance sheet and in the liquidity plan. In her opinion successful planning determines profit or loss in the individual planning period.

4. SUMMARY

Theoretical literature generally describes patterns and procedures that can be construed as, and, at the same time, must be, parts of the financial management (and e.g. of the business plan). In theoretical literature it is a fundamental statement that in the lack of proper elements precise planning is unfeasible. Not only for the so-called domestic business plans but also in case of the international business plans based upon the aforesaid, it is specifically very likely that such defective plans or planning will not provide appropriate support for the operation of the company. Therefore, financial management is a complex system, in which different planning system support different financial statements. Companies may influence the operation of the system by strategic and tactical reasons that overwrite the key figures of the different planning systems, these figures are transferred down also in the system of financial statements. The more the decisions are adapted to the social and economic environment and the more precise the pieces of information created and installed in the system of financial statements by the different decision making mechanisms are, the more the given company is able to optimise its operation.

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