

Need for Enhancing Financial Management System for Multiple Business Units

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Abstract: *The new management paradigm and the need to implement company strategy necessitate that the management of companies analyse the characteristics and structure of the financial management system, as well as the investment and financing models that have been applied, utilising the elements of strategic and operational financial management. The first step toward enhancing the effectiveness of financial management is the analysis of already employed methods and tools, as well as the development of a conceptual foundation. Integration and coordination of the individual aspects of financial management into a single, well-adjusted system are typically problematic requirements. Therefore, there is an increasing demand for the establishment of a financial management system that is closely linked to the company's strategic objectives. The objective of the research is to produce recommendations for the construction of an effective financial management system based on a process-oriented approach for multi-business enterprises in Latvia, with the aim of achieving the strategic goals of the enterprise*

Keywords: Feasibility, Financial structure, strategy, budgeting, process-multiple business units

I. INTRODUCTION

In the economic and scientific literature, there is no single, generally acknowledged view on the nature and function of Financial Management (FM), resulting in the development of numerous definitions. FM is an integral aspect of the management procedures of an organisation. (Amoako, Marfo, Gyau, Asamoah, 2013). FM is related with the attraction of financial resources and their effective application for the attainment of an organization's objectives. FM is a company operation that is responsible for the acquisition and efficient utilisation of finances required for effective performance. Financial Management is defined by Brealey as "the practise of utilising available funds to achieve long-term corporate objectives most effectively" (Brealey, 2008).

The Financial Management, according to B. Howard and M. Upton, is "an application of general management principles to financial decision-making" (Howard, Upton, 1953). All of the aforementioned definitions and opinions (Reinaldo, Dione, 2013; Calandro, Flynn, 2007; Randy, Oxelheim, Stonehill, 2001; Zdenk, 2013; Higgins, 2011; Brigham, Houston, 2014; Van Horne, Wachowicz, 2008) agree that a company's financial resources are the source of its economic benefit, but none of these definitions mention business objectives and strategies.

Other perspectives on the essence and function of the Financial feasibility in the market and investment economy were uncovered through a review of scientific and economic literature. Stanchus indicates that the emergence of the role of the FM is correlated with the emergence of a specialised industry of financial services (Lazonick, 2010) and the need for value management (Stanciu, 2013). According to Fama, the market value of a company's stock reflects its ability to generate future cash flow (Fama, 1970).

Within the context of this study, a multi-business enterprise is a company that engages in multiple types of business activities and for which information on the efficiency of each type of activity is crucial. Thus, the authors of the paper define strategically oriented financial management as a specific process of planning, implementation, control, and management decision-making that ensures the management, administration, and efficient utilisation of funding sources, fixed and current assets at a strategic and operational level to maximise the welfare of owners (shareholders) and the market value of the company over the long term.

In fact, the construction of a strategically focused FMS presents two significant challenges: the selection of a conceptual platform for system design and the identification of the complex of methodologies and instruments to be employed.

The following must be taken into account:

- Businesses frequently lack Financial Management system with strategic and operational levels;
- Methods and tools at particular Financial Management system levels lack a suitable link;
- As a result, there is no link between Financial Management system levels.

II. LITERATURE REVIEW

Financial Management System (FMS) is defined by the authors as an interdependent, scientifically based set of methods and tools for the planning, implementation, control, analysis, timely correction, and adjustment of a company's strategic and operational financial goals, planning system, and activities.

Regarding the structure of the FMS, two levels can be distinguished: strategic and operational. Considering the FMS to be a well-balanced management mechanism, the authors identify its primary components: the managing sub-system, the managed sub-system, and the influencing sub-system. The interaction between these three sub-systems occurs as follows: the managing system, aided by the tools and methods of FM (the influencing sub-system), directly influences the managed sub-system in order to achieve the primary goal of the FM of the company, which is the increase in market value and stable growth of the company. Clearly, the effectiveness of the FM mechanism depends heavily on the effectiveness of the employed methods and tools. These strategies used in a well-functioning system can provide a synergistic effect to increase the FM's efficiency at comparatively cheap expense.

Considering a strategically oriented FM, the most promising theoretical approach has been selected and justified, the feasibility of applying the chosen method to FM has been studied, organisational support for FM has been defined, and the concept of financial structure has been elucidated.

Due to the emergence of a new notion of "business processes reengineering" in the theory of business (Gaitanides, 2012), business management has begun to place a greater emphasis on process organisation in practise (Scheer, 2012, Ferstl, Sinz, 2001).

Scheer described business processes and their execution in 1984 using a process chain diagram (Event-driven Process Chain) (Savina, 2011a). Business process management enables a corporation to achieve high efficiency while focusing on client demand (Hammer, Champy, 2003).

The process-oriented approach connects requirements with all process participants, eliminates the impact of human factor, and transforms the organisation into a self-regulating system (Savina, 2011b). In the 1960s of the previous century, structural analysis methodology was created, and elaborate SADT (Structural Analysis and Design Technique) systems were envisioned (Jbira, Lakhoua, 2012).

The Malcolm Baldrige National Quality Award (MBNQA) model (DeJong, 2009, ASQ official website) and the European Foundation for Quality Management (EFQM) Excellence Award model includes a process-oriented approach (EFQM official website). Introduction of the most advanced corporate management system into a functionally oriented organisation does not produce the desired results and, on the contrary, increases costs and, in most cases, decreases overall efficiency (Savina, 2011b).

During the evolution of the process-oriented approach, management technologies such as business process reengineering and activity-based management emerged. Registering and describing business processes is the first stage in a process-oriented approach implementation. Reengineering of these processes is predicated on the subsequent investigation and evaluation of the functioning efficiency of business processes (Elzinga, Horak, Lee un Bruner, 1995; Hammer un Champy, 2003).

III. CONCLUSION

In general, the principal findings of the authors' research are as follows:

1. A well-balanced complex of financial management tools and methods applicable to multi-business enterprises in Latvia has been developed; • this logical complex of financial tools and methods has been implemented in the company's financial management using E. Deming's model of continuous improvement.

The authors' methodological approach to the establishment of the FMS promotes the company's viability by achieving interaction between all levels of the FM. This indicates that the company's strategy and goals are effectively communicated to its employees with no obstructions (Fig. 3). The created FMS permits a significant decrease in the costs connected with the preparation of managerial choices, as well as an improvement in their justification and promptness.

The findings of the analytical hierarchy process demonstrate the effectiveness of the authors' recommended techniques of strategically oriented financial management system use (AHP). The relative effect of lower-level priorities on the top of the hierarchy. The study of the derived vector's value indicates that the authors' devised financially focused strategic management method is more effective.

Principal research findings can be utilised by multi-business enterprises in Latvia for FMS installation and/or enhancement. The following factors have practical significance:

- Formation of a strategically oriented FMS and its implementation algorithm;
- Formation of a strategically oriented FMS and its implementation algorithm.

The authors' recommendations provide the answer to the question of how to create a well-balanced, strategically oriented financial management system for a multi-business enterprise.

During the establishment of a system of coherent financial indices, two levels of financial indices (strategic and operational) should be established;

2. Identification of business processes and types of activities, as well as their classification; 3. During the formation of financial structure and correction of organisational structure, direct modelling of the financial structure and separation of responsibility centres based on the nature of economic indices must be performed; 4. In order to develop an activity-based budgeting system, the budget structure and accounting policies must be developed.

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