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RESEARCH ARTICLE

ORIGINATION OF PUBLIC FINANCE MANAGEMENT IN MODERN MARKETING STRATEGY AND ITS EFFECT (AT A GLANCE)

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ABSTRACT

In the modern market situation, the role of finance management is very vital because it directly related with the present and future growth of the nation. The main purpose of this paper is to review recent studies on small and medium sized companies in order to concentrate on the main critical issues which are arising in financial management. If we classify the problem then the major components of financial management can be analyzed into three segments:

a) The question of liquidity management and cash flow management. Cash is company's most precious nonhuman asset.

b) The question of long term asset acquisition – which directs the long term course of business. c) Questions of funding, capital structure and cost of funding.

The most imminent question is the liquidity management. A business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital. Generally, the poor financial management of owner-managers is the main cause underlying the problems of SMEs.

INTRODUCTION

In now a day, many people who are going to start and run a business do not engage themselves in financial matters. The reason may be because they do not have enough knowledge or interest in recording transactions, preparation and analysis of financial statements and secondary they are extremely involved in other aspects of business like managing people, sales purchasing and production. These entrepreneurs rely on their accountants to run the financial side of their business (Bhunia, 2012). While financial management is a critical element of the management of a business as a whole, within this function the management of its assets is perhaps the most important. In the long term, the purchase of assets directs the course that the business will take during the life of these assets, but the business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital. In effect the poor financial management of owner-managers or lack of financial management altogether is the main cause underlying the problems in SME financial management. A great many small businesses fail not because the owner does a poor job or provides an inferior service, but because their firm is not run like a business (Berk et al., 2012). Most small business people only know one-half of what it takes to succeed. The part they are missing is how to manage and grow their business. Small business owners that succeed in this part learn these issues while working or they already have the knowledge.

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Prediction of Financial Failure

Some researchers tried to predict small enterprise failure to mitigate the collapse of small businesses. McNamara et al. (1988) developed a model to predict small enterprise failures giving the following four reasons:

- To enable management to respond quickly to changing conditions,
- To train lenders in recognizing the important factors involved in determining an enterprise's likelihood of failing (Czarnitzki, 2011),
- To assist lending organizations in their marketing by identifying their customer's financial needs more effectively,
- To act as a filter in the credit evaluation process. The authors argued that small enterprises are very different from large ones in the area of borrowing by small enterprises, lack of long-term debt finance and different taxation provisions.

Involuntary liquidation

Hall and Young (1991) performed UK a study of 3 samples of 100 small enterprises that were subject to involuntary liquidation in 1973, 1978 and 1983 (Brigham, 2010; Fekete et al., 2008). The authors have found that the reasons given for failure were of financial nature in 49.8%. In the study of perceptions of official receivers interviewed for the same small enterprises, 86.6% of the 247 reasons given were of a financial nature. The positive correlation between poor or non-existent financial management (including basic accounting) and business failure has well been documented in western countries according to Peacock (1985, 2004).

Small enterprise growth and development

McMahon (1998, 2000 and 2001) worked for establishment of a theoretically sound and empirically validated explanation of small and mediumsized enterprise growth to serve as broad conceptual framework for research and policy-making regarding the business growth phenomenon. After a critical appraisal of recent research in the field, the paper argues that reconsideration should be given to a conceptual framework that represents SME growth as a series of stages of development through which the business may pass in an enterprise life-cycle (Escribá-Esteve et al., 2008).

Development model of family business

Rutherford et al. (2006) concentrated on the family business and contributes to the literature stream by providing the first empirical test of the developmental model for family business (DMFB) first developed by Gersick, Davis, Hampton, and Lansberg (1997). The tests of the DMFB model allowed the authors to identify key groups of variables that can help explain family business development. Specifically, they identify owner, firm, and family characteristics to augment the DMFB, and used hierarchical regression analysis of 934 firms. The authors suggest that the original model provides a solid foundation for classifying family firms, but the augmented model explained significantly more variance in family firm development.

Effects of working capital management on SME profitability
The importance of working capital management has been discussed by García-Teruel and Martínez-Solano (2007), and Thalassinos and Curtis (2005). The object of the research presented was to provide empirical evidence on the effects of working capital management on the profitability of a sample of small and mediumsized Spanish firms. The authors have collected a panel of 8,872 small to mediumsized enterprises covering the period 1996–2002 to test the effects of working capital management on SME profitability. Their findings demonstrate that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability (Gersick et al., 1997). Their work contributes to the literature with usage of robust test that have been conducted for the possible presence of endogeneity problems. The aim was to ensure that the relationships found in the analysis wee due to the effects of the cash conversion cycle on corporate profitability and not vice versa.

Influence on performance and profitability

Influence of external advice

Robson and Bennett (2000) presented the multivariate analysis of the relationship of SME growth with the acquisition of external business advice, whilst controlling for the influence of SME characteristics of age, manufacturing/services, high technology and innovation, level of skill of the workforce, exporter and number of competitors. The relationship of external business advice with SME performance is statistically significant for only a small number of sources and fields. Obtaining external advice in fields such as business strategy and staff recruitment is associated with positive firm performance. The main positive relationships of advice and performance are dominated by private sector sources such as lawyers, suppliers, customers and business friends/relatives. Collaborative arrangements with suppliers nationally/internationally have a strong positive relationship with employment and turnover growth; collaboration with local suppliers has a strong positive relationship with growth in profitability (Fekete et al., 2010; Gersick et al., 1997). There is little evidence of statistically significant relationships between government-backed providers of business advice such as Business Link and firm performance.

Strategic orientation and performance

Escribá-Esteve et al. (2008) focused on the factors that moderate the relationship between firm's strategic orientation and performance in small and medium-sized firms. Most of the prior research has focused simply on identifying environmental conditions conducive to the effectiveness of the strategic orientation approach. However, recent research has called for studies focused on investigating internal moderators of the strategic orientation-performance relationship. The authors propose a contingency framework, considering how corporate and competitive strategies, top management characteristics, and environmental conditions may moderate this relationship. Based on a survey of 295 Spanish small and medium-sized enterprises from seven manufacturing sectors, the study shows that the positive influence of the firm's strategic orientation may be moderated by the environment conditions, the previous experience of top management team, and the corporate and competitive strategies developed by the firm (García-Teruel, 2010; García-Teruel et al., 2007).

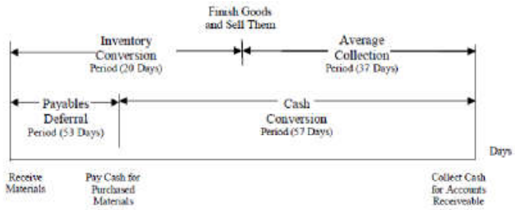
Operating Cycle and Cash Cycle

The level of working capital reflects the length of time between when cash goes out of a firm at the beginning of the production process and when it comes back in.

Take Intel, for example.

- First, Intel buys $1000 of raw materials and inventory from its suppliers, purchasing them on credit, which means that the firm does not have to pay cash immediately at the time of purchase.
- About 53 days later, Intel pays for the materials and inventory, so almost two months have passed between when Intel purchased the materials and when the cash outflow occurred.
- After another 20 days, Intel sells the materials (now in the form of finished microprocessors) to a computer manufacturer, but the sale is on credit, meaning that the computer manufacturer does not pay cash immediately (García-Teruel et al., 2010). A total of 73 days have passed between when Intel purchased the materials and when it sold them as part of the finished product.
- About 37 days later, the computer manufacturer pays for the microprocessors, producing a cash inflow for Intel (Hall, 1991).
- A total of days have passed from when Intel originally bought the raw materials until it received the cash from selling the finished product. Thus, Intel's operating cycle is 110 days: a firm's operating cycle is the average length of time between 53 + 20 + 37 = 110 days.

- A firm's cash cycle is the length of time between when the firm pays cash to purchase its initial inventory and when it receives cash from the sale of the output produced from that inventory. For Intel, the cash cycle is 57 days: the 20 days it holds the material after paying for.



Investments and investment decision-making

Many times decisions regarding investment into fixed assets, like Factory Building, Plant and Machinery are taken without doing any scientific analysis. These decisions have long term effects on the business and should be taken only after a detailed analysis of the market scope, competition and by applying discounted cash flow techniques like IRR (Gersick, 1997; García-Teruel et al., 2007). Optimizing capital investments is one of the most important levers both for improving value-based performance indicators and for securing the availability of sufficient liquidity. In order to carry out measures to increase capital efficiency and install a system whereby it is permanently monitored, you must first have a comprehensive system for managing capital expenditure which also manages your investments, your finance and your working capital.

Conclusion

From what we have learned in both theoretical and practical parts of this study, the following recommendations should be applied to small enterprises.

- Have a good in-house Accounts department who are well versed in Accounting principles and are computer savvy.
- Get basic working knowledge about the financial software that your business is using.
- Insist on a monthly reporting system – so that the Profitability Statements and Balance Sheet are on your table by the 5th of every successive month.
- Sit with your managers to prepare an Annual Budget which should be broken down to monthly budgets. Do a monthly joint review of actual achievements with the budgeted/target figures. Take corrective action immediately.
- Keep a constant check on items which affect the liquidity of the business – level of debtors, stock of raw materials and finished goods.
- Interact with your Banker or Financial Institution on a regular basis – not just when you require your cheque to be passed or when you want your credit limit to be raised!! – check out their new financial products.
- Ask your Accounts department to prepare a check list of the various statutory payments and filings. Keep a close check on whether compliance takes place.

About Authors

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