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## Improving Financial Management System for Multi-business Companies

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### Abstract

The new management paradigm and the necessity to implement company's strategy makes the management of the companies analyze characteristics and structure of the financial management system and applied investment and financing models using the elements of strategic and operative financial management. The analysis of methods and tools being applied, as well as the formation of conceptual basis for the financial management is the first step on the way to the enhancement of the financial management efficiency. Problems are often associated with the necessity to combine individual elements of financial management into a unified, well-adjusted system and to coordinate its functioning. Therefore, there is a growing need for the development of the financial management system that would be directly linked to the strategic goals of the company. Research objective: to develop recommendations for the formation of an effective financial management system based on process-oriented approach for Latvian multi-business companies that would be aimed at meeting the strategic goals of the company.

*Keywords:* financial structure, strategy, budgeting, process-oriented approach

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## 1. Introduction

In economic and scientific literature researches do not provide a unified, generally accepted opinion on the nature and role of Financial Management (FM), which results in the existence of diverse definitions. FM is a part of management processes integrated in company management. (Amoako, Marfo, Gyau, Asamoah, 2013). FM is associated with the attraction of financial resources and their efficient utilization for the achievement of the company's objective. FM is an operation activity in business responsible for the acquisition of funds necessary for an effective performance and their efficient use. Brealey defines the FM as "the process of putting the available funds to the best advantage from the long term point of view of business objectives" (Brealey, 2008). B. Howard and M. Upton regard the FM as "an application of general managerial principles to the area of financial decision-making" (Howard, Upton, 1953). All the above definitions and other opinions (Reinaldo, Dione 2013; Calandro, Flynn, 2007; Randøy, Oxelheim, Stonehill, 2001; Zdeněk, 2013; Higgins, 2011; Brigham, Houston, 2014; Van Horne, Wachowicz, 2008) have a common acknowledgement that financial resources represent the source of economic benefit of a company; however, neither of these definitions mentions business goals and strategies.

Research of scientific and economic literature also revealed other views of the essence and role of the FM in market and investment economy. The emerging role of the FM is associated with the formation of a special industry of financial services (Lazonick, 2010) and the necessity of management of company's value, as it is indicated by Stanchu (Stanciu, 2013). Fama points out that the market value of company's stock serves as a measure of its ability to generate future cash flow (Fama, 1970).

Within the framework of this research a multi-business company means a company involved in several types of business activities for which information on the efficiency of each type of activity is essential. Thus, the authors of the paper view *a strategically oriented financial management as a specific process of planning, implementation, control and management decision-making ensuring management, administration, and efficient utilization of funding sources, fixed and current assets at a strategic and operational level to ensure long-term sustainable development for maximization of welfare of owners (shareholders) and market value of the company.*

Two serious problems arise in practice in the course of development of a strategically oriented FMS:

- choosing a conceptual platform to be used for the designing the system;
- determination of the complex of methods and instruments to be applied.

To answer characteristic questions of entrepreneurs and business owners: "Why information on company objectives and strategies does not reach actual performers?" and „Can the FM facilitate the realization of company's strategy and achievement of its goals?" it is necessary to consider the following:

- Companies often lack the FM system comprising strategic and operative levels;
- There is no sufficient link between methods and tools at certain levels FM system levels;
- Therefore, there is no link between different FM system levels.

## 2. Literature Review

Financial Management System (FMS) is understood by the authors as an interrelated, scientifically grounded complex of methods and tools for planning, implementation, control, analysis, timely correction, and adjustment of strategic and operative financial goals, planning system and activities of a company.

Considering the structure of the FMS the following two levels can be marked out: strategic and operational. Considering the FMS as a balanced mechanism of management the authors specify the main

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