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Assessing the Effectiveness of Improved Financial Management System Using the Expertise-Oriented Approach

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Abstract

System approach in strategic management enables managers to take well-grounded long-term managerial decisions basing upon their notion of the overall state of business, as well as to make decisions on the improvement of the management system or its individual elements at each stage of business development. Therefore, business management system, including financial management system, turns into a system of continuous improvement. Furthermore, synergetic effect of application of the system of “continuous improvement” far exceeds the cumulative effect of applying each management method and tool separately. Every manager who is planning to implement any “regular improvement” in the current system of company management is interested in one and the same question: whether it is possible to measure a potential economic effect of introduction of an innovative measure and how the effectiveness of the improved management system can be evaluated? This article is the continuation of the authors’ article “Improving Financial Management System for Multi-business companies” (Savina&Kuzmina-Merlino, 2014) and provides an overview of the ways of measuring the effectiveness of an improved financial management system. The result of the article is the framework to assess the effectiveness of the developed financial management system for a multi-business company, using the expertise-oriented evaluation approach.

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1. Introduction

Any changes in the business management system require certain expenditure. Therefore, company managers prior to implementation of any improvements in their management system would like to make sure that such improvements would prove viable. Questions of assessing effectiveness of company management system as a whole or of its individual sub-systems while making managerial decisions on their implementation turn into an urgent issue of modern management. Typical questions arise in the process of solving this issue:

- Is it possible to evaluate the effectiveness of management system (either newly developed or improved) before it is introduced?
- What methods of assessment are practicable to use?
- What would be the degree of reliability of such estimates?

The results of the study conducted by the authors of the article show that the answers to the above questions can be obtained by applying expertise-oriented method in the assessment of company's potential future benefits as a result of the work on improvement of its financial management system.

2. Literature Review

The informational background of the paper is based upon the fundamental research, scientific publications, materials of international conferences, publications in periodicals and analytical resources.

Relevancy of the system approach in business management grows along with the growth of companies, introduction of new lines of business, and increase in complexity of products (Leyens, 2011). Companies become increasingly multi-business in their nature. A multi-business company is understood as a company operating on different markets (Greve, 2003) and/or carrying out its activities through several structural units. Management of any company in practice is obviously based upon certain long-term strategy (if such strategy has been developed) and policy, which in each individual case has its own internal logic and its own particular features.

To achieve specific goals and solve given tasks many companies implement and effectively operate various management models or individual management tools. Introduction of numerous concepts of "improvement" of company management, including Business Process Management, Total Quality Management (hereinafter referred to as TQM), (Brady & Cronin, 2001, Murgulets, Klöf & Selivanova, 2001, Eraghi & Atharnejad, 2012) Business Performance Management, Balanced Scorecard (hereinafter referred to as BSC) (Kaplan & Norton, 2008; Kaplan & Norton, 2009), Activity Based Management (hereinafter referred to as ABM), Activity Based Costing (hereinafter referred to as ABC) (Kaplan & Anderson, 2007, Everaert et al, 2008, Gervais & Levant, 2010), bench marketing, etc., often cause confusion for managers.

A dynamic business environment (Moss et al, 2012) also determines the choice of the form of company's business management (Rogerson, 2010). Therefore, a flexible MS can become the company's competitive advantage providing the ability to respond to the changes in business environment. In situations where hired managers carry out strategic control of distribution of items of corporate resources (Lazonick, 2010) and internal conflict of interests between managers and shareholders (Afsharipour, 2012) also manifests itself in inefficiency of management the urgency of system approach in company management increases essentially.

The notion of FMS is based upon the definition of the system. In the works by different authors various definitions of this system can be found: one of them "a regularly interacting or interdependent group of items forming a unified whole" (Merriam-Webster, 2014). The authors understood FMS of a company as an interrelated, scientifically grounded complex of methods and tools for planning, implementation, control,

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