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Target Orientation of Financial Management in Manufacturing Enterprises

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***Abstract*—Innovation in financial management is an up-to-date and key option for increasing the performance of manufacturing businesses and achieving their intended goals. Entrepreneurial subjects are taking advantage of the period of recession and the slowdown in the changes, the impact of the economic crisis on the release of pressures and the negative trends in the development of the business environment. They are open to new challenges and opportunities to strengthen and improve their performance, achieve better economic performance and focus on sustainable development that will support the long-term and lasting nature of its existence. The main objective of this contribution is to analyze the possibilities of using new methods and approaches in the financial management of production enterprises, to identify the benefits and threats of the target orientation in financial management, to propose an appropriate system of transfer of acquired knowledge into the business sphere. The main benefit of this contribution is the presentation of an innovative approach to financial management, which is the target orientation, the results of the survey on the possibilities for implementation in small and medium sized enterprises, the formulation of the positives and the negatives of target orientation of the financial management, and the proposal to transfer knowledge from this area to the financial management of the manufacturing enterprises.**

Keywords—financial management, target orientation, manufacturing enterprises, innovation

I. Introduction

Currently one of the ways to achieve the required level of efficiency and to enhance the success of entrepreneurial subjects is to focus on higher business performance, improved control, and complex system approach to management. Partial management goals include streamlining financial management. The potential of financial management recline in the possibilities of: ensure sufficient capital in the required structure, efficient allocation of resources to individual assets, minimize the risks of capital shortages, efficiently utilize all resources, analyze and evaluate the utilization of resources allocated to assets, and evaluate their contribution to the overall business activities.

Changing the orientation from survive a business in the post-crisis period, to maximizing profits, maximizing market value or wealth of owners brings a new space for change and innovation in financial management. We can expect a moderate slowdown in economic development, stabilization, moderate interest rates, and a more cautious approach to corporate indebtedness. This is the right time for mapping the possibility of implementing new, modern methods and approaches to financial management, presenting challenges, and providing guidance on how to improve the performance, quality and efficiency of financial management. Present actual trends in corporate finance management analyze the results and benefits of research which can be utilized in the management of manufacturing enterprises.

II. Objectives and Methods

A. Objectives

The main objective of this contribution is to analyze the possibilities of using new methods and approaches in the financial management of manufacturing enterprises, to identify the benefits and threats of the target orientation in financial management, to propose an appropriate system of transfer of acquired knowledge into the business sphere.

Partial objectives include: to identify the possibilities for implementing the targeting of financial management in small and medium-sized enterprises, to analyze the behavior of manufacturing enterprises in terms of possible changes in financial management, to present an up-to-date view of financial management, take into account the specificities of the manufacturing enterprises in the financial management, to formulate opportunities and threats, respectively the positive and negative aspects of the financial management targeting, to propose the transfer of knowledge into the economic practice of manufacturing enterprises.

B. Methods

In the course of research the following scientific methods were used: analysis, synthesis, deduction, comparison, monitoring, and questionnaire. In accordance with the principles of scientific work the structure of the paper is following: introduction, objectives, methods, results and discussion, conclusion, and reference.

III. Financial Management and Innovation Possibilities

An important role of financial management is to ensure effective financial administration and business operation in order to achieve change in various areas of business activity, to find alternatives to these changes so the business entity remains profitable once it is implemented. Financial management may be short-term or long-term, as not every result of financial management of an enterprise may be reflected in a short time horizon [1].

Financial management in a business entity can be splitted into three phases [2].

- Phase 1: Phase of financial capital acquisition.

- Phase 2: the allocation and utilization phase.
- Phase 3: the phase of monitoring and evaluating the use of capital.

The phase of raising financial capital covers the provision of capital resources in an optimal structure to ensure an appropriate ratio of own and foreign resources.

Debt ratio and debt to equity ratio is simultaneously significant to return on asset and return on equity. Debt ratio and debt to equity ratio were only significant to return on equity but not to return on assets [3].

The allocation and capitalization phase covers the tasks: place, redistribute, invest the acquired capital into assets in order to create a structure of assets, which will help achieve the company's stated goals. It is necessary to ensure the efficient use of funds to increase the economics of the company, by the correct decisions about the production of products, respectively services offered to customers. At this stage, decisions are made to allocate the gained capital into those assets which ensure the production and sales of products or services.

The phase of monitoring and evaluating usage of capital covers: monitoring and evaluation of return on capital resources, taking the necessary decisions to ensure long-term sustainability and long-term business development. Monitoring and managing the development of a company's ability to pay for its steadily advancing development is an integral part of financial management.

To achieve high quality management, effective decision-making and control of managed processes, business management needs important information provided by accounting [4]. Simple methods which have the potential to realistically inform about the assets of an enterprise include horizontal and vertical analysis of the property structure. Horizontal analysis compares the values of individual asset items with the value of the item in the selected base year [5].

It is aimed at comparing the assets of each asset item over a period of time [6]. Vertical analysis is a method of financial analysis that expresses the percentage of individual asset items to total assets [7], respectively individual liabilities to total liabilities. It compares the share of individual asset items to total assets in the same year.

According to Krištofík, financial managers are trying to minimize risks with maximizing profits. Maximization of profit is cited as the main financial target of an enterprise in a variety of professional literature, but is now referred to as maximizing the wealth of its owners. These characteristics of the company's main financial target may, in some circumstances, also intersect with one another, but may also be in contradiction [8].

Key business decision makers in the business are entrepreneurial subjects, their owners and other users. Business managers prepare reports which contain financial information mainly for business owners. On the one hand, this is about fulfilling its legal obligations; on the other hand part of the information is publicly available.

These reports make possible to evaluate the performance of entrepreneurial subjects within the past periods and to predict its performance over the coming periods. Outputs from accounting help the company to make better and more precise decisions. Subsequent decisions affect the financial situation of the company. Financial reporting quality does not always improve with greater enforcement strength. It mainly depends on the proxy for financial reporting quality [9].

IV. Specifics of Financial Management in Manufacturing Enterprises

Manufacturing enterprises with their specifics, production characteristics, high financial dependence on equipment, machinery, production lines and high demand for supplies, raw materials and auxiliary materials, high staffing entitlements create some weaknesses in financial management and put higher demands on financial managers.

Securing manufacturing enterprises with the necessary long-term assets (machines, equipment, buildings, land) requires a high allocation of capital to these assets. The amount of inventory, auxiliary material, energy consumption, telecommunications, wages, employee training, maintenance, repairs, warehousing, security and other costs incurred in securing products require additional funding to finance all those items.

Higher demands are placed not only to provide funds for business activities, but also to manage, monitor the amount of assets and liabilities of manufacturing companies in order to ensure the required liquidity to the company.

Due to the higher volume of resources needed, emphasis is placed on their efficient use and acquisition under the most advantageous conditions. The capital and financial structure denotes the structure of resources that finance the enterprise's assets [10]. The main factors affecting the capital and financial structure are: capital costs, insolvency risk, company asset structure, level and fluctuations of the enterprise's cash flow, financial freedom of the company, effort to maintain ownership control over the company, financial market situation.

The optimal capital structure is one that minimizes the capital cost of an enterprise and maximizes the market value of the business. The literature on optimal capital structure focuses on individual companies optimizing their capital structure in a world in which the actions of their competitors are exogenous [11].

Resource availability, interest rates, capital ties, return on investment, or sufficient return are generic indicators that assess the financial environment and financial management of an enterprise. The area of investments is very important for the corporate financing. The flexibility of dynamic investment and capital accumulation induces the firm to take the lower leverage at financing time [12].

One of the challenges in the area of financial management is to change traditional views and processes in the direction of higher performance and higher economics of the manufacturing enterprise. One of these options is the target orientation of financial management.

V. Results and Discussion

The presented results are linked to a questionnaire survey conducted in the area of financial management of small and medium-sized enterprises in Slovakia. We approached 120 respondents which belong to manufacturing enterprises,

namely food, chemical, pharmaceutical, woodworking, textile, others. We evaluated 76 questionnaires that were fully completed and assessable.

The perception of the financial management of these respondents was relatively satisfactory, since only 55.3% considered their financial management on satisfactory level and appropriate quality. Nevertheless, 52.7% of respondents expressed their compliant opinion about the possibility to innovate their financial management and utilize modern trends and methods to enable higher business performance, competitiveness and sustainable development. Only 21.1% of the respondents expressed their negative opinion on the proposed changes.

Subsequently, in the questionnaire were presented the possibilities for innovation in financial management and one of the alternatives was the target orientation of financial management.

The target orientation of financial management system is a close link between business objectives with different areas and phases of financial management [13].

Target orientation allows: to plan and manage financial flows more precisely and optimally, to obtain and allocate financial resources of the company, to make good and responsible decisions about corporate investments and to provide the company with the necessary financial stability. The financial stability is one of the key financial objectives.

The weak point of traditional financial management is the focus mostly on the financial objectives of the company. Maximizing profit, maximizing market value, securing liquidity, securing a sufficient return on investment, minimizing costs, minimizing volatility of business results, achieving planned profitability are frequently focused goals, common in many small and medium-sized manufacturing enterprises.

At the same time, however, enterprises have different particular objectives based on various areas of enterprise activity: enhanced product quality, higher customer satisfaction, increased production volume, product specific features, and market share expansion.

Significant separation of objectives within individual sections of the enterprise (production, supply, personnel, finance, marketing, customer care, quality control) brings insularity of objectives in each area and do not allows sufficient synergies between objectives and cooperation on these objectives between enterprise sections.

Reworking the individual levels of objectives (strategic, tactical, operational) with a respect on linking to financial goals can provide a much more attractive way to meet enterprise targets and achieve higher performance, higher success rate.

In the case of target orientation, it is necessary to identify relationship between the financial objectives of the company and the objectives in other areas of the enterprise's activity. Consequently, the cash-flow, which takes the part of the activities allowing the fulfillment of the stated goals, must be identified.

The result is a two-stage control of the target's fulfillment, in the first instance with the target, in the second instance with the view on the cash-flow.

We found that 36 entrepreneurial subjects, 50% of the respondents, met the target orientation of financial management in practice. We have studied the conditions which would motivate respondents to implement the financial management target orientation methods.

Respondents replied to the question of which indicators they prefer when deciding on the financial management target orientation. From the presented factors, they selected the three most important ones. Their answers are recorded in Table 1.

TABLE I. INDICATORS PREFERED IN DECISION MAKING

Indicators	**Answers of Respondents**	
	Number of Subjects	***Share in the Total Number in Percentage***
Profit	65	85.5
Return on Capital	47	61.8
Sales	52	68.4
Costs	12	15.8
Debt	8	10.5
Market Value	21	27.6
Liquidity	23	30.3

Source: Author

It is clear from the factor preferences the most important factors that are the decisive criteria for acceptance of a change in the financial management of entrepreneurial subjects are the increase in profit, the increase in sales and the increase in the return on capital. The least important was the reduction of indebtedness, the reduction of costs and the increase in the market value of the company.

In the next part of the questionnaire, we conducted a staff survey of respondents. Respondents were asked whether they have qualified and experienced financial management staff able to implement a targeting approach to financial management. Their answers are recorded in Table 2.

TABLE II. PERSONALITY READYNESS

Answers	**Answers of Respondents**	
	Number of Subjects	***Share in the Total Number in Percentage***
Definitely yes	14	18.4
Yes	11	14.5
Mostly yes	18	23.7
No	8	10.5
Definitely no	16	21.1
Not able to answer	9	11.8

Source: Author

Personality readyness was assessed by the respondents as follows: 18.4% responded „definitely yes“ and „yes“; „mostly yes“ answered responded 14.5%; „no“ answered 23.7%; „definitely not“ answered 21.1%; and were not able to respond 11.8%.

These results depend on the structure of respondents, on the structure of entrepreneurial subjects (small enterprises, medium-sized enterprises). In the small enterprises personal problems appear more often.

The section dealing with the transfer of knowledge about the target orientation of financial management focused on the possibility of implementation in manufacturing enterprises and the way of training of financial department staff. We provided business operators the option of training their own employees, implementing them by external staff, or providing self-study materials with specialist consultancy opportunities, or self-study of staff on an individual basis without professional supervision. Their answers are recorded in Table 3.

TABLE III. TRANSFER OF KNOWLEDGE

Form of transfer of knowledge	**Answers of Respondents**	
	Number of Subjects	***Share in the Total Number in Percentage***
Training of own employees	33	43.4
Implementation by external workers	21	27.6
Self study (material, consultation)	8	10.5
Self-study without professional supervision	5	6.6
Not interested in education	9	11.8

Source: Author

The greatest interest shown by businesses was on training their own employees, which declared only 43.4% of respondents. Second most preferred option with 27.6% of respondents said they preferred outsourcing, and 17.1% of respondents showed self-interest education, either on an individual basis, or through the provision of study materials and expert consultations. Only 11.8% of entrepreneurs did not show any interest in education in the area of financial management targeting. We assume these are those entities which do not even seriously consider about a change in their financial management.

VI. POSITIVES AND NEGATIVES OF TARGET ORIENTATION

The usage benefits of the target financial management are: directly linking financial decisions to corporate objectives, closer interaction of financial decisions and fulfillment of business goals, higher quality of financial decisions, enable more rigorous investment planning.

The disadvantages of targeting financial management can be classified as: more complicated approval processes, prioritizing the achievement of corporate goals prior to maintaining financial stability, limiting the independence of financial department decisions.

A. Possitives

The direct linking of financial decisions to business objectives will allow allocate funds exclusively to activities directly related to corporate objectives. It uncovers reserves and ineffective use of funds.

Closer interaction of financial decisions and the fulfillment of business goals open up space for more intensive control. Business goals need to be broken down into partial goals, identifying their links to cash flows. A study of the impact of cash flow appears relevant because a positive cash flow result in a low transaction cost. Transaction costs in small and medium-sized enterprises related to long-term debt can be considered higher than those incurred through short-term leverage management [14].

Higher quality of financial decisions ensures greater efficiency and economy of the company. The consistent analysis and control of the funds expended the efficiency of the allocation to assets and their exploitation support the success of the business and minimize the risks and possibilities of failure.

Enable more rigorous investment planning is a way of assessing the quality of the business investment process, analyzes the use of embedded capital, provides sufficient amount of relevant information, and minimizes risks.

B. Negatives

Complicated approval processes are the result of bridging financial decisions and individual levels of planning. To comply with established procedures, it is necessary to fulfill the above mentioned advantages of the target orientation of financial management.

Prioritizing the fulfillment of corporate goals against maintaining financial stability is a risk which can be eliminated. The key is precise set of a control system which establishes the hierarchy of importance in terms of business preferences and priorities.

Limiting the independence of finance department decisions is a primary component within the idea of the target orientation of financial management. Intensive cooperation between the financial and planning sections will allow to reach synchronic approach to achieve the objectives under optimal financial management conditions.

VII. CONCLUSION

The success of manufacturing companies farthest depends on their ability to adapt to current trends and market conditions, or to customer requirements. Exploiting opportunities and threats which positively or negatively affect enterprise's achievements becomes a competitive advantage.

An important element that determines progress and success is innovation. One of the areas where they can be used is financial management. Based on this fact we present a target orientation in financial management as a tool for increasing performance, achieving enterprise's goals and positive results of manufacturing enterprises.

We positively assess affirmative statements of respondents' views on the possibilities and amendments, on the effort to innovate and to modernize the traditional ways of enterprise management. An easier process of transferring theoretical knowledge, techniques and methods to corporate practice remains a problem. The critical situation is in micro-enterprises and small manufacturing enterprises, where there are not enough space, time, and staff capabilities for such implementation of modern management approaches, due cumulative functions of owners and managers, which are overloaded with common daily agenda.

The quality of financial management significantly influences the success and performance of entrepreneurial subjects. Innovation and modernization of management

systems are an essential part of quality and responsible management. Challenges for financial management in the form of target orientation provide businesses with the opportunity for innovative behavior and acceptance of progress in this area.

The main benefit of this contribution is the presentation of an innovative approach to financial management, which is the target orientation, the results of the survey on the possibilities for implementation in small and medium sized enterprises, the formulation of the positives and the negatives of target orientation of the financial management, and the proposal to transfer knowledge from this area to the financial managements of the manufacturing enterprises.

To the most important results of the presented research can be classified: presenting the current view on financial management, identifying the target orientation as an innovative approach in financial management, formulating positives and negatives of target orientation in financial management as a result of an objective assessment of such new approach, mapping the behavior of respondents who presented their angle of view on the possibilities of implementation and acquisition knowledge from the subject area. Endorsement of target orientation in financial management is based on an increase in indicators: profit, revenue and return on capital. These indicators were perceived by the respondents as the most sensitive and most important in decision-making process.

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