About New Approaches to Management of Finance Enterprises

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Abstract

Every enterprise in modern society has generation of profit as its goal, and its performance can be determined by how effectively and efficiently its current assets are used. The purpose of this study is to identify and systematize modern approaches to financial management of enterprises. The relevance of this work is conditioned by the fact that in the conditions of market relations the approaches to working capital management of an enterprise have changed significantly. The methodological basis of the study is the achievements of economic theory, theory of finance, financial management, financial policy, and economic analysis, accounting and reporting. This research is based on such a methodology as scientific cognition, and also systemic and dialectical approaches. The problem on financial management of enterprises is always associated with a number of conditions or factors that affect the operation of a company. In this regard, the authors consider the research in the field of approaches to managing current assets in modern conditions, which is the most relevant in the current period. At the present stage, in order to ensure the long-term productive and effective financial activity of a company, a company's working capital management policy is necessary, which would consist in determining the volume and structure of the current assets of the organization, as well as the sources of their coverage and the relationship between them. In this study, the general trends are defined in that the management of enterprise's finances is reduced to the implementation of general management functions. This expresses a functional approach to the management of a company and implies the continuity and cyclicity of managerial work. Practical results of the work define that an enterprise cannot achieve the maximum effect by managing only accounts receivable, stocks or cash. Only after a comprehensive analysis reviewing each of the components of working capital in the enterprise, the best results of management could be achieved, because they are all interconnected. In this study, we examined the main approaches to the management of working capital of an enterprise; that has revealed that in market conditions an approach is needed on the application of two types of working capital management. This allows financial managers of modern enterprises to implement more informed management decisions (Forfaiting, Just-in-Time Approach, Re-Order Level System), i.e. the choice of one type is not always the right solution in working capital management at an enterprise.

Keywords: Finance; Financial management; Capital; Working capital; Management process; Financial methods.

1. Introduction

Every enterprise in modern society has its purpose in generating profit which can be determined by how effectively and efficiently the company uses its current assets.

To achieve a stable development of the company in a market economy, it is necessary to effectively manage the finances of the enterprise. In turn, they are the main lever for regulating the economy of organizations.

The purpose of this work is to identify and systematize modern approaches to financial management of enterprises.

The relevance of this work is conditioned by the fact that in the conditions of market relations the approaches to working capital management of enterprises have changed significantly.

The novelty of this study is in justifying the need to use different approaches and methods in managing the working capital of an enterprise.

2. Methods

The methodological basis of this study is the achievements of economic theory, theory of finance, financial management, financial policy, and economic analysis, accounting and reporting. This research is based on such a methodology as scientific cognition, and also systemic and dialectical approaches.
3. Results and Discussions

Managing the financial activities of a company is a multifaceted and complex process. In determining the essence of the concepts "financial management", "financial resources management", "financial relations", "financial management cycle", one should proceed from the fact that the objects of financial management of enterprises are (Veretennikova and Laenko, 2015) the following:

1) Financial resources and their sources, which are such elements as equity capital, liabilities, deferred income;
2) Financial relations that characterize the financial relationships between subjects of economic relations.

It should be noted that these concepts are only separate elements of the object of financial management of enterprises and cannot characterize it as a whole.

When managing finances, it is important to take into account that many factors affect the efficiency and results of financial management of an enterprise, such as management environment, management functions, and also socio-psychological factors affecting the management process.

The responsible stage in financial management, as in any other activity, is setting the management goal. The purpose of financial management is largely determined by the time management period, so it is necessary to formulate goals for both the long-term and short-term periods.

For the long term, the organization's development strategy and strategic goals should be formulated, accordingly. In the long term, an important aspect of the company's activity is to achieve its financial independence, which is ensured by the adoption of optimal investment and financial decisions, competent marketing policy, and increased competitiveness.

In the short term, the main aspect is the achievement of tactical goals, which determine the tactics of the organization's activities in the field of cost and profit management, what is achieved by finding the optimal ratios for production and sales, fixed and variable costs, cost and profitability, risk and income, etc.

Strategic and tactical goals are interrelated and aimed at achieving the main objective of financial management of an enterprise: ensuring the growth of well-being of business owners, what is reflected in maximizing of the market value of the enterprise.

At present, many scientists talk about the need to manage the financial activity of an enterprise from the point of view of a systemic approach, that is, as a system in which all elements are interrelated and structured in relation to the common system.

The process of financial management at an enterprise in accordance with the principles of the system approach allows them:
- to reveal the composition, the value of the indicators of financial activity evaluation for management objects, the dynamics of their changes, their mutual influence, and also influence on the efficiency of the enterprise as a whole;
- to represent visually a complete picture of the financial management system, its content, interrelation between its elements, and interaction with the external environment;
- to conduct a comparative analysis of financial performance indicators with data from the analysis of the financial performance of the enterprise under investigation for prior periods and planned indicators for the development of timely made management decisions;
- increase the company's resilience to environmental changes based on the analysis and monitoring of competitors' activities and comparison of the main indicators of financial activity with the data obtained and average industry values (Kovrizhnykh and Mingaleeva, 2014; Taylor, 1911).

Compliance with the world conditions of competitiveness is possible only when the Russian enterprises use a modern financial management system (Vyachina and Khairullina, 2016).

Thus, the problem of managing the financial activity of an enterprise is always associated with a combination of conditions and factors that create a situation that affects the operation of the enterprise.

Currently, scientists distinguish three types of working capital management: conservative, aggressive and moderate.

With a conservative type of working capital management, the organization restrains the growth of its current assets. As a rule, a conservative type of capital management is applied either in case of need to save certain resources to maintain and strengthen the financial position of the organization, or in conditions of certainty in the capital markets, production and goods (Zobova, 2011).

With an aggressive type of working capital management, the organization constantly increases the growth of current assets, accumulates stocks of raw materials, consumables, and finished products. In this case, working capital is more composed of short-term loans and credits, what in turn increases the costs of the organization due to the costs of their services. As a rule, the aggressive type of money management is applied either in the monopolistic position of the organization on its markets, or at a high level of profitability due to the exclusivity of the goods or services, or at a low level of inflation, or interest rates on loans, etc.

A moderate type of working capital management is used for any state of economic realities (Batty, 1975).

Thus, according to J. Betty, "if an enterprise does not put any restrictions in increasing current assets, and the period of turnover is long, this is a sign of aggressive management policy. Application of aggressive management policy provides a low risk of technical insolvency, but cannot provide increased profitability. If an enterprise minimizes current assets, and the period of

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Turnover is short, this is a sign of a conservative management policy; a conservative policy of working capital management provides high profitability, but does not bear in itself excessive risk of occurrence of technical insolvency *(Nelson, 1987)*.

In turn, P. Hastings argued that “a conservative policy provides not only full satisfaction of the need for all types of current assets, but also the creation of significant reserves in the event of rising costs or interruptions in supplies of raw materials, disruptions in the production process, slowing the collection of receivables, increasing demand for finished products. Such an approach guarantees minimization of entrepreneurial and financial risks, but adversely affects the turnover and profitability of current assets” *(Van, 2011)*.

However, to date, the choice of one type of working capital management is not always the right decision, because in modern economic realities, organizations can have characteristics that satisfy the choice of two different types at once. The application of two types of working capital management allows financial managers of organizations to make more informed management decisions.

In addition to the types of working capital management, there are such classical approaches as:
- Analysis of working capital of an enterprise, which allows the effectiveness to evaluate on the use of certain resources in the activities of the organization;
- Determination of the liquidity of the organization's balance sheet and where the working capital of the organization is invested in during the financial cycle;
- Ensuring the necessary level of profitability of the working capital of the organization for the timely use of temporarily free cash;
- Choice of forms and sources of working capital formation, what allows defining the policy of its financing and optimizing the structure of the relevant sources.

Currently, working capital management includes: management of cash assets, and management of receivables and inventory management. Based on this, it is possible to classify modern approaches to working capital management of an organization (Table 1).

<table>
<thead>
<tr>
<th>Name of the approach</th>
<th>Advantages</th>
<th>Restrictions</th>
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<tbody>
<tr>
<td>Approaches to managing cash assets</td>
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<tr>
<td>The Baumol model</td>
<td>Mathematical apparatus for calculating the optimal amounts of cash assets balances.</td>
<td>1. shortage of current assets does not allow organizations to form the cash balance; 2. significant fluctuations in the amount of cash receipts; 3. The list of negotiable short-term stock instruments and their low liquidity make it difficult to use indicators related to short-term financial investments in the calculations</td>
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<tr>
<td>The Monte Carlo Method</td>
<td>Allows them to build a mathematical model for a project with undefined parameter values.</td>
<td>Relative complexity of calculations.</td>
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<td>Budgeting</td>
<td>1. Allows them to coordinate the work of the organization; 2. Analysis of budgets allows for timely corrective changes; 3. Experience in compiling the budgets of past periods; 4. Improving the process of resource allocation; 5. Comparison of achieved and desired results</td>
<td>1. Complexity and high cost; 2. Do not have any influence on the results of work, if budgets are not brought to the attention of employees; 3. employees require high labor productivity</td>
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<tr>
<td>Overdraft</td>
<td>A simple type of non-purpose short-time bank loan.</td>
<td>1. High timing; 2. Maintaining a certain turnover on the current account; 3. High interest level</td>
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<tr>
<td>Approaches to management of accounts receivable</td>
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<td>Credit policy</td>
<td>1. Increase in sales volume due to providing customers with more favorable conditions; 2. Accelerated turnover of accounts receivable; 3. Minimization of lost profit, financial risks and the price of borrowed capital; 4. Alternative sources of borrowing; 5. Timeliness of debt repayment</td>
<td>A tough type of credit policy negatively affects the growth in the volume of the organization's operational activities and the formation of its sustainable commercial ties, in turn, a mild type of credit policy causes a diversion of financial resources, reduces the level of the organization's solvency, and as a result, the return on working capital.</td>
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Management of receivables from the position of the life cycle

Helps to avoid a solvency crisis.

It is necessary to understand the life cycle of the organization at the moment.

Cluster analysis

Allows separate clusters of debtors to allocate and operate.

When processing a large amount of raw data, distortions may appear, as well as loss of individual characteristics of a particular customer.

Factoring

1. Replenishment of current assets;
2. Acceleration of turnover of current assets;
3. Expansion of the assortment;
4. Provision of preferential terms of payment to buyers;
5. growth in profit

1. high cost;
2. losses due to the receipt of an incomplete amount of debt;
3. loss of control over debtors

Forfaiting

1. the ability to quickly receive cash by accounting bills;
2. all the risks are assumed by a forfaiter;
3. the ability to split the debt and each part of it with a separate bill;
4. flexible payment schedule

1. high cost

ABC analysis

Allows you to select groups of debtors that have different significance for the organization.

Automation in implementing all relations with debtors is necessary.

Approaches to inventory management

Model EOQ

The model is universal and adapted to the various conditions of the flow of logistical processes.

Practical application of the model is limited.

ABC Method

, accurate and approach.

The approach does not ensure the correctness of the conclusions in the construction of a complex and unstructured product range.

"Just-in-Time" Method

This approach is useful when the warehouse space is limited, and the costs of maintaining stocks are large.

In the conditions of business instability, this approach should be used with caution.

Reorder Level System

Minimization of storage costs.

This system is used by specialized trade organizations with a relatively small assortment of goods.

It should be pointed out that under the conditions of a market mechanism in force, the effectiveness of financial management of a company can be achieved as a result of only a comprehensive and complete analysis of each component of the company's current assets (Cheng et al., 2000).

All this necessitates the development of new approaches to the management of the working capital of a company and their modernization to ensure the effective financial performance of a modern enterprise and its stable functioning.

4. Discussion

In this study, general trends have been identified that the financial management of a modern enterprise is reduced to the implementation of general management functions. These functions assume the continuity of managerial work, and its cyclicity. All this expresses a functional approach to financial management of enterprises. The study confirms the opinion by V.V. Kovalev that the management of the company's finances must be attributed to: survival of the company in market conditions, and in conditions of competitive struggle; avoidance of major financial failures and bankruptcy of enterprises.

Practical results of the work determine that an enterprise cannot achieve the maximum effect by managing only accounts receivable, stocks or cash. Only after a comprehensive analysis of all components of the company's working capital, the maximum result of management could be achieved, because they are all interconnected between each other.

5. Conclusion

Summarizing, we can say that the purpose of the work was achieved, because this study examined in detail the approaches to the management of the organization's finances, in particular working capital.

In market conditions, an approach is needed on the application of two types of working capital management. This allows the financial managers of modern enterprises to implement more informed management decisions (Forfaiting, "Just-in-Time” approach, Re-order level system).
It was revealed that an enterprise cannot achieve the maximum effect by managing only receivables, inventories or cash. It is necessary to analyze each of the components of the company's current assets.

Acknowledgements
The work is carried out according to the Russian Government Program of Competitive Growth of Kazan Federal University.

References