ASPECTS REGARDING THE ROLE OF THE FINANCIAL MANAGEMENT IN ELABORATING AND IMPLEMENTING THE ORGANISATION'S STRATEGIES

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Abstract

Globalisation, increasingly harsh competition, more demanding clients, continuous technological progress – are factors which are now influencing all activities. Organisations have to be as flexible, adaptable and able to permanently reinvent themselves as possible, in order to survive in an environment which allows increasingly less the existence of weak competitors. Most companies function in a business environment where changes, the unpredictable and the uncertainty are the only certainties. In this environment, one of the basic challenges is the company's survival through strategy and competitive advantage, all of this leading to the financial performance. But it is impossible for managers to elaborate and implement a strategy without the knowledge, the abilities and competences of the ones involved in the financial management.

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We are living in a global economy characterised by rapid changes, the acceleration of scientific and technological processes and an unprecedented level of competitiveness. These mutations have forced the company to evolve, to eliminate what used to be and look towards the future. Not in any way, but with certainty.

The challenges that companies face today are well known: boundaries in change, rapid development of global markets, explosive competition, demographical changes and an increasingly rapid change rhythm. Companies struggle to get adapted, by building the organisations of tomorrow based on the new operation strategies and techniques and on a new way of thinking things through.

Elaborating a strategy seems to replace improvisation with rationality, and, following the same path, to limit the investigation fields. As we know, the strategy as a process has a heuristic character. We are not only talking about having a reference framework for judgements in distributing the company's resources, but it is necessary to generate alternatives, to make projects. Fuelled by a managers' prospective attitude, the strategy is an incitation to question the products, the procedures and methods, it is a calling, a challenge to a prospective reflection, an impulse for a permanent quest. At the same time, an active strategy demands for a flexible organisation, open towards its environment and where creative spirit overcomes the resistance towards changes and factors which hinder imagination and enterprising spirit[1].

Improving the 21st century companies' competitiveness has become the key for their survival, especially under the circumstances of creating the European economic space, the European Union integration, the globalisation of exchanges and the growing interdependency of national economies, the international competition exacerbation, the intensification of technological, financial etc. progress. The main issue of the 21st century companies is not that of finding the best answer in time to survive the changes, but to make work an integrated system of strategic management, impossible to be accomplished in the absence of knowing the financial strategies, which would permanently allow them to meet the challenges generated by change, to elaborate hypotheses concerning the most probable evolution directions of the external environment in order to properly and rapidly adjust the strategy.

Analysing the theory and practice of the contemporary market economy underlines a considerable typological variety of strategies which actually outlines how companies can ensure the fulfilment of their mission and the adjustment to change. The specialised literature shows a number of classifications regarding the strategies, considering various reference criteria. Therefore, there are the following **types of strategies**:

a) according to the ***coverage area***, strategies can be divided into: *global strategies and partial strategies*;
b) according to the ***hierarchy level*** to whom they address, there are: *general strategies, business strategies, functional strategies, operational strategies*;
c) according to the ***time horizon***, there can be: *long term strategies, medium term strategies, short term strategies*;
d) according to ***the company's level of participation to the elaboration***, we can have: *integrated strategies, independent strategies*;
e) according to ***the dynamics of included objectives***, there are outlined: *increase strategies, neutral strategies, recovery strategies, restriction strategies*;
f) according to ***the objectives' type and the approaches' nature***, there can be distinguished: *privatising strategies, reorganisation strategies, managerial strategies, economic strategies*;
g) according to ***the behaviour towards partners***, there are outlined[2]: *competition strategies, relational strategies*;
h) according to ***the position held on the market***, there can be distinguished: *the leader's strategy, the challenger's (the secondary) strategy, the specialist's strategy*;

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[1] Domokos, Ernö, *Management ieri, azi, mâine*, Presa Universitară Clujeană Publishing House, Cluj-Napoca, 1999, p. 23.

[2] Naneş, Marcela, *Managementul strategic al întreprinderii şi provocările tranziţiei*, ALL BECK Publishing House, Bucharest, 2000, p. 100.

i) the classification according to ***the way of obtaining the competitive advantage*** emphasizes: *strategies oriented towards costs diminution, differentiation strategies, focus (niche) strategies*.

Under the context of the present harsh competition between organisations, it becomes absolutely necessary for managers to focus on adopting and implementing some competitive and qualitative strategies[3]. Expending the company's activity, analysing and anticipating business failure are fundamental issues of the financial management for the elaboration and implementation of a strategy. Expansion is one of the most important objectives of the company of the future. The development's financial implications are represented by a continuous need of financing, for the short term, but also for the long term. A good cash flow management will diminish the necessity of financing of long term growth from stakeholders and creditors, and the control practiced by the company on the floating assets will minimise short term financing necessities. An efficient financial management of an activity's development includes both previously mentioned elements.

Regardless of the chosen type of strategy, during this time of powerful changes, of intra and inter-sectorial mutations, exchanges need to be led and not imposed.

The signs of change are always present: for most companies, the difficulty consists of finding the ways to interpret them. This supposes the permanent monitoring of the business environment, the consideration of reactions, even if messages are not favourable. In fact, the elaboration of any strategy would have to take into consideration the *environment's challenges*. These are the result of a dominant feature which characterises the environmental evolution at the beginning of the third millennium – the competition's increase, which has as an effect: the increase of the market's exigencies and clients' diversification, the increase of research-development costs, respectively the necessity to develop certain production ways characterised by high productivity and flexibility.

The main challenges of the future can be grouped into **two strategic analysis axes**[4]:

a. ***The new characteristics of the production processes***, generated by the following strategic mutations:
   - *increasing costs for the research and development of new products*;
   - *increasing period costs;*
   - *diminishing investments' profitability*;
   - *costs' pressure on prices;*
   - *the flexibility*;
   - *the total quality.*

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[3] Constantinescu, Dan Anghel; Breban, Emilia; Niculescu, Oana, *Strategii competitive dinamice*, Colecția Naționala, Bucharest, 2001, p. 11; Drucker, F. Peter, *Managementul strategic*, translation, Teora Publishing House, Bucharest, 2001, p. 162.

[4] Cârstea, Gheorghe (coord.), *Analiza strategică a mediului concurențial*, Economică Publishing House, Bucharest, 2002, pp. 18-22.

b. ***The way of selection and concentration of advantages for development***.

The main mutations from this point of view are:

- *increasing activity niches*;
- *the flexibility of the activity's portfolio*;
- *the guarantee integration by increasing the value added*.

If we carefully analyse each of the challenges imposed by the future under the circumstances of change, we can notice that the financial implications are everywhere. Either they express themselves through costs, prices, the research-development activity, the activities' portfolio, quality etc., the financial consequences or implicitly the financial strategy cannot be avoided when you want efficiency, competitive advantage or just the company's survival.

Many of the existing companies face economic and financial difficulties, especially from the perspective of future challenges. Going from a company in difficulty to a viable or even efficient company requires the elaboration and introduction of an adequate strategy, which, through the adopted objectives and policies, could overcome these challenges. Such a strategy should intensify the company's advantages, turning them into competitive advantages and eliminating the existing disadvantages, therefore avoiding turning them into threats. Improving the financial situation is one of the company's most important objectives within the reorganisation plan.

The financial management of the company's activity increase faces various problems, among which the most important are [5]:

- establishing the reasons for an increase of the company's activity;
- the proper selection of the activity's increase strategies;
- analysing the financial implications in the process of the activity's increase.

The strategy's accomplishment involves certain lasting investments, especially for making the fixed assets. Thus, ensuring the financial conditions favourable to a development strategy represents the first involvement of the financial management for ensuring the company's economic development, materialised in the estimation of the main factors which determine the investments' efficiency: the total volume of expenses for investments, the investment's life, the expected profit, the investment's residual value.

Supplementary fixed assets created on the investment are characterized by long financial cycles, the recovery of fixed capital lasting a few years. Under these circumstances, the correct establishment of the investment's efficiency means to ensure comparability in time of the engaged investment effort and of the results. Therefore, the capitalization of annual expenses required to finance the investment and to update the annual capital recoveries for the whole duration of the investment are calculated, the reference moment being the date for launching the exploitation of the new assets.

Bringing up to date the profits from the investment shows some issues of the calculations' exactness [6]:

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[5] Botnari, Nadejda, *Managementul în sfera întreprinderilor în contextul tranziției*, www.feaa.uaic.ro, p. 15.

[6] Andronic, Bogdan-Constantin, *Performanța firmei*, Polirom, Iaşi, 2000, pp. 95-97.

- The correctness of the expectations regarding the positive cash flows, taking into account the probability of the estimations of future profits and payments;
- Selecting the updating rate by taking into account the inflation's effects, the oscillations of the interests' rate, of the average profitability rate level in the sector, the various risks.

Usually, the selection between the interest's average rate adjusted to the inflation and a risk premium, and the capital's balanced average cost is made, which includes both the economic risk and the financial risk of the investment's financial structure.

The updating calculations help determine **the efficiency indicators of the development investment**:

- *the recovery term;*
- *the updated net value*;
- *the profitability index*;
- *the internal profitability rate*.

The success of the strategy mostly depends on how the development investment is made, which, together with the investment decision represents the foundation of the company's financial balance. **Choosing the most adequate way of financing and promoting a flexible and coherent financing policy, based on a rigorous analysis of the financing possibilities, represents the second implication of the financial management**. The major aspect had in view refers to the establishment of the capital's size according to the necessities imposed by each strategic option, as well as by the reimbursement and allotment possibilities for the borrowed capital. A highly important issue concerning the capital necessities refers to the size of the relation between fixed and current assets. Within a company, the financial manager must plan, get and use the capital to maximize the company's value. Since getting and allotting the capital implies specific costs, and often the capital offer might not be very rich, it is the financial manager's duty to obtain the necessary capital at the lowest possible costs, to have in view its most efficient usage and to create the favourable conditions to reimburse it.

Achieving this goal implies that, in the capitals' establishment and usage process, certain criteria and restrictions are considered, which, in the end, will give the company a level of financial independence absolutely necessary to its viability, by adapting to the changes that come along. Thus, we must consider as a criterion for grounding the financial decisions the coverage of investment requirements in fixed assets through permanent sources, while current assets shall be covered both by the circulating fund and the short term loans.

The efficiency of the capital's establishment process can be determined by comparing the estimated size of the necessary capitals and the obtainable results. Getting a monetary surplus while using the estimated capital and for the estimated destinations is proof of efficiency of the establishment and usage process of the investment funds. Estimations regarding the efficiency of establishing the capital, however, have to take into consideration the fact that the size of the monetary surplus has to cover the entire allotted capital cost as well as the financial management's objective to increase the company's value.

Elaborating a strategy might affect the debt capacity, meaning the possibilities to be granted loans whose reimbursement, including the due interest does not create major financial difficulties. This represents **the third implication of the financial management in ensuring the company's lasting development: measuring the company's maximum debt capacity**. M. Levasseur[7] stated that "there are never free resources in an enterprise, large or small, listed on stock or family owned. The problem is to find a way of the explicit cost of each financing source". What matters is that the efficiency of using the capital is high enough to ensure the company's development after covering the capital's cost from the remaining profit.

The behaviour of the financial management cannot limit itself only to establishing the financial needs and finding the sources to get the capital. It must be systematically concerned about the way in which the company is able to pay the falling due obligations. Under these circumstances, **the fourth implication of the financial management in elaborating the strategy is the systematic control and analysis of maintaining the company's financial balance**. This is because the company's growth, often followed by sales increase, may require significant increases of the necessary circulating fund. Another risk of liquidity reverberation is also generated by the fact that permanent capitals' allotment and orientation with priority towards increasing the fixed assets may cause decreases of the circulating fund, with negative effects on the investment of the necessary circulating fund. In order to prevent these situations, an analysis of the financial balance through liquidity indicators should be achieved.

The fifth implication of the financial management is **ensuring the actives' liquidity**, the liquidity's surveillance and control being outlined by the assets' rotation speed

A special task of the management in ensuring the company's growth is also **to provide a balance between the strategic options that support the development project and to maximize the economic usefulness for capital owners**. The stakeholders' interest is best represented by maximizing the shares' value, increasing its value in stock. The evolution of the shares' value in stock depends on the demand for those shares, which is even greater as the value of the main indicators which express the company's dividend policy is higher. The choice of financing the increase could be in the prejudice of share market, because it supposes the consolidation of net capacity to self-finance the economic entity by diminishing dividends given to stakeholders. If stakeholders estimate a too high self-financing capacity as compared to the received dividends or a very high debt level, they will decide to sell the shares which will cause an increase of the offer and therefore a decrease of the rate of exchange. Most of the times, stakeholders ignore the fact that a long term development strategy may bring the increase of the company's net patrimonial situation, namely the own capitals' value, being in favour of an orientation which would maximize their short term profit in the prejudice of long term profitability. For that reason, in order to

[7] Bodnari, Nadejna, *Managementul în sfera întreprinderilor în contextul tranziției*, p. 19, www.feaa.uaic.ro.

eliminate the above mentioned risks, the financial management has to ensure a short term satisfactory and stable level of annual dividends.

Since the development's purpose has to answer, first of all, the stakeholders' and investors' interests, materialized in maximizing the value of own capitals, of the net asset financed from these capitals, the net situation being the main indicator of the increase (relation no. 1).

$$\text{NET SITUATION} = \text{ASSETS} - \text{DEBTS} \tag{1}$$

Another important indicator is the company's efficiency value (relation no. 2), which expresses the future updated profits, which come from the basic activity. Evaluating the company's patrimony is made according to the future profitability of the economic and financial activities.

$$VRT = \sum_{t=1}^{n} \frac{P_t}{(1+r)^t} + \frac{VR}{(1+r)^n} \tag{2}$$

where:

VRT = the profitability financial value;

P = future profits;

T = years of the company's economic life;

VR = the company's selling value after n years;

r = the updating rate (average profitability rate in economy or in the company's field of activity).

Given the difficulty of correctly estimating future earnings, based on the hypothesis of maintaining the company's profitability potential for the future, the efficiency financial value can be determined by capitalizing the current resources (relation no. 3)

$$VRT = \frac{\Delta_t}{r-g} \tag{3}$$

where:

Δ_t = next year's dividends;

g = the constant ration of dividends' annual increase under the circumstances where g < r.

The positive oscillations from year to year of the efficiency financial value reflect the positive results of the company's development strategy, materialized in increasing the profitability potential.

A more expressive illustration of the development strategy can be obtained by analysing the dynamics of profitability rates, the development's purpose being the increase of the company's profitability. The growing evolution of profitability rates, the maintenance of their value over the average of the company's economic sector (in case of economic rate) and over the interest's average rate on the financial market (in case of financial rate) proves the efficiency of development investments.

As a conclusion, we can state that a strategy **is not**: the result of a visionary thinking, a secret, a guarantee of success. A strategy **requires** stakeholders' involvement, the correct evaluation of the company's past and present situation. A strategy **does not require:** over humanly abilities or intelligence, external significant support**.** A strategy **is** a programme that helps the company develop and keep a superior competitive advantage on the market. And all these depend on the financial management.

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