Social Economic Debates
Volume 10, Issue 2, 2021
ISSN 2360-1973; ISSN-L 2248-3837

The impact of financial management on target setting and achieving financial goals in modern companies

Melnic Georgeta, PhD
Academy of Economic Studies, Republic of Moldova
Email: melnic.georgeta@ase.md
University of Political and Economic Studies "C. Stere"
E-mail: aliona_lisii@yahoo.com

Abstract: The importance of effective management of financial resources resides in the fact that it ensures the achievement of strategic and tactical goals, contributes to an increased attractiveness for foreign investors. Therefore, to achieve the main objective, namely the maximization of value, the company has to use all the available resources, especially financial resources, as reasonably as possible.

The financial and production activity of a company cannot ensure without financial resources. Consequently, the activity of all companies commences with the amalgamation of financial resources. The main function of financial resources is ensuring the timely payoffs of budget expenses, suppliers, commercial banks, insurance companies, employees, shareholders, and other third parties.

Key words: financial policy, funding sources, share capital, bank loan, profit, heritage.

JEL Classification: G110, M400

Introduction

At present, it is a well-known fact that high-quality management represents a vital requirement for a company, which will lead to the obtaining of competitive benefits and will provide the necessary confidence and endurance in the competitive mechanisms, the management, using the company's finances, aids the foundation of the financial policy on the entire company's level, materializing into a myriad of financial decisions, having an impact on the financial performance registered by the company. Thus, the company appears as an autonomous decision center, holding economic-financial power.

As mentioned by Şchiopu I., to ensure the well-being of the activity, it is necessary to focus on the implications or, said otherwise, on the incidences of financial management, which lead to the achievement of the company's financial goals. Therefore, during the economic process, the achievement of set objectives cannot take place if the company hasn't secured the necessary production factors. For a manager, the most difficult problem to solve is securing the necessary financial resources for the operation and development of the company, because all of the important episodes of the life of a business generate major financial implications. The various aspects of funding are determined by the company's objectives, highlighted by the need for funds and the funds' intended use (Şchiopu I, 2019, pp. 44).

A detailed presentation of the main necessities and uses of funds is rendered in the works of the Romanian professor, Ovidiu Nicolescu. They are structured in terms of the utilization goal of financial resources and terms of the phase of launching and operation of the company. (Nicolescu O., 2007, p. 48).

Therefore, it is noted that the drawing in of capital used in the coverage of the financial needs is very significant for the company in all the production stages, regardless of the fact if it is profitable, and if it is increasing or declining (Burduş E., Popa I., 2018, pp. 29).

Hence, to determine the needed funding, a set of requirements is established, among which the following can be listed:

1. The identification of all the company's necessary resources;
2. The division of financial necessities into imperative and optional;
3. The rigorous sizing of the necessary sums to satisfy all needs;
4. The establishment of periods during which funding needs should and could be satisfied;
5. The determination of needs that can be financed using the company's funds;
6. The establishment of the company's future external funding needs.

Complying with these requirements allows the company to obtain sufficient funding, with advantageous terms, increasing, as a consequence, the market value of the company. This happens as a result of the identification of the less costly funding to ensure a minimum capital cost, the rhythmicity of the production process by supplying these resources at the appropriate moment, and the establishment of an optimal ratio between the company's funds and external ones, among the resources on the long term and current ones.

The establishment of necessary funding is a process of sizing the funding for a predetermined period with the goal of efficient deployment of activity. The accurate establishment of necessary funding allows the company to have an easier time selecting the funding source and suffer from the lowest costs of obtaining it.

The aspects linked to the company's funding represent the subject of a particular policy of the company management, called financial policy, which is the expression of behaviour, of a tactical or strategic decision whose purpose is the maximization of the company's market value. The financial policy is defined as a collection of financial methods and tools trained in the purchase, allocation, and management of financial resources to achieve the main objective of the company.

The political policy, on the level of the whole company, encompasses a set of objectives in the mid and long term, referring to the volume and structure of the available resources, the volume of potential funding resources of the company, the policy of dividend payment, the mid and final terms of debt payoffs, the capital's return indicator, etc.

The achievement of the objective of maximizing profit is based on the acquisition of sustainable investments, particularly, in the creation of new capital goods. Thus, ensuring a financial environment suiting the progress of the development strategy, as well as the compliance with the financial norms, concurring with the investments, represents the importance of the involvement of financial management in the achievement of the financial goals of the enterprise, detailed in the estimation of the main factors which determine the return on investment, and, in particular: the total volume of investment expenses, lifespan, expected return, the residual value of the investment.

The establishment and rational use of financial resources exerts an impact on the microeconomic level (at the company's level), but also at the macroeconomic level because the people's well-being the entire country's wealth is the direct result of a successful business world. The achievement of strategic objectives, but also operational objectives requires that the financial managers allocate resources to various activities. On the operational level, resources become available using the budgetary and financial resource allocation process, which define, mainly, the company's financial system.

Therefore, the stages of the financial process, within an enterprise, are:

1. the determination of the optimal need of financial resources;
2. the analysis of the options of funding;
3. the formation of financial resources at the right moment;
4. the allocation of financial resources;
5. the rational use of financial resources;
6. ensuring the ability to pay and the financial equilibrium of the company;
7. the distribution of profit depending on the needs and considering the status of the company.

The financial and production activity of a company cannot ensure without financial resources. Consequently, the activity of all companies commences with the amalgamation of financial resources. The main function of financial resources is ensuring the timely payoffs of budget expenses, suppliers, commercial banks, insurance companies, employees, shareholders, and other third parties.

The mechanism of the collection and use of financial resources is a complex one and presumes a judicious selection depending on various factors of financial resources, as well as the rational distribution of these resources, ensuring a balance between financial needs and actual purchasing possibilities of financial resources. To ensure a financial balance between source and uses, it is crucial to correlate not only considering the volume but the use duration. The choice of the source of consolidation of financial resources should start from the analysis of the requirements of the achievement of the proposed objective; the demand for investments in fixed assets; the necessary stock level, but also the expenses linked with their existence; the need of the formation of an inventory, depending on the activity's specifics.

The sources of accumulation of financial capital can be classified following various criteria.

Most of the local and foreign authors split funding sources into internal and external, which in turn, could be own funds or loaned. The accumulation of financial resources can be funded with either loaned or the company's sources, as well as attracting them from the capital market.

The Romanian scientist Păun C. splits funding sources into inherent and term-based commitments (Păun C., 2008).

The Russian researchers Bociarov V. and Leontiev V. (Bociarov V., Leontiev V., 2014, pp. 199) categorize the internal sources into active (self-funding) and hidden (net working capital fund, reserve fund, expired debt to the suppliers, etc.).

Covaliov V. a Russian researcher, groups the sources of financial resource accumulation into short-term and long-term sources, placing emphasis on their cost and splitting them into with payment and free of charge (Covaliov V., 2007, pp. 84).

As the main criteria of classification, Botnari N., the author of the "Enterprise finance" textbook, uses the duration criteria: long-term and short-term financing which include inherent and borrowed sources (Botnari N., 2007).

In the opinion of the Romanian researcher Păun C., enterprise financing represents the mobilization of capital resources from those that perceive an excedent of resources (the investors) to those which require these resources (companies) through the use of specific tools and mechanisms within some organized markers (monetary or capital markets), this funding is employed to obtain funds (liquidity) to cover the temporary needs generated by commercial and production activities or to develop the current production capacity by conducting investment projects. (Păun C., 2008, pp. 43).

The primary financial resources' required build-up source is share capital. Based on the general principle of right, according to which each individual possesses a net worth, the enterprise is created with certain rights and civil obligations.

As noted by Chirilov N. (Chirilov N., 2010, pp. 395) the assets' underpinning, strictly speaking, is formed from the rights which the company founders endow it with, of which the whole forms, during the creation process, also, its capital stock, called share capital.

The share capital, also called nominal capital, is the value expression of the total of contributions – in cash or in-kind – with which the commercial company's members contribute to the formation of its assets, to ensure the necessary material means to allow the activity deployment and the realization of its statutory objectives.

Author Ţiriulnicova N. is drawing attention to the fact that the share capital represents a value expression (monetary) of the contributions of the company's associates and doesn't represent the collection of goods, just like some practitioners think (Ţiriulnicova N., 2013, pp. 277). Even if the contribution's subject was a fixed asset or moveable property, its value is included in the share capital at the transmission moment.

According to the legal norm, namely the provisions of the Civil Code of the Republic of Moldova, the share capital determines the minimum value of assets that the company should hold (Civil Code of the Republic of Moldova, 2002).

In the legal literature, it is mentioned that, in some cases, share capital should be delimited by other terms, such as patrimony, the company's assets, equity and paid-up capital. The author from the Republic of Moldova, Barbaneagra O., also holds the same opinion (Barbaneagra O., 2009).

a) The share capital and the patrimony. From the exhibited concept of share capital, it ensues that the share capital is an element of the company's patrimony, but doesn't merge with it. An eventual mix-up of share capital with the company's patrimony appears during the founding process when the associates add the contributions that they undertook to follow. This means that monetary contributions transferred to the company's bank account form its initial share capital and as an accounting value, is reflected, on one hand, as a liability to the founders, indicating the legal link or, in other terms, the dependency on the shareholders, on the other hand – in the assets' column, as an available sum of money on the company's account. If patrimony is the set of rights and liabilities with an economic value that belong to one individual, then the share capital is the sum of the values of goods brought by associates as a contribution to the company to form the social patrimony. The patrimony is a variable unit of measure and depends on the efficiency of the company's activity, referring to the profit or loss incurred. The share capital has a

Social Economic Debates
Volume 10, Issue 2, 2021
ISSN 2360-1973; ISSN-L 2248-3837

fixed value kept for the entire lifespan of the company and it is registered in the instrument of incorporation and the state register. It is modified by the assembly of shareholders by a qualified majority of the votes.

b) The share capital and the company's assets. The share capital as a value is the equivalent of the value of the sum of all the associates' contributions regardless of the form in which they were made and, thus, it indicates the value of the active side of the company's patrimony, although it is not the asset itself. As mentioned by the author Ciubotaru M. the company's assets are constituted from the company's funds (transmission as a contribution, reserve or undistributed gains) or borrowed (bank or commercial loans), as well as from the goods (items and rights) that are the company possesses at a certain moment, regardless of the fact of them being brought in as a contribution, are purchased using the company's funds or attracted funds (Ciubotaru M., 2006, pp. 18).

The share capital shows the minimum level of assets that the company should possess. From the assets which ensure the share capital's intangibility, dividends cannot be paid, and if the activity, in a certain period, has proved to be inefficient and the company suffered losses, then, at the end of the financial period, the decision-making body of the company has to decide either the entirety of the share capital or the reduction of the share capital to the actual value of the assets. About this paragraph, the author Botnari N. (Botnari N., 2007, pp. 120) adds that if the company functioned efficiently, at the end of the financial period, the company will earn a return and the associates will be able to participate in its sharing. The profit is determined as the difference between the assets' value and the fixed size of the share capital. The generated profit, after the mandatory payments' acquittal and the allocation of the reserve capital's funds, can be distributed among the associates as dividends.

c) The share capital and the company's liabilities. According to the requirements of book-keeping, the amount of share capital is listed on the liabilities' side. Besides the fact that the share capital displays the minimum level of assets needed by the company, it displays the source where these assets originate from, which, in essence, is nothing but the debt of the company to its associates. The associates, in turn, have a complex receivable right, which includes both patrimonial rights (the dividend rights, the rights concerning a part of the assets in the case of the company's liquidation) and non-patrimonial rights as well (the right to participate at the Assembly of Associates with voting rights, the right to information, right of scrutiny, etc.) that could be valorized in the manner decided by the legal and statutory norms. Their receivables from the company which are materialized by the stake in the share capital also called ordinary share, can also be harnessed by alienation to another individual, as well as by its withdrawal from the company – with the condition that the withdrawal is approved by the Assembly of Associates, as well as by obtaining a part of the assets in the case of the company's liquidation.

d) The share capital and equity. The share capital should not be entirely assimilated with the company's equity. As mentioned by Busmachiu E. (Busmachiu E, 2005, pp. 381) the share capital points to the primary source of the equity, and they coincide at the company's founding when the company has come into possession of the entire share capital from its founders, although it hasn't performed any type of legal operations and, thus, hasn't borne any costs, as well as hasn't made a profit. Following the start of the activity, equity includes, besides the share capital and the reserve capital, and the achieved but non-distributed profit, as well as other funds constituted by the company.

e) The share capital and the paid-in capital. The share capital is fused with the company's paid-in capital when the associates passed the entirety of the contributions they have committed to pour in, although, in some cases, the share capital is greater than the paid-in capital.

Therefore, depending on the organizational-legal form, the primary sources are the shareholders' and associates' contributions, bank loans (in particular, long-term ones) and government subsidies. At the next stage of development of all companies, acting as financial resources are the profit made from the production process or the service provision.

The profit and amortization are internal sources and allow the company to auto finance. Nevertheless, they cannot be always employed and especially for the long-term, without considering the following conditions:

- ✓ the company should register economic growth or, at least, a profit equal to the one achieved the previous years;
- ✓ the owners should recant a part of their income to meet the needs of the company at the moment.

Once these conditions are have been fulfilled, the auto financing will create actual benefits for the company, as well as for its owners.

The bank loan. At the revelation of the loan type, a major factor is the trust relationship. A point of view states that the credit relationship is based on, primarily, trust, such reasoning is very common.

Many economists have a different opinion, for example, the German economist, professor V. Lexis (1837-1911), well-known after a multitude of works in the field of the theory of money and loans, insurance and statistics, states that „the creditor's trust for the loan implementation, isn't of vital importance, daily experience shows that creditors feel more distrust for the debitor's solvability than trust; thus, they claim the full guarantee on their interests and the losses related to the loan" (V. Lexis, 1994).

V. Lexis doesn't assert that trust doesn't define the loan's core, he only notes that, for him, it doesn't possess primordial importance. For this purpose, trust defines the loan, but it doesn't bring out its specifics and, in consequence, cannot demand ownership, the loan's essence is recognized as, primarily, an economic relationship (V. Lexis, 1994).

Referring to the credit reports, the economists C. Basno, N. Dardac, C. Floricel assume that the involved parties, the type of utilized tools and the conditions of the loan the parties consented to, are extremely diverse and in perpetual evolution. The institutional device varies from country to country (Basno C., Dardac N., Floricel C.,1997).

The essential is similar everywhere: a current value is sent by a creditor (an investor or a borrower) to a debtor (a borrowed) who commits to repaying it, after a while; under the specific conditions stated in the loan agreement, in which the borrowed promises, also, to pay the interest rate to reward the borrower.

According to the economist Ionescu L. „lending is an activity that can generate significant profits for the bank if practiced correctly, although it can also lead to incurring losses. Therefore, it should be approached in a structured and logical manner" (Ionescu L., 1996)

The bank loan represents the most common form of credit relation in the economy, subject to which appears the process of direct transmission of funds on loan. The loan, unlike other types of credit (commercial, public), is based on certain principles which are followed strictly in the credit market, having a direct impact on the national and international economic legislation, and specifically: is of refundable nature, is granted for a predetermined period and goal, is interest-bearing, requires insurance and has a differentiated character (Caraganciu A., 2003)

Factoring is another financing possibility in the short term for a company. Factoring is a financing mechanism through which liquidities are acquired by invoice selling, having an up to a year deadline. Although, at first glance, it appears that the only benefit of using this client attraction tool is the fact that the clients can benefit from goods even though they don't possess any liquidity, however, it outlines multiple benefits for the clients: on one hand, the clients can enjoy the benefits from the necessary merchandise or products at the right time and, on the other hand, they can be sure of the products' quality before actually paying for them.

Once accumulated, the financial resources are used to fulfil their basic functions, but also comply with the obligations towards third parties (other companies, the government, commercial banks, insurance companies). Thus, the efficiency of the management of the financial resources is determined not only in the manner in the way which they were accumulated (the financial structure), but also their utilization purposes.

ISSN 2360-1973; ISSN-L 2248-3837

The utilization purposes of the financial resources, as well as their volume, depends on various factors, among which the most essential are:

- ✓ the stage of development the company is placed on;
- ✓ the organizational-legal form;
- ✓ the volume, the origin and terms of use of the financial resources;
- ✓ the activity type or the type/seasonality of the product.

The significance of a proper financial resource allocation for various functions lies in the following:

- ✓ contributes to achieving the main goal of financial management and, namely, the maximisation of the shareholders, net worth;
- ✓ it is the main instrument of influence on the creation and growth of the company on the market;
- ✓ establishes the rhythm in which the company's development strategy is carried out;
- ✓ affects the investment attractiveness of the company;
- ✓ it is an important motivational tool, but also for the staff's social security;
- ✓ affects the financial stability of the company.

Therefore, the main goal of the policy of distribution of the financial resources within the company is the optimization of the proportions of financial resources directed to various activities, so that the financial strategy and the growth of its value on the market can occur.

Under market conditions, the economic agents determine the modalities, volume and sources of funding, but also the purposes of their utilization all by themselves. According to various profile studies, the main reasons a business of micro, little and medium dimensions' fail can be found, predominantly, in the limited access to financial sources and the deficient management (Cobzari, L., Erhan L., 2013)

Conclusions

The importance of efficient management of the financial resources resides in the fact that the latter ensures the achievement of strategic and tactical objectives, contributes to the activity's growth for the foreign investors. It is to be mentioned that, to achieve its main objective, namely, the maximization of value, the company should utilize as rationally as possible the available resources and, especially, the financial resources. Therefore, to perfect the management of financial resources, it is necessary to create a mechanism of accumulation and utilization of the financial resources, in the company.

The behaviour of the company's financial management cannot be limited by its activity only in determining the needs of financing and finding related funding sources, but it is called upon to concern itself systematically also with the manner in which it is able to cope with the obligations of the company, that became overdue. In this context, the fourth inference of financial management, in the achievement of the company's objectives, is „the monitoring and the systematic analysis of the maintenance of the company's financial balance". The latter is required because the company's growth, most of the time, is based on the increase in sales and can lead to significant increases in the net revolving fund needed.

Ultimately, we observe that the achievement of the company's primary objective of maximizing its market value, as well as the other derived financial objectives, can only be achieved only by applying all the implications of the financial management intricately. The managerial implications aim at the company's financial field, which constitute major occurrences in reaching a successful outcome. These occurrences are in close correlation and are deduced one from the other, so that, in the end, it leads to the harmonization of their correlation and the interests of all the parties involved.

REFERENCES

Codul Fiscal al Republicii Moldova. Legea nr. 1163-XIII din 24.04.1997. Republicat: Monitorul Oficial al Republicii Moldova, ediţie specială din 08.02.2007

Codul Civil al Republicii Moldova. Cod Nr. 1107 din 06-06-2002. Monitorul Oficial Nr. 82-86 art. 661.

Barbaneagra O. Fenomenul proprietatii în contextul evolutiei ordinii economice. Teza de dr. în economie. Chisinau, 2009, p. 55

Basno C., Dardac N., Floricel C., 1997, Moneda, credit, bănci. Bucureşti, p. 89

Botnari N., 2006, Finantele întreprinderii. ASEM. Chisinau: ÎSFE-P. Tipografia Centrala, p. 120

Busmachiu E., 2005, Aspecte privind sursele de finantare în cadrul întreprinderilor. Analele ştiintifice ale USM: Seria „Stiinte socioumanistice". Chisinau, 2005. Vol.II. p.381

Burduş E., Popa I., 2018, Metodologii manageriale. Ediţia a III-a. Bucureşti: PRO Universitaria p. 29

Caraganciu A., 2003, Sistemul bancar şi dezvoltarea economică în Republica Moldova. Revista Economică, Chişinău-Sibiu, nr.1(9), p.43-52

Chirilov N., 2010, Metoda ratelor – instrument tradiţional al analizei capitalului social. Conferinţa Ştiinţifică Internaţională din 26-27 noiembrie 2010: Aspecte economico-financiare şi sociale ale economiei Republicii Moldova în contextul transformărilor sistemice şi integrării în spaţiul European, Chişinău, USM, p. 395-398

Cobzari, L., Erhan L., 2013, Strategia financiară a întreprinderilor mici şi mijlocii. Conferinţa ştiinţifică internaţională „60 de ani de învăţământ economic superior în Republica Moldova: prin inovare şi competitivitate spre progres economic” (27-28 septembrie 2013), Chişinău, Vol. 2., p. 9-11

Ciubotaru M., 2006, Impactul disproportional al reglementarii activitatii de antreprenoriat. Revista Economica, nr. 26, ASE,. p. 18-23

Ionescu L. C., 1996, Băncile şi operaţiunile bancare. Bucureşti, Editura. Economică, p. 96

Nicolescu O., 2007, Managementul Organizaţiei, Bucureşti, Editura Economică, p.48

Păun C., 2008, Finanţarea afacerilor. Oportunităţi de finanţare în contextul integrării europene. Suport de curs. Bucureşti, Comunicare, p. 43

Purcărea A., Niculescu C., Constantinescu D., 2002, Management. Elemente fundamentale, Editura Niculescu, Bucureşti, p. 24

Sasu C., 1996, Tainele reuşitei în micile afaceri: Decalogul întreprinzătorului de success. Iaşi, Sanvially, 236 p.

Şchiopu I., 2019, Implicaţiile managementului financiar în realizarea obiectivelor financiare ale întreprinderii. Chişinău, ASEM, p. 44

Şchiopu I., 2018, Analiza realizării obiectivului de maximizare a profitului la întreprindere (studiu de caz în baza: „Vinăria Purcari” S.R.L, „Podgoria Vin” S.R.L, IM ”Vinia Traian„ S.A. şi „Imperial Vin”S.A.), Studia Universitatis Moldaviae, nr.2(112), USM, Chişinău, p. 141

Ţiriulnicova N., 2013, Specificul analizei capitalului emitentului la plasarea acţiunilor cu sau fără valoare nominală. Conferinţa Ştiinţifică Internaţională din 5 aprilie 2013: Contabilitatea şi auditul în contextul integrării economice europene: progrese şi aşteptări, Chişinău, CRIO, p. 277

Бочаров В, Леонтьев В., 2014, Корпоративные финансы. ПИТЕР, p. 199

Ковалёв В., 2000, Финансовый менеджмент. Москва, Финансы и Статистика, p. 55

Ковалёв В., 2007, Финансы. Москва, Финансы и Статистика, p. 84

Лексис Б., 1994, Кредит и банки. Москва, Перспектива, p. 5