FINANCIAL MANAGEMENT PERFORMANCE EFFECT ON
ORGANIZATION PROFITABILITY

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ABSTRACT

Research will be based on the financial management importance within organization and its importance role in non-economic and economic activities that’s provide us the useful information about the efficient procurement and utilization of finance in a profitable manner. Due to industrialization financial management become a vital part of business and it’s very important for the business concern that with a good financial management to earn maximum profit.
INTRODUCTION

Financial management is the name of planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization in organization every department need finance to meet their daily requirements that’s mean every activity in the organization depend upon the availability of finance. It also called as life blood of any organization. Any organization whether it’s big or small needs finance to fulfill its daily operational activities. The main purpose of every organization is to earn maximum profit. Every organization needs finance to meet its requirement in the economic world.

According to Hamptors John, the financial management is a well-organized controlling of monetary resources for the collection of correct data according to its logical consistent and accounting methods. The main purpose of financial management is to understanding of financial statement of an organization. Financial statement like balance sheet and income statement shows the current position of an organization at a particular time period. Financial statements provide us the use full information about the organization debtor and creditor. John N. Nyer also defines it “Financial statements provide a summary of the accounting of a business enterprise, the balance-sheet reflecting the assets, liabilities and capital as on a certain data and the income statement showing the results of operations during a certain period”.

Financial statements mainly consist of two very important statements:

(i) The income statement or statement of comprehensive income.

(ii) Balance sheet or the statement of financial position.

The business firm also prepares some other parts of statements that provide very useful information about the internal business concerns such as:

(i) Statement of changes in owner’s equity or stockholder’s equity.

(ii) Cash flow statement.

INCOME STATEMENT OR STATEMENT OF COMPREHENSIVE INCOME:

Income statement is also called statement of comprehensive income that’s shows the profit and loss of the business concern at a particular time period and provide the information about the operational position of the business concern at a particular time period. Income statement
normally consists of one accounting year and it provide the information about the whole operational performance of the business concern like it’s tells about the revenue received and expenses incurred at particular time period.

Income statement provides information about the gross profit and net profit of the business concern. By preparation of trading or manufacturing account Gross profit is determined and by preparation profit and loss account is determined net profit.

**Statement of Financial Position**

Financial Position statement is also known as balance sheet, which shows the financial position of a business concern at the end of the financial year.

Statement of financial Position shows the total assets, liabilities and owner capital. Balance Sheet helps the creditor to understand the strength and weakness of the business concerns.

**Owner’s Equity or stockholder’s equity**

Owners’ equity is also known as statement of retained earnings. This statement provides information about the changes or position of owner’s equity in the firm. Retained earnings are employed in the firm. This statement is not popular Nowadays, preparation of separate statement of changes in owner’s equity.

**Cash flow Statement**

Cash flow statement shows the cash inflow and cash outflow of the business concern.it shows the change in cash positon. Position statement and Income statement provide information about only the finance position. It’s not indicating the financial statement actual position. Statement of changes in financial position provides the information about the changes in financial position from one period to another period. Statement of changes in financial position involves two important areas such as cash flow statement which involves the changes in cash position and fund flow statement which shows the changes in working capital position.

**LITERATURE REVIEW**

Financial management implication result in an increased company’s performance and company profitability financial management is very important for every department of the organization. It’s very important for many functional department like personnel, marketing and production department. Its cover wide area of business activity with multidimensional approaches. In many
functional area of the organization. The good financial management companies are operationally efficient. It shows the good image for investors and regulatory authorities. According to managers contracted to make decisions in the large, open corporation and received compensation for services rendered. Thus, the contractual nature of the publicly held corporation provided specialization between owners who specialized in risk bearing and managers who specialized in decision management. Examined the financial practices in Pakistan corporate sector. The study reviewed the financial behavior and practices of different segments of the Pakistan private corporate sector with a view to bring out the differences between public and private limited companies, medium, large and small companies, Pakistan and foreign companies and companies in different industrial categories. Proposed that the modern corporation based upon the efficient separation of ownership and managerial control. Owners purchased shares that entitle them to the residual returns in the firm after obligations had been paid. This privilege, however, required that the owners bear the risk of zero or negative returns. Corporate investment, dividend, compensation and financial policies interconnected and debt and equity substituted Governance structures rather than just financial structures. A firm with higher asset would find debt financing very costly. The board of directors not only supervised the management team, but also as a way by which to cut down the cost of capital for projects that involved limited redeployed ability Corporate restructuring shifted a firm from an internal governance system that characterized by low investment in monitoring and bonding and large residual losses in the form of excessive diversification towards a new equilibrium that characterized by low residual losses and high monitoring costs. Investment appraisal was one of the important areas of management practices. There were a number of apprehensions in investment appraisal, the method of appraisal (Net present value, internal rate of return and payback period) and objectives and constraints in project selection. The better performance that led to quality gave rise to an immense challenge for corporations. These could also help companies to develop a comparative advantage in terms of future forecasting for the companies. Therefore it was imperative that in the corporate sector, main focus for overcoming the financial concerns be placed on corporate debt management and restructuring. One of the important sources of financing in corporate firms was the use of debt.
The highly cost firms using the debts represented its commandment with production even without profits. Corporate takeovers did not have the maximum effect on firm stock value, as demonstrated by some earlier work which believed that taking over firm shareholders witnessed as normal profit within a time span of five years but contradicted with it by observing the shareholders dividend going down. On this series of evidence, many managers suggested the firm size to keep it larger. Demonstrated that equity issues found it difficult because of inadequate information that they possess. Firms kept their prices low at initial public offerings (IPOs) or the stock prices started going down when equity offerings were made. Firms depended on financial information to overcome the information problems in equity offerings. The internal financing gap of developing countries, they contended, should be reduced or completely filled by net capital imports that expanded the external debt of the country. In this approach, huge financial flows from industrial to developing countries were seen as beneficial for both sides. Graham, and Harvey, found that capital structure was a subject of interest to US managers as well as they demonstrated that firms adopted trade off theory and managed the debt ratios. Pecking order theory was having a support of their research as well. Their results showed that firms viewed financial flexibility highly but its importance was not having anything to do within appropriate information or the growth options indicated by pecking order theory. Other factors like agency costs, signaling, asset substitution, free cash flows and product market worries had also some impact on capital structure selection. Managers used some informal techniques like credit rating and earnings per share intensity in marketing financing decisions. The companies which set their capital structure better, management with factors like tax advantage of debt, bankruptcy costs, agency costs and approachability to outside financing. The development of European financial system was analyzed by and it unconcerned some complex linkage of economic, political and some global factors. There was no significant association between corporate sustainability performance (CSP) and financial performance. Studied the financial management practices in Pakistan corporate sector. From the results it was important to note that corporate sector in Pakistan was rapidly adopting the new methodologies. Analyzed the financing strategies of multi business firms, suggesting the relevance of sorting the diversification phenomena into its related and unrelated components. The implications of
their findings were important because they explained how the degree of product specialization/diversification and the direction of diversification translate into different corporate financial behaviors. Indicated that leading corporate sustainability performance (CSP) firms are significantly larger, have higher levels of growth and a higher return on equity than conventional firms.

RESEARCH DESIGN AND METHODOLOGY

In this research design secondary data and both survey methods are used in combining. Survey is taken as a research technique in this study because it is very helpful to look into financial management practices of much Business organization. Questionnaires were developed and directly delivered to Business organization for the collection of primary data that is related to their financial management exercises. The secondary data is mainly used to gain the financial ratios measuring financial leverage, liquidity and profitability of business concerns. The financial statements provide the source of such information about business concerns. The inspected financial statements of the selected business concerns for the year 2011/12 were collected from Jemma town revenue office for the quality of lacking diversity purpose. IN making a causal relationship and testing hypothesis of association, there are two types of variables involved one is dependent and other is independent variable. The independent variable required to includes variables that is used to define the efficiency of financial management practices and variables used to define financial characteristics. Independent Variables linked with Financial Management Practices that include effectiveness in Financial Accounting &Reporting and practice Analysis, efficiency in Fixed Asset Management practice effectiveness in Working capital management practice, and efficiency in Financial planning practice

The efficiency of each of this financial management practices were calculated by using ten items on five-point scales in which the respondents were asked to rate which where the positions of their businesses concerns are for each item identified. On the scale, 1 represents extremely low efficiency, 2 represents low efficiency, 3 represents medium efficiency, 4 represents high efficiency and 5 represents extremely high efficiency. After respondents have ranked the efficiency of financial management practices for each items under each variable, the average of the ten items
is calculated by using Excel for each respondent. The only difference is the efficiency measure for working capital management which is measured in terms of inventory management practice cash, receivable and by raising 10 items for each, which means a total of 30 items for working capital management as a whole.

In addition as an additional independent variables to the above four independent variables, current ratio, debt ratio and total asset turnover ratio were used. Their values were computed from the 2011/12 annual financial statement. In this study, profit of business concern measured by profit margin (PM) and Return on Asset (ROA) are considered as the dependent variable. By using the variables that is defined above, the model of the financial characteristics on profitability and the effect of financial management practices can be formulated as follows:

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\text{ROA} = f(\text{EARA, EWCM, EFAM, EFP, CR, DR, TAT}) \quad \text{PM} = f(\text{EARA, EWCM, EFAM, EFP, CR, DR, TAT})
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Where:

- **ROA** = Return on Asset
- **PM** = Profit Margin
- **EWCM** = Efficiency of Working Capital Management
- **EARA** = Efficiency of Accounting, Reporting and Analysis Practice
- **EFP** = Efficiency of Financial Planning
- **EFAM** = Efficiency of Fixed Asset Management
- **CR** = Current Ratio (Measure of liquidity)
- **DR** = Debt Ratio (Measure of Financial Leverage)
- **TAT** = Total Asset Turn Over (Measure of Activity)

EFP & EFAM are independent variables related to financial management practices and CR, DR and TAT are the independent variables related to financial characteristics.

**CONCLUSION**

In conclusion, the empirical finding implies that factors of financial management are good method to enhancing business concerns profitability. Financial management plays a vital role in business concerns. It’s like a life blood of an organization.

This finding leads to the conclusion that the efficiency of financial management practices characteristics can bring about higher profitability and higher wealth for stakeholders.
hence, business organizations can improve profitability by increasing the effectiveness in financial management best practices and characteristics. Good financial management is very important to the success of businesses concerns. Best managing financial resources are very important and new as well as expanding business. So good financial management should develop and implement financial management practices to ensure success of business enterprises. In addition, a more comprehensive survey about financial management throughout the country was suggested as a future study area to come up with country level conclusion.

REFERENCES


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