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EFFECTIVE STRATEGIC FINANCIAL MANAGEMENT AS A VERITABLE TOOL IN ENHANCING BUSINESS GROWTH: A SURVEY OF SELECTED FIRMS IN DELTA STATE

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Abstract

This study examines effective financial management as a veritable tool for organizational success. Five commercial banks in Warri Delta State were chosen for this study, comprising 40 respondents from each bank totaling 200 respondents. The major research instruments were questionnaire and personal interview, while the data collected were analyzed using the simple percentage and chi-square test to test the hypotheses. The results indicated among others that there is significant relationship between effective financial management with investments and dividend decisions. To this end, the study recommended adequate financial planning, sufficient funds to meet financial obligations, efficient management of assets, capital budgeting appraisal methods, funds flow and cash flow analysis for effective financial management in organizations.

Keywords: Effective Strategic; Financial Management; Business Growth Strategic

Introduction

Any business organization seek to achieve its objectives by obtaining funds from various sources and then investing them in different types of assets, such as plant, buildings, machinery, vehicles etc. Financial management is managing the finances through scientific decision making. For making right decisions, financial management needs to understand financial environment within which these decisions operate. Financial management will then be able to analyze these financial information to predict likely future results and to plan more carefully their proposed course of action. In the modern money-oriented economy, finance is one of the basic foundations of all kinds of economic activities, and is regarded as the life blood of a business enterprise. Efficient management of every business enterprise is closely linked with efficient management of its finances. Every organization faces with a problem of managing its expanding and ambitious plans with its limited financial resources. The financial management has, therefore been assigned the task of planning and controlling the long and short term financial needs of the firm. Financial management which is related to the procurement of finance and its effective utilization for the achievement of common goal of the organization.

The research hypotheses formulated in the null form for this study would be tested and they are, firstly, effective financial management has no significant relationship with investment decision of the financial institutions under study and secondly, effective financial management has no significant relationship with the dividend decisions of the financial institutions under study.

Hilton (2006) defines financial management as planning, organizing and controlling financial activities in an organization. Shadrack (2006) sees financial management as that specialized function of general management which is related to the procurement of finance and its effective utilization for the achievement of common goal of the organization. Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations. Akinsulire (2006) defines financial management as the responsibility for obtaining and effectively utilizing the funds necessary for the efficient operation of an enterprise. The finance function centres around the management of funds, raising and using them effectively. It therefore covers all functions concerned in attempting to ensure that financial resources are obtained and used in the most effective way to secure attainment of the objectives of the organization.

In making financial decisions, it is important to set our clear objectives. The basic financial objectives of financial management according to Shadrack (2006) are:

- Maintenance of liquid assets. This means the firm has adequate cash in hand to meet the obligations at all times.
- Profit maximization. But this concept has come under criticism because, it is vague. It does not include the rate or amount of profit and also whether long term or short term profits are to be maximized. It also ignores the different benefits given by the project which are spread over a period of time and it overlooks quality aspect of future activities. Therefore profit maximization is not considered as an ideal criteria, and wealth maximization is being considered as best criterion for the financial decision-making. Wealth maximization is therefore, considered as the main objective of financial management. financial manager should, therefore, follow a policy which increases the earnings per share in the long run.
- Ensuring a fair return to share holders.
- Building up reserve for growth and expansion.
- Ensuring maximum operational efficiency by efficient and effective utilization of finances.
- Ensuring financial discipline in the organization.

Aborode (2005) summarized the functions of financial management as investment decision, financing decision, dividend decision, liquidity management, tax management, risk management and asset management. The following factors according to Akinsulire (2006) affect the performance of a finance manager.

- Economic environment. The financial manager must know the implications of inflation, taxation, mergers and acquisitions and how finance is linked with other finance functions.
- Financial environment. The financial manager must have a knowledge of the functions of the following institutions: CBN, NDIC, NEXIM, ADB, IMF, London Club, Paris Club, World Bank, AFREXIM, etc.

- Business environment. He needs to have a solid knowledge of happening within the business community including the appreciation of the functions of the following bodies, MAN, NACCIMA, NASSI, etc.

The following are the consequences of inefficient financial management. Onuigbo (2001)

- Dangers of illiquidity and insolvency,
- It will take longer time before creditors are settled losing substantial discount revenue,
- Debtors will be decreasing while creditors are increasing,
- Inability to pay wages and salaries, and
- Poor investment decisions.

Participants and Procedures

A survey approach was adopted in generating data for the study. This was achieved through the distribution of questionnaires and personal interviews. Data were also gathered from authoritative textbooks. Information from the questionnaire distributed constituted the primary data while those from the textbooks constituted the secondary data for the study. The population of study consisted of commercial banks in Warri, Delta State. The sampling method used to select five commercial banks out of the population was simple random sampling method. With this sampling procedure, every commercial bank had an equal chance of being chosen out of the population of study. In all, 200 respondents which made up the sample population were randomly selected.

Research questionnaire was designed and administered on 200 respondents of five commercial banks in Warri, Delta State. The secondary data were obtained from textbooks. The methods of data analysis including tables, simple percentages and chi-square (X^2) statistical techniques whose function is:

$$X^2 = \frac{\sum(fo - fe)^2}{fe}$$

Where, X^2 = Chi-square

fo = Observed frequency

fe = Expected frequency

$\sum$ = Summation sign

Results and Discussion

The tables presented below contain the analytical details relating to my findings from the respondents.

Table 1: Commercial banks studied with number

S/N	Manufacturing Organizations	No. of Respondents
1.	Zenith International Bank Plc	40
2.	First Bank Nigeria Plc	40
3.	Union Bank Nigeria Plc	40
4.	UBA Nigeria Plc	40
5.	Unity Bank Plc	40
	Total	**200**

Source: Research Data, 2016

Table 2: Effective financial management and its significant relationship with investment decisions in the commercial banks

Responses	Frequency of Occurrence	Percentage (%)
Yes	180	90
No	20	10
Total	**200**	**100**

Source: Field Work, 2016

Table 2 above shows that one hundred and eighty (180) respondents are of the view that effective financial management has significant relationship with investment decisions. The respondents stood for “Yes” at 90% while twenty (20) respondents stood against “No” at 10%

Table 3: Effective financial management and its significant relationship with the dividend decisions of the commercial banks under study

Responses	Frequency of Occurrence	Percentage (%)
Yes	170	85
No	30	15
Total	**200**	**100**

Source: Field Work, 2016

Table 3 above shows that one hundred and seventy (170) of the respondents agreed that effective financial management has significant relationship with the dividend decisions of the commercial banks under study. The respondents stood for “Yes” at 85% against “No” at 15%

Table 4 below, the calculated X^2 is 128.0 and is greater than the X^2 table value of 3.841. The null hypothesis is therefore rejected. It indicates that there is significant relationship between effective financial management and investment decisions. This concerns the allocation of capital and involves decision to commit funds to long term assets, which would yield benefits in future. It will lead to appraising various projects to be financed in order to ensure that resources are invested in projects that will yield maximum expected return and knowing and protecting the rights of investors which should be satisfactory to the investors.

Table 5 below, the calculated X^2 is 98.0 and is greater than the X^2 table value of 3.841. The null hypothesis is therefore rejected. Thus, effective financial management has significant relationship with the dividend decisions. This relates to the percentage of the company's profit to be paid out as dividend to share holders and the amount of external finance required if allowed to finance investment opportunities.

Table 4: Chi-square data and statistical computation

Responses	Observed Frequency (fo)	Expected Frequency (fe)	fo – fe	$\frac{(fo - fe)^2}{fe}$
Yes	180	100	80	64
No	20	100	-80	64
Total	**200**	**200**	**-**	**128.0**

Source: Research Data, 2016 (Drawn from table 2)

Table 5: Chi-square data and statistical computation

Responses	Observed Frequency (fo)	Expected Frequency (fe)	fo – fe	$\frac{(fo - fe)^2}{fe}$
Yes	170	100	70	49
No	30	100	-70	49
Total	**200**	**200**	**-**	**98.0**

Source: Research Data, 2015 (Drawn from table 3)

Concluding Remarks

The major purpose of this study was to identify effective financial management as a vertical tool for organizational success – A survey of selected firms in Warri, Delta State. The results obtained showed that there is significant relationship between effective financial management and investment and dividend decisions in the study area.

Based on the findings/conclusion of the study, the following recommendations are proffered for effective financial management in organization.

1. For efficient financial management functions, financial managers must be given proper authority, autonomy, freedom of actions, supporting staff system for providing necessary information.
2. Capital budgeting appraisal methods, such as payback period, average rate of return, net present value, etc help in selecting the best alternative for capital investment proposals.
3. Funds flow analysis and cash flow analysis, help in determining whether the funds have been procured from the available source and they have been utilized in the best possible way.
4. Asset management. Asset management decisions means managing the assets efficiently after the acquisition. Success of a firm depends on the ability to raise funds, invest in assets and manage wisely.
5. Adequate financial planning. As we know that planning is the process of thinking before doing. Planning means to assess the future and make provisions for it. Thus, planning deals with what has to be done today to be ready for tomorrow. The financial management, being one of the branches of management also needs planning. Financial planning is necessary for the control of inflow and outflow of cash so that necessary funds maybe made available as and when they are required. The highest earnings can be assured only through sound financial plans. Sound financial planning is necessary to achieve the long term and short term objectives of the firm and to protect the interests of all parties concerned i.e. firm, creditors, shareholders and public.
6. Sufficient funds. For efficient financial management, the firm must have sufficient funds to meet financial obligations when they are needed and to take advantage of investment opportunities. To achieve this objective, a thorough study is conducted about flow of funds i.e. statement of funds requirement indicating the amount of funds needed and at what time.

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