

# THE IMPORTANCE OF CORPORATE GOVERNANCE FOR THE FINANCIAL MANAGEMENT OF BUSINESS ORGANIZATIONS: A REVOLUTIONARY IDEA TO ACHIEVE SUCCESS

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## SUMMARY

This study analyzed the Financial Management and Corporate Governance relationships of Micro and Small Enterprises and their financial performance. To find out what are the reasons that lead a micro and small enterprise to close. Failure to carry out investment planning, spending more than what is actually earned and difficulty in controlling accounts is something that many entrepreneurs suffer. With the global economy and international trade increasingly integrated and diffuse. Micro and small enterprises find themselves in a competitive rivalry between competitors, and having good quantitative and qualitative methods for decision analysis are some performance indicators (*KPIs*). From small organizations to large multinationals around the world, they are constantly seeking a predictable and profitable future scenario. So that they can control or anticipate any eventualities through financial governance. In the financial market, there is a growing search by organizations for more information and data to assist in their decision-making procedures. Financial Management has been expanding its area of activity in the needs of: cash; planning; research and decisions on capital expenditures. Financial management as a refined tool becomes a privilege in the organization's decision-making, envisioning future scenarios, which, if used correctly, leverages profits.

**Keywords:** Financial Management. Decision Making. Corporate Governance. Performance Indicators.

## ABSTRACT

This study analyzed the relationship between Financial Management and Corporate Governance of Micro and Small Companies and their financial performance. To know the reasons that lead a micro and small company to close. By not carrying out an investment plan, spending more than what is actually invoiced and the difficulty of controlling accounts is something that many entrepreneurs suffer. With the world economy and international trade increasingly integrated and diffuse. Micro and small companies are in a competitive rivalry between competitors, and having good quantitative and qualitative methods for analyzing decisions are some performance indicators (*KPIs*). From small organizations to large multinationals in the world, they continually seek a predictable and profitable future scenario. So that they can control or anticipate any eventualities through financial governance. In the financial market, there is a growing search by organizations for more information and data to assist in their decision-making arrangements. Financial Management has been increasing its area of expertise in terms of needs: cash; planning; capital expenditure research and decisions. Financial management as a refined tool becomes a privilege in the organization's decision making, envisioning future scenarios, which if used correctly leverages profits.

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**Keywords:** Financial management. Decision making. Corporate governance. Performance indicators.

## 1 INTRODUCTION

In recent decades, Financial Management has become a key part of organizations' daily decision-making, contributing to reducing risks and increasing expected returns. Financial Management has been expanding its scope of action in the following areas: cash flow; planning; research; and capital expenditure decisions. Financial management, as a refined tool, has become a privilege in the organization's decision-making, envisioning future scenarios that, if used correctly, can boost profits.

Financial Management for micro and small businesses becomes crucial for their existence and subsequent survival and financial well-being. The growth of the company depends on the management of financial resources. Good management and the company will survive the first 5 (five) years. Poor financial management and it will go bankrupt. This does not mean that in the following years excellent financial management should not be carried out. It is up to the *Chief Financial Officer* ensure that the invested capital is at the right time and at the lowest cost (working capital, physical assets and spending program), for the micro and small business to survive. Its analysis involves observations that occur in the following factors:

- Understand your skills and characteristics *Chief Financial Officer*;
- Implement and prepare Financial Management for market analysis;
- Quantify and qualify Corporate Governance processes;
- Develop and diagnose data for processing information in decision-making financial market decisions; Market risk analysis.

The duties of the *Chief Financial Officer* will require complex skills and expect a methodical approach, contributing to efficiency, effectiveness and efficacy, seeking to increase the performance of small and micro-enterprises, maximizing their profits. For the problem raised in this article, supported by Gil's classification (2002), and observing the objectives explained, the appropriate model for investigation is exploratory research, since the aim is to deepen knowledge about a given topic. Regarding the general objective of the research, the procedures indicated to achieve it are bibliographic research, since the necessary data will be found in scientific works related to the topic.

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<sup>5</sup>The Chief Financial Officer, CFO or Chief Financial Officer is responsible for managing the financial risks of a business.

Importance of Corporate Governance for the Financial Management of Business

Organizations - financial management for micro and small businesses, a revolutionary idea for achieving success. Financial Management and Corporate Governance of Micro and Small Businesses and their financial performance have proven effective for the survival of small businesses. The financial manager must have the knowledge and tools to develop excellent work, if he does not have them. Look for qualified companies or professionals for assistance in financial management.

## **2 THE IMPORTANCE OF GLOBAL FINANCIAL MANAGEMENT FOR DECISION MAKING**

In recent decades, Financial Management has become a key part of organizations' daily decision-making, contributing to reducing risks and increasing expected returns. Financial Management has been expanding its scope of action in the following areas: cash flow; planning; research; and capital expenditure decisions. Financial management, as a refined tool, becomes a privilege in the organization's decision-making, envisioning future scenarios that, if used correctly, leverage profits.

Financial management for micro and small businesses is crucial for their existence and subsequent survival and financial well-being. The growth of a company depends on the management of its financial resources. Good management will allow the company to survive the first 5 (five) years. Poor financial management will lead to bankruptcy. This does not mean that excellent financial management should not be used in the following years.

According to IBGE<sup>6</sup> and Sebrae<sup>7</sup> (2014)<sup>8</sup>, the main aggravating factor that leads 60% of companies to close their doors is linked to lack of money. And, this factor can occur in several ways in the absence of efficient financial management. The main reasons for companies closing are: 38% did not research to find out the number of competitors they would have; 39% did not know the working capital needed to open the business; 42% did not calculate how much they needed to sell to cover costs, in order to generate the expected profit in the end. 46% did not study the number of customers they would have or their consumption habits; 55% did not develop a business plan/strategy; 68% have experience in the business sector.

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<sup>6</sup>Brazilian Institute of Geography and Statistics.

<sup>7</sup>Brazilian Micro and Small Business Support Service.

<sup>8</sup>Otimizy Website. After all, why do companies go bankrupt? Published on 01/19/2017. Available at: <https://site.otimizy.com.br/blog/por-que-as-empresas-quebram//>>. Accessed on: March 19, 2021.

The numbers are surprising when you see entrepreneurs neglecting Financial Management. Mixing the company's cash flow with household bills or making withdrawals from the store without recording the exit or entry. According to the author Gitman (2002), without the capital to meet the need to produce, create, develop marketing campaigns, test and invest in new ventures, the company will not be able to develop, generate jobs, evolve and have favorable income.

To help get around these and other problems the *Chief Financial Officer* is a business leader who has been evolving in recent years, assuming the responsibilities and risks of the company's business, no longer a functional occupation.

Risk analysis of small and micro-enterprises, as well as financial management, must be taken seriously. Decision-making must be meticulous, not based solely on economic and financial references. It must also be based on performance indicators (*KPIs*), making decision-making more assertive.

Risk analysis requires long-term investment strategy and planning, and analysts capable of identifying the best investment opportunities in micro and small businesses.

THE *Chief Financial Officer* must be able to diagnose and evaluate other aspects besides the economic and financial ones, such as: direct investment, loans, Internal Rate of Return (IRR), Net Present Value (NPV) and Break-Even Point (BEP). According to Tomaselli (2016), the decision comes from the results achieved from investments in new ventures correlated with other investments. The Market Risk Manual of *Credit Suisse Hedging-Griffo* (2018), highlights the main risks concerning individual investments:

- Market risk – possibility of losses from risk factors in the fluctuation characteristic of any wallet.
- Derivatives risk – the use of derivatives can leverage the business, generating profit and safeguarding the invested capital. However, it may have the opposite effect, resulting in losses for the business.
- Credit Risk – may be caused by the appreciation or depreciation of the currency, a non-payment of amounts, whether due to late payment of dividends or interest.
- Liquidity risk – when payments are not honored or are settled at a lower price.
- Operational risk – methodological failures, non-conformities and deficiencies people and tools.

For Tomaselli (2016), risks can also arise from changes in laws, the environment through climate change, and the implementation of social systems and policies. And requiring complex skills and expecting a methodical approach from the professional is one of the secrets to success.

## 2.1 FINANCIAL MANAGEMENT - DECISION MAKING FOR MICRO AND SMALL ENTERPRISES

For entrepreneurs of micro and small businesses, financial management is not always a clear priority, but it is crucial for the development of the company. By managing the company's finances, it is possible to identify the procedures for the best strategy for decision-making. This makes it possible to maintain balance and organization of income and expenses.

The lack of robustness in the finances of micro and small businesses is the main reason why many entrepreneurs fail, without having a financial plan for the business. According to data from IBGE (2019)<sup>9</sup>, close to 21% of micro and small businesses close their doors within a year; the proportion is 1 in every 5 companies.

This study contributes to the understanding of the relationships between financial management and corporate governance of a micro and small business so that it does not close its doors in its first 5 (five) years. Financial planning for micro and small businesses can provide a competitive edge for the business, making it safe and stable.

According to Gitman (2002), the financial manager's investment decisions define the proportion and type of assets included in the balance sheet of the micro and small business. They establish which are the best permanent assets to acquire, and know when existing assets need to be modified, replaced or liquidated. In this way, by making the right investment choices, the financial manager contributes to the generation of wealth, leading the company to growth. Nowadays, even micro and small businesses have or want to have good financial management, which helps them with strategies, data and information collection, organization, and analysis of financial intelligence for the business. To implement Financial Management, the entrepreneur must:

- First step - analyze the company's finances and develop a plan financial with business diagnosis. The purpose is to classify and understand how the

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<sup>9</sup> Website Suno Economy data of IBGE. Published in 10/17/2019. Available: <https://www.suno.com.br/noticias/ibge-empresas-quebram-apos-um-ano/>. Accessed on: March 17, 2021. v. 7 special ed. (2021): RCMOS - Multidisciplinary Scientific Journal of Knowledge. ISSN: 2675-9128

company finances, checking how much money is in cash; accounts receivable; accounts payable; fixed expenses; variable expenses and the balance sheet.

- Second step - measure the performance of the market share or *market share* of your business. For an entrepreneur to start his business on the right foot, it is important to start well in his field of activity. By checking where you are investing your money, you will be able to have greater security and return on investment. The tools *Business Model Canvas* or Porter's Five Forces can help identify opportunities and threats, providing an analysis of the company's financial health.

- Third step – defining the company's financial objective, the entrepreneur must set goals according to the first step. When defining financial objectives, micro and small businesses cannot set goals that are too difficult or too easy; there must be a balance of neither too much nor too little. Goals and objectives must be challenging and measurable.

- Fourth step – define the emergency reserve or working capital, to have security and guarantee that operations run smoothly. Working capital is the difference between current assets and current liabilities; failing to do so is one of the worst mistakes, putting your company at risk.

- Fifth step – define what is a personal account and a business account. Common fact between micro-entrepreneurs using the company's cash to cover personal expenses.

Keep track of your income and expenses, do not mix personal and company accounts, avoid making withdrawals from the cash register without prior scheduling, and establish a salary for partners. This mistake can bankrupt your company in a short time.

- Sixth step – define the technological tools and indicators. With the With technological tools, it will be possible to monitor the execution of the company's processes in real time and whether it is in accordance with the financial planning. Performance indicators must be in accordance with your business, producing reports, automating repetitive services. You will be able to determine the possibilities for appropriate advances to enhance financial results.

## 2.2 FINANCIAL CORPORATE GOVERNANCE

Corporate governance as a set of corporate organization contributes to raising financial resources with less financial impact and reducing risk. Corporate governance is a set of management techniques appropriate to generate value for the company, increasing the level of security among partners. According to Fonseca and Silveira (2016),

corporate governance has two indispensable bases: Level of *Disclosure*<sup>10</sup> and Protection of Rights. In this sense, governance practices ensure effective monitoring of administrative activities, establishing appropriate incentives for external investors to be protected from expropriation. Corporate governance adds value to the company, increasing the level of trust among shareholders and limiting the costs of raising financial resources in the market, which makes the company more competitive, reducing the return-risk symmetry.

Companies that are already consolidated in the market do not encounter difficulties in selling their shares and obtaining financing for their project.

This is no longer the reality for micro and small businesses (*Startups*<sup>11</sup>), with low cash flow and an almost non-existent credit history, are unable to pay their debts. However, many of these companies have been gaining market share by using technology, showing dizzying growth.

For effective decision-making for micro and small businesses, the manager's ability to make appropriate decisions increases liquidity rates, which influence the effectiveness of supplier payments and risk diagnosis.

The purpose of financial management is to obtain a return on invested capital, whether the investment is medium or long term. Braga (1995) describes that financial management faces constant challenges to maintain a satisfactory balance between liquidity and profitability. Micro and small companies that demonstrate excellent evidence of liquidity are in good financial health, ready to get a share of the *marketing share* of your business. This highlights the merit of the return indicators, demonstrating the profitability and income invested in the business. These profitability indexes on the return on sales are:

- Net income and season sales in a presumption economy may contain distortions and be outdated, regarding the calculation of the index if there is no updated monetary tool.
- The net profit in affiliated or controlled companies must be investigated to know its equivalent origin of the result.
- Net profit may include income specific to deficits or operating profits, thus calculating the operating income from sales.

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<sup>10</sup>It means the act of publicly disclosing accounting data for use by those interested in the corporation.

<sup>11</sup>It is an emerging company whose main objective is to develop or improve a business model.  
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- Net profit in the inventory and cost calculation method is capable of directly influence the commission on goods sold or the cost of the product sold, altering the profit.

Like any organization, financial risks are related to the company's flows and processes, which are directly related to poor management. Possible causes include: inadequate financial management; excessive debt; fluctuating exchange rates or interest rates; high-risk investment; and incorrect decision-making due to poor data quality.

Given the fluctuations in the financial market, continuous innovation is needed to avoid market risks and stay ahead of the curve. Managing investment risks involves: performance assessment, career structures, and risk mediation.

According to Mellagi and Ishikawa (2012), it highlights the ways in which companies manage their financial risks and the level of purchase of securities such as debentures. The risks present two models:

- Unsystematic risk – investment performance risk diversifiable with the dilution with other investments.

- Systematic risk – investment performance risk that is not diversifiable with macroeconomic situations affecting all economic segments, being beyond the investor's control.

The stock market is where shares are bought and sold, where nominal securities with different returns are acquired. When purchasing a share, the investor will have a share of the invested business, becoming a partner. Shares can vary in three types:

- Ordinary shares – the shareholder will have the right to vote and participate in the company's results. enterprise.

- Preferred – the shareholder will not have the right to vote, but rather preference in receiving of dividends.

- Units – the shareholder has a combination of common and preferred shares.

Microentrepreneurs may invest individually or through Brokers or Banks (authorized by the CVM)<sup>12</sup>, with equity fund; purchase of shares. Therefore, Brokers are the only institutions authorized to operate on BOVESPA<sup>13</sup>. If you made any investment through banks or distributors, they did so with brokers.

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<sup>12</sup>The purpose of the Securities and Exchange Commission (CVM) is to discipline and monitor the securities market, applying punishments to those who fail to comply with the established rules.

<sup>13</sup>Bovespa Index is the most important indicator of the average performance of stock prices traded on B3

- Brazil, Stock Exchange, Counter.

### 3 CASE STUDY REPORT: MULTI-SCREEN COMPANY

Mult Telas specializes in mosquito nets and was founded about 4 (four) years ago to meet the needs of the local population. The company has been improving the quality of life of its customers by protecting their families from contact with insects and other inconvenient animals.

The company is currently increasing its specialization in projects, creation, production and installation of mosquito screens for windows and doors, providing service in physical or virtual stores.



Source: Mult Telas website. Available at <https://www.multtelas.net.br/>. Researched on March 25, 2021.

#### Business Challenge

Mult Telas has a portfolio of numerous solutions to serve its customers, from protection kits and blinds to accessories, with a wide range of functions, in addition to specializing in the segment. However, amid the brand's growth, there were some problems that most businesses face, such as seasonality and financial management.

In 2018, one of Mult Telas' biggest challenges was knowing if it was on the right track, if pricing (with high price variation), sales strategies, costs, and results analysis were reflecting the company's reality, and if monitoring and updating the results were correct.

prices in order to make them competitive. Like all micro and small businesses, it was necessary to optimize the business's finances and the time invested by the entrepreneur. Mult Telas managed numerous functions within the business as it grew, and could get lost in financial management.

## **SOLUTION**

A financial management tool was implemented that makes it possible to have a broader perception of the business, such as analyzing costs, analyzing whether the prices charged are generating profit or not, whether the company has working capital, whether it has cash, determining the monthly result for decision-making and, mainly, what the real contribution margin is.

Mult Telas hired the services of Preço Certo to optimize Mult Telas' time and financial management. One of the methods that Preço Certo uses with its clients is marginal increments and price hypotheses, and with Mult Telas it was no different, aligning the applied knowledge of our team of consultants with the tool.

One of the things that caught my attention the most when implementing the tool was the sensitivity and commitment of the consultants in understanding the particularities of the Mult Telas segment, carefully studying the data in a precise manner in partnership with Bling, so as not to distort any information that could cast doubt on the results.

After this period of studying the business segment, operational training for the web platform and analysis of results began. "Strategies were drawn up together with Preço Certo for shipping, advertising, price increases or decreases and, consequently, an increase in the contribution margin and cash flow."

## **3.1 RESULTS**

Currently, the company Mult Telas controls and optimizes its performance indicators, and less than 96% of micro and small companies do not know how to calculate or manage them.

Did you sell your product and not see the color of the money? That could be why! And now, the company can operate monthly without needing large cash reserves to sell. Financial management is crucial for the survival of micro and small businesses. Mult Telas' business has become more profitable and today the profitability of the invested venture is generating good results.

### **Results:**

- Cash requirements decreased by 40%;
- The company's working capital has reduced;

- Increase in business profitability by 10x
- Increased revenue by 58%

Today, Mult Telas is not only able to survive periods of low demand, but also to take advantage of periods of high demand, generating cash for the seasonal months. Thanks to optimized management and sustainable growth, the business has now managed to expand its customer base without compromising performance.

## **FINAL CONSIDERATIONS**

This study contributes to the understanding of the relationships between financial management and corporate governance of micro and small companies so that they do not close their doors in their first 5 (five) years. With the global economy and international trade increasingly integrated and diffuse, micro and small companies find themselves in a competitive rivalry between competitors, and having good quantitative and qualitative methods for decision analysis are some key performance indicators (KPIs) for financial management.

From small organizations to large multinationals around the world, they are constantly seeking a predictable and profitable future scenario. So that they can control or anticipate any eventualities through financial governance. In the financial market, there is a growing search by organizations for more information and data to assist in their decision-making procedures. Financial Management has been expanding its area of activity in the needs of: cash; planning; research and decisions on capital expenditures. Financial management as an accurate tool becomes a necessary privilege in the organization's decision-making, envisioning future scenarios, which if used correctly leverages profits. Finding and solving the reasons that lead a micro and small company to close. By not carrying out investment planning, spending more than what is actually earned and difficulty in controlling accounts is something that many entrepreneurs suffer.

Financial Management and Corporate Governance of Micro and Small Businesses and their financial performance have proven effective for the survival of small businesses. The financial manager must have the knowledge and tools to do an excellent job, if he or she does not already have them. Look for qualified companies or professionals for assistance in financial management. Planning business actions, financial management strategies and tools have a positive effect, as seen in the case study. Financial Management is an undeniable reality that has been gaining strength in the business world, through its governance tools. It is the revolution brought about by the integrated economy.

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