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ABSTRACT
This study investigated the financial management practices and its effect on profitability of business enterprises in Pune City. Both primary and secondary data were collected from 11 business enterprises in Pune city. Analysis of the collected data provided that; profitability was significantly affected by efficiency in financial management practices such as accounting, reporting, & analysis, working capital management, fixed asset management and financial planning and order to increase profitability, the researchers recommend that business enterprises should continuously improve their financial management practices.

Keywords: Business Enterprises, Financial Management Practices, Profitability

INTRODUCTION
Financial management is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial management, combined with the uncertainty of the business environment often led Business Enterprises to serious problems. Regardless of whether an owner-manager or hired-manager, if the financial decisions are wrong, profitability of the company will be adversely affected. Consequently, a business organization’s profitability could be damaged because of inefficient financial management. Business Enterprises have often failed due to lack of knowledge of efficient financial management. Moreover, the uncertainty of the business environment causes Business Enterprises to rely excessively on equity and maintain high liquidity and these financial characteristics affect profitability. Since the Indian People led government introduced a series of economic reforms in 1991, the private sector in Ethiopia has rapidly grown in terms of the number of businesses, capital and employees. The number of private businesses and limited companies had quickly risen and the majorities are micro, small and medium enterprises. These business Enterprises have contributed considerably to creating jobs for labor-age people. Pune town is one of the oldest and commercial centers found in Maharashtra state. According to the census made in 2010, there are about 160 licensed business organizations in Pune town. This research paper is aimed at investigating the effect of financial management practice and financial characteristics on the profitability of the business organizations.

Objective of the Study:
Most previous researchers have concentrated on examining, investigating and describing the behavior of Business Enterprises in practicing financial management. Their findings are mainly related to exploring and describing the behavior of business enterprises towards financial management practices and characteristics. There has been little research examining the effect of financial management practices on profitability. This lack of empirical evidence from less developed economies and the lack of examination of the effect of financial management practices and financial characteristics on profitability are major gaps in the knowledge of financial management. Therefore, it is difficult to convince business practitioners of the need for changes in practices until evidence of the effects of financial management practices and characteristics on profitability are provided and the relationship between the two variables is proved. Based on previous research findings and recognition of these gaps, a study of the effect of financial management on profitability is justified and the effect
of financial management practices and financial characteristics should be developed and tested by using empirical data from Pune.

- Investigate the effect of Efficiency in financial management practices such as accounting, reporting, & analysis, working capital management, fixed asset management and financial planning on the profitability of firms.
- Examine the effect of financial characteristics such as liquidity, leverage and asset turnover on the profitability of firms.

**RESEARCH DESIGN AND METHODOLOGY**

- Due to limitation of time and fund, the target population in this study could not cover all business organizations in India. The target population for the study is therefore, business organizations in Pune town. According to the data obtained from Pune town trade and industry office, there are about 160 licensed business organizations of all sizes as of 2010. But all these are not taken for the study. As the study requires secondary data, only business organizations that keep books of account were selected. According to the data obtained from Pune town revenue office, of the business organizations available in the town, only 35 business organizations have been keeping accounting records till June 2010. Therefore, the target populations for the study are the whole 35 business organizations. Organizations were considered for the study. But only 35 usable questionnaires were collected back, which is approximately a response rate of 21.87%. In this research, both survey and secondary data methods are used in combination. Survey is chosen as a research technique in this study because it is very useful to investigate financial management practices of many Business Enterprises. Questionnaires were designed and directly delivered to Business Enterprises to collect primary data related to their financial management practices. In developing a causal relationship and testing hypothesis of association, there are two kinds of variables involved: dependent and independent variables. The independent variable involved includes variables used to define the efficiency of financial management practices and variables used to define financial characteristics. Independent Variables Related to Financial Management Practices include efficiency in Financial Accounting, Reporting and Analysis practice, efficiency in Working capital management practice, efficiency in Fixed Asset Management practice and efficiency in Financial planning practice. The efficiency of each of this financial management practices was measured by using ten items on five-point scales in which the respondents were asked to rate where the positions of their businesses are for each item described. 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 computed using Excel for each respondent. The only difference is the efficiency measure for working capital management which is measured in terms of cash, receivable and inventory management practice by raising 10 items for each, which means a total of 30 items for working capital management as a whole. In addition to the above four independent variables, current ratio, debt ratio and total asset turnover ratio were used as additional independent variables. Their values were calculated from the 2010/11 annual financial statement. In this study, profitability measured by profit margin (PM) and Return on Asset (ROA) are viewed as the dependent variable. Using the variables defined above, the model of the effect of financial management practices and financial characteristics on profitability can be formulated as follows:

- PM = Profit Margin
- ROA = Return on Asset
- EARA = Efficiency of Accounting, Reporting and Analysis Practice
- EWCM = Efficiency of Working Capital Management
- EFAM = Efficiency of Fixed Asset Management
Finance Management

- EFP = Efficiency of Financial Planning
- CR = Current Ratio (Measure of liquidity)
- DR = Debt Ratio (Measure of Financial Leverage)
- TAT = Total Asset Turn Over (Measure of Activity)
- Where: b & b, EARA, EWCM (I= 0,1,2,3 …) are the coefficients, ε is the error variable
- EFAM & EFP are independent variables related to financial management practices and CR,
- DR and TAT are the independent variables related to financial characteristics.

Effect of Efficiency in Accounting, Reporting and Analysis Practice

The study found out that, the use of accounting information system helped owners or managers to
design and implement a strategic plan that will enable their business profitable in the long run. also
found out that efficiency in accounting information system and financial reporting and analysis
enhanced profitability. The efficiency of business organizations in this case was approximated by the
on time and accurate recording and summarizing of business transactions, the frequency of preparing
financial report and financial analysis, the degree of computerization of the accounting information
system. In addition, different accounting and financial management books also confirm that good
accounting, reporting and financial analysis practice enhance performance by helping decision makers
design and implement wise and strategic decisions.

Effect of Working Capital Management on Profitability

In the study conducted infound out that the way working capital is managed will have a significant
impact on the profitability of a firm. investigated the relationship between profitability measured by
return on assets and working capital management by taking 58 firms in Mauritius using panel data
analysis for the period 1998 -2003. The regression result showed that high investment in inventories
and receivables is associated with low profitability.

Effect of Capital Budgeting (Fixed Asset management) on Profitability

Capital budgeting decisions are critical to the success of any firm. argued that capital budgeting
decision is vital to a firm’s financial among the most important decisions that owners or managers of a
firm must make. Their rationale for that belief is that capital budgeting decision often involves
significant capital outlay to acquire fixed assets. Additionally, the acquisition of these assets often
comes with long lasting and recurring financial obligation. Furthermore, efficient utilization and
control and management of acquired fixed assets are also equally important. Appropriate acquisition
process, proper record keeping, periodically evaluating the efficiency of the fixed asset, regular repair
and maintenance and proper disposal of fixed assets will enhance the performance of firms.

Effect of Financial Planning on Profitability

Companies typically prepare a wide array of plans and budgets. Some of which include sales plan,
production plan, cost plan and expense budget and budgeted income statement and balance sheet.
These budgets are very important to anticipate the future in advance. This will in turn help to
minimize risks and because of the tradeoff between risk and return, profitability increases. Therefore,
preparing detailed financial plan or budgets will have a positive effect on profitability of the firm.

Effect of Financial Characteristics on Profitability

Liquidity measured by current ratio, leverage measured by debt ratio and business activity
measured by total asset turnover ratio are the three independent financial characteristics used in this
study. Liquidity measured using current ratio refers to the relative proportion of current assets such as
cash, receivables and inventories as compared to current liabilities. The greater the relative
proportion of liquid assets, the less risk of running out of cash and profitability decrease, since these
liquid assets become idle and do not earn any revenue. On the other hand, when liquidity of a firm is
low, the risk is very high and profitability will increase because of the tradeoff between risk and
profitability. In physics, a lever is advice to increase force. In business financial leverage measured by Debt ratio is a device used to increase owners return. Financial leverage measured by debt to total asset increases return on equity, when return on investment is greater than the after tax interest rate. When the return on investment is less than the after tax interest, increase in leverage reduces the return on equity. Therefore, leverage improves financial performance when things are going well but worsens performance when things are going poorly. Many people believe that assets are good things: the more the better. The reality is just the opposite. Unless a company is about to go out of business, its value is in the income stream it generates and its assets are simply a necessary means to this end. In dead, the best possible company would be the one that produces income without any asset. Other things constant, financial performance improves as asset turnover rise (Higgins, 1995). From the above discussion, the following three hypotheses can be formulated. The effect of these seven independent variables on profitability can be summarized as shown in the table below. Financial Practice & Characteristics Expected Impact on Profitability Efficiency Positive in Financial Accounting, Reporting & Analysis
Efficiency in work in capital Management ------------------------------Positive
Efficiency in Fixed Asset Management--------------------------- Positive
Efficiency in Financial Panning-------------------------------- Positive
Increase in Current Ratio------------------------------ Negative

DISCUSSION:
Before proceeding to regression analysis, correlation analysis is made to investigate the relationship between variables. Correlation matrixes were used for association analysis to determine whether multicollinearity exists among variables. This was also used by previous researchers such as kieu (2004) and Chung & Chaung (2010). The correlation analysis includes dependent variables such as Profit margin (PM), Return on Asset (ROA) & Return on Equity (ROE) and independent variables such as the Efficiency of Accounting, Reporting & Analysis (EARA), Efficiency of Working Capital Management (EWCM), Efficiency of Fixed Asset Management (EFAM), Efficiency of Financial Planning (EFP), Current Ratio (CR), Debt Ratio (DR) and Total asset turnover (TAT).

The correlation coefficient among the ten variables under study. As expected, Profit Margin, Return on Asset, and Return on Equity are significantly and positively related with efficiency in Accounting, Reporting & Analysis, Efficiency in Working capital management, Efficiency in fixed asset management and efficiency in financial planning at a significant level of 0.01. In addition, the profit margin is significantly positively related with Total asset turnover, return on assets and return on equity at a significant level of 0.05. On the other hand, profit margin is significantly negatively related with current ratio at significant level of 0.05. But debt ratio was not found to be significantly related to any of the variables. Multicollinearity indicates a problem in multiple regression analysis. When the independent variables have a high probability of correlation, the regression coefficient becomes less reliable and confidence in the accuracy of the equation is questioned. A general rule is that if a correlation between any two variables is greater than or equal to 0.70, then a high degree of interrelation can be inferred and the possibility of multicollinearity exists (Kieu, 2004). As it is shown in the correlation matrix, the correlation coefficient among profitability and the seven independent variables (EARA, EWCM, EFAM & EFP, CR, TAT, DR,) are less than 0.7 which implies multicollinearity does not exist. In addition, the relationship between profit margin and ROA is not greater than 0.7. But the relationship between ROA and ROE is greater than 0.7 which implies either ROA or ROE should be used in the analysis. Therefore, profitability measured by profit margin and return on assets were used as a dependent variable. Return on equity was omitted because it is strongly positively correlated with Return on assets (r = 0.8390). Profitability Regression Model using Profit Margin as Dependent Variable R = 0.751 R = 0.564 Adj. R = 0.475 S.E.E = 0.1266539.

Above reveals that profitability measured by profit margin and the seven independent variables are significantly correlated with the correlation coefficient R= 0.751. reports the model of profitability as measured by profit margin with the coefficient of 2 determination R = 0.564. The coefficient of determination indicated that 56.4% of the variation in profitability for the sample of 37 firms can be
explained by the changes in practices of accounting, reporting and analysis, working capital management, fixed asset management & financial planning and change in performance of current ratio, debt ratio & total asset turnover ratio while 43.6% remains unexplained. In addition, the reports the summary of Analysis of Variance and F-statistics, which reveals the value of \( F = 6.293 \) are significant at the 0.0001 level. The value of \( F \) is large enough to conclude that the set of independent variables as a whole were contributing to the variance of profitability measured by profit margin and therefore, the model represents the actual performance of the firms under study.

As indicated earlier, because total asset turnover was not found to be significantly related to profit margin at a significant level of 0.05, it was removed from the regression equation to improve the accuracy of the model. After removing, total asset turnover and rerunning the regression revealed that all statistical parameters including F-value, t-statistics and standard error of estimates have been improved. In the second model, return on asset is used as dependent variable while the independent variables include efficiency in accounting, reporting & analysis, efficiency in working capital, efficiency in fixed asset management, efficiency in financial planning, current ratio, debt ratio and total asset turnover. The result of the regression showed the four financial practices and the three financial characteristics influence return on asset with a coefficient of determination \( R^2 = 0.306 \). This indicated that 30.6% of the variation in return on asset is explained by the seven independent variables while 69.4% remains unexplained. In addition, the value of \( F = 2.142 \) is significant at the 0.05 level. The value of \( F \) is not high as that of \( F \) in the first model but it is large enough to conclude that the set of independent variables as a whole were contributing to the variance of return on assets.

The result of the regression analysis for a test of hypothesis confirm that the four financial management practices and two financial management characteristics are significantly related to profitability of business organizations, but no sufficient evidence was obtained for total asset turnover. The result of for individual independent factors was summarized as follows

**CONCLUSION:**

In conclusion, the empirical finding implies that factors of financial management are good tools for improving enterprise’s profitability. This finding leads to the conclusion that the efficiency of financial management practices and characteristics can bring about higher profitability. Therefore, business organizations can improve profitability by raising the efficiency of financial management practices and characteristics. Sound financial management is essential to the success of businesses organizations. Successfully managing financial resources is important in new as well as expanding business. So time should be taken to develop and implement financial management practices that ensure success of business enterprises. In addition, a more comprehensive survey throughout the country was suggested as a future study area to come up with country level conclusion.

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