



## **Financial Planning and Corporate Development: Attitude Analysis of Selected Enterprises in Uzbekistan**

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**Abstract:** Financial planning has become an integral part of corporate development strategy in businesses in developed and emerging economies. Despite rapid spread of advanced business practices, enterprises in transition and developing economies still have been lagging behind in absorbing some elements of modern business conduct skills and methods. This weakness is visible in corporate planning and forecasting practices. Although key elements of market economy have already been introduced and a business environment is functioning favorably, enterprises in transition economies of post-Soviet area are facing difficulties in applying and adapting changeable and regularly updating economic climate due to changing business psychology in the society and ongoing gradual structural reforms. Entrepreneurs and finance officers possess basic knowledge and understanding of income-cost and input-output planning. But corporate and business expansion planning, forecasting and risk analysis skills are out of their capabilities when it comes to apply in decision making processes. It should be admitted that people's business mind changed significantly and nowadays business sector is backbone of any post-communist or transition economy. However, it does not suffice to run the business, to stay active in market and to keep stable financial structure. In this paper, we examined the attitudes of decision makers of 24 enterprises in Uzbekistan towards financial planning and its possible benefits for enterprises they are running. Likert scale-based survey showed that attitudes towards the financial planning are positive, since its effect on corporate policy matters is treated comparatively less favorable.

**Keywords:** Financial planning, Likert scale, Uzbekistan.

### **1. Introduction**

Harsh competition, tightening business conditions and volatile macroeconomic environment are calling for companies to observe the changes, to keep the priority of prudence and to not to make strategic decision without a solid plan. Advances in business practices enabled decision makers and managers to conduct performance by means of systemic planning and strategic tools and methods. However, volatile business environment followed by financial disorders in the global economy has posed risks for smooth operations in world markets. Despite advances in business management and forecasting techniques, still companies are failing in predicting and evaluating the condition, and could not set optimal business targets. All of these failures are often reason for the lack of accuracy and ability in planning, especially financial planning which channels the business performance with profit. Uncertainty and volatility factors hugely impacts on the appropriateness of financial planning due to the changing face of world markets, their impact channels and country level macroeconomic environment.

Relevance of financial planning for business performance is not equally treated and prioritized by geographies, sectors and organizational forms of enterprises. Companies in developed economies build their financial profile around the prudent financial planning and often give a strategic status deriving from its importance. In emerging economies, financial planning is a strategic map for large enterprises, while mid-size counterparts do not focus on financial planning and often prefer just-in-time market forecasts. In developing and least developed economies, financial planning is a burden for an enterprise, as market forces do not operate appropriately due to weak law enforcement, unfavorable business environment and other external factors, which directly blocks the implementation of the financial plan. Therefore, key improvements in financial planning tools and methods belong to businesses operating in

developed and emerging markets as a central part of corporate financial strategy for short-, mid- and long-term development perspectives. Even financial planning is not a mandatory practice for businesses, financial targeting and planning have already become an integral part of business strategy.

Uzbekistan is a rapid-growth economy with transforming business environment. Business relations and entrepreneurial psychology emerged after the collapse of former Soviet Union. In early transition period, people seriously lacked not only basics of business mind, but also business psychology. In former Soviet legacy, business was prohibited as a speculation and an attempt to separate someone's own civil contribution from community. Despite these structural difficulties, systemic and societal barriers derived from the differences between communist and market economies, Uzbekistan managed to create a healthy business mind in the society and expanded the economic activity of population through a series of key reforms. Consequently, the business sector dominated in gross output, investment and employment. Reforms enabled businesses to overcome the barriers and to follow the modern path of business conduct. Currently, the Uzbek business sector introduced numerous best practices of international business and management by cancelling the Soviet-inherited restrictive or prohibitive aspects. Attitudes towards business have been changing positively since the introduction of entrepreneurship support policies by the government. In line with advances in the business environment, business practices emerged parallelly. Although the business sector has found its platform for growth, enterprises still face the lack of adapting and absorbing key market principles. One of them is financial planning tools which serve as a map for efficiency, stability and profitability of an enterprise no matter how big it is. Enterprises make up a raw financial plan of income, cost and input-output calculations. But it needs more elements to embrace fundamental attributes of financial planning. In contemporary business conduct, forecasting, market and macroeconomic analysis, and risk monitoring elements are considered important components of a financial plan. Therefore, financial planning has remained underdeveloped among mid- and small firms for two decades. This paper surveys the attitudes of Uzbek enterprises towards financial planning and examines their knowledge of benefits from financial planning in different aspects.

## **2. Literature Review**

Large enterprises, especially corporations, rely on financial planning at the corporate level as a strategic tool. Prudent and appropriate planning, implementation and forecasting methods are always of high importance and significance for corporations. In a volatile macroeconomic environment, implementing the financial plan and achieving the target is not an easy task for corporations. It is even more problematic for multinational corporations which operate in different economies and business environments. Grant (2003) studied the developments in corporate financial planning practices of eight of the world's largest oil companies. His study pointed to considerable advances in strategic financial planning such as clear-cut guidelines, demanding financial targets and a mechanism for decentralized corporate strategy. He concluded that corporate financial planning enabled companies to be more adaptable and responsive, but lacked innovation and analytical sophistication.

Strategic financial planning is important for not only large and mid-size enterprises, but also it is applicable for small businesses. According to Schwenk and Shrader (1993), formal planning practices in small-sized enterprises stimulate financial performance. In their study, they tested the effect of formal financial planning on financial performance and found that the impact was positive and significant in all selected small-size enterprises.

Investing activity of modern businesses cannot be imagined without financial markets. Enterprises participate in financial market operations both as issuers of stock, investors and intermediary organizations. One of the main elements of modern enterprises is being linked to financial market operations. Financial market operation brings profit and capital for the enterprise in line with considerable risk. Therefore, in some cases, risks originated from financial markets influence the financial stability of an enterprise. Jarret (2016) studied financial market and financial planning relations. He stressed that financial markets cause trouble by causing loss of wealth, retirement income, unemployment and business contraction. He found that financial market risk must be considered in the financial planning process in order to hit the fixed financial target and not to fail in investment return generation.

A sound financial plan opens a path for strategic development by enabling an enterprise to obtain strategic business objectives. It facilitates the use of appropriate financial data and targets to make proper decisions in investing in the future of the enterprise. Aberdeen Group experts Castellina and Hatch (2011) investigated the role of financial planning in business development in a new economic condition. Their findings suggested that visible and flexible financial planning

can be strategic tool for growth, corporate performance and balance between recovery and caution.

### 3. Methodology

Analytical part of this research is divided into two separate parts. In the first part, we set a Likert scale-based survey to analyse the attitudes of the respondent financial officers of selected enterprises. In the second part, we run logit regression test to examine the powers of respondents' knowledge, gained by output of Likert scale-based survey.

#### 3.1 Attitude analysis

In this part, we analyze the attitudes of respondents towards financial planning and its key benefits for enterprises they are working. Attitude analysis is based on the Likert scale survey with four questions. Actually, there must be at least eight questions in Likert scale surveys. But considering the comparative literacy levels of enterprises, we are limited with analyzing the agreement degrees of respondents with following four main statements:

1. Financial planning supports the enterprise to obtain long-term development objectives
2. Financial planning enhances the financial profile (solvency, liquidity and stability) of an enterprise
3. Financial planning enhances corporate performance of an enterprise
4. Profitability and efficiency can be improved through financial planning

All selected enterprises should indicate their attitudes (degree of agreement) by selecting one of following multiple answers to each question.

| Attitude positions for respondents | Power coefficients of responses |
|------------------------------------|---------------------------------|
| Strongly agree                     | 5                               |
| Agree                              | 4                               |
| Neutral                            | 3                               |
| Disagree                           | 2                               |
| Strongly disagree                  | 1                               |

#### 3.2 Logit analysis of power of response

After obtaining the output of Likert scale survey, we use it as preliminary data for logit regression. Here we divide the responses (attitudes or degree of agreement) of respondents into two groups: agree (or positive attitude) and disagree (or negative attitude). We rank responses with powers as follows: agree – 1 and disagree – 0. Then we set a binary form of responses of each enterprise to run logit regression test.

### 4. Result and Discussion

We started our analysis from collecting preliminary raw Likert scale data. We grouped the responses of all selected 24 enterprises into power groups in terms of attitudes and ranked each question and attitudes by percentages (Table 1).

**Table 1.** Case Processing Summary

|    |                   | Marginal Percentage |
|----|-------------------|---------------------|
| Q1 | Strongly disagree | 4,2%                |
|    | Disagree          | 16,7%               |
|    | Neutral           | 20,8%               |
|    | Agree             | 37,5%               |
|    | Strongly agree    | 20,8%               |
| Q2 | Strongly disagree | 4,2%                |
|    | Disagree          | 8,3%                |
|    | Neutral           | 20,8%               |
|    | Agree             | 41,7%               |
|    | Strongly agree    | 25,0%               |
| Q3 | Strongly disagree | 8,3%                |
|    | Disagree          | 4,2%                |

|    |                |       |
|----|----------------|-------|
|    | Neutral        | 33,3% |
|    | Agree          | 33,3% |
|    | Strongly agree | 20,8% |
| Q4 | Disagree       | 8,3%  |
|    | Neutral        | 12,5% |
|    | Agree          | 41,7% |
|    | Strongly agree | 37,5% |

As can be seen from Table 1, 58,3 per cent of selected enterprises were in positive attitude, 20,9 per cent of them were in negative attitudes, while the other 20,8 per cent remained neutral for the support of financial planning to obtain long-term development objectives of the company. 66,7 per cent of selected enterprises supported the financial planning as an enhancer of financial profile, since 12,5 per cent of them were neutral and remained 12,5 per cent disagreed with this statement. 79,2 per cent of selected enterprises believed that financial planning enhances profitability and efficiency, as 12,5 per cent and 8,3 per cent of them were neutral and in negative opinion respectively.

After interpreting the preliminary data, we check our model whether it fits or not (Table 2) and extent of fitting (Table 3) using logit function in SPSS statistical analysis tool.

Logit function analysis shows that model fits to our path of analysis. After making sure that model fits properly, we moved on to the central part of our analysis - regression of response powers. This logit regression equation tests the response of financial planning on attitudes of selected enterprises (Table 2).

**Table 2.** Parameter Estimates

|           |                 | Estimate       | Std. Error | Wald | df | Sig. | 95% Confidence Interval |             |
|-----------|-----------------|----------------|------------|------|----|------|-------------------------|-------------|
|           |                 |                |            |      |    |      | Lower Bound             | Upper Bound |
| Threshold | [Size = Large]  | 4,51           | 2,183      | 4,28 | 1  | ,04  | ,24                     | 8,79        |
|           | [Size = Medium] | 8,44           | 2,956      | 8,15 | 1  | ,00  | 2,64                    | 14,23       |
| Location  | [Q1=1,00]       | -56,44         | ,000       | .    | 1  | .    | -56,44                  | -56,44      |
|           | [Q1=2,00]       | ,14            | 3,127      | ,00  | 1  | ,96  | -5,99                   | 6,27        |
|           | [Q1=3,00]       | -20,17         | 6500,395   | ,00  | 1  | 1,00 | -12760,71               | 12720,37    |
|           | [Q1=4,00]       | 1,21           | 2,532      | ,23  | 1  | ,63  | -3,76                   | 6,17        |
|           | [Q1=5,00]       | 0 <sup>a</sup> | .          | .    | 0  | .    | .                       | .           |
|           | [Q2=1,00]       | 3,60           | 4,760      | ,57  | 1  | ,45  | -5,73                   | 12,93       |
|           | [Q2=2,00]       | 40,56          | 10046,21   | ,00  | 1  | 1,00 | -19649,65               | 19730,77    |
|           | [Q2=3,00]       | 21,18          | 6500,395   | ,00  | 1  | 1,00 | -12719,36               | 12761,71    |
|           | [Q2=4,00]       | 2,92           | 2,294      | 1,61 | 1  | ,20  | -1,58                   | 7,41        |
|           | [Q2=5,00]       | 0 <sup>a</sup> | .          | .    | 0  | .    | .                       | .           |
|           | [Q3=1,00]       | 0 <sup>a</sup> | .          | .    | 0  | .    | .                       | .           |
|           | [Q3=2,00]       | -3,11          | 3,673      | ,77  | 1  | ,40  | -10,31                  | 4,09        |
|           | [Q3=3,00]       | ,01            | 2,90       | ,00  | 1  | 1,00 | -5,67                   | 5,69        |
|           | [Q3=4,00]       | 1,38           | 2,90       | ,23  | 1  | ,63  | -4,30                   | 7,056       |
|           | [Q3=5,00]       | 0 <sup>a</sup> | .          | .    | 0  | .    | .                       | .           |
|           | [Q4=2,00]       | 43,10          | 10046,21   | ,00  | 1  | 1,00 | -19647,11               | 19733,32    |
|           | [Q4=3,00]       | 2,74           | 3,20       | ,73  | 1  | ,39  | -3,53                   | 9,00        |
|           | [Q4=4,00]       | 5,46           | 2,10       | 6,77 | 1  | ,01  | 1,35                    | 9,57        |
|           | [Q4=5,00]       | 0 <sup>a</sup> | .          | .    | 0  | .    | .                       | .           |

a. This parameter is set to zero because it is redundant.

Logit regression test results clearly show that although large enterprises rely on financial planning as an instrument to ensure financial stability and business expansion, medium-sized enterprises are prone to the possible benefits of financial planning. Enterprises believed that financial planning helps them obtain their long-term development objectives. Power of their responses to Q1 was positive with 1.21 coefficient of strength. As enterprises found financial planning is ineffective to strengthen their financial profile. Q2 was responded negatively with 40.56 strength coefficient of power. Enterprises responded that corporate performance can be improved through proper financial planning. Power of their response to Q3 was positive with 1.38 coefficient. Response of selected enterprises show that profitability and efficiency cannot be achieved through financial planning. Their response to Q4 was negative with 43.10 coefficient.

## 5. Conclusion

In this research I attempted to conduct a small scale study in case of enterprises in Uzbekistan to survey their knowledge and attitudes towards financial planning. As analyses clarified, Uzbek enterprises do not gain sufficient knowledge and experience in financial planning. Although attitude survey showed a comparatively positive mind of enterprises, logit regression test revealed that there is a huge necessity for absorbing business analysis and planning tools. Considering the current development level of business knowledge of all types of enterprises, and all lacking practices, I propose following recommendations to improve business performance by means of appropriate financial planning:

1. Decision-makers in Uzbek enterprises usually do not pay attention to market profile and macroeconomic condition. In financial planning process they should consider the trend of macroeconomic stability and they have make necessary changes to financial plan in case of sudden shift in macroeconomic indicators;
2. In transition economies, market rules were in process of fully adopting real market equilibrium via supply and demand forces. Sometimes excess of goods and services may emerge due to formation. Therefore, enterprises should consider this aspect in input-output planning.
3. Enterprises must monitor existing and potential risks (especially financial, tax and market risks). If risk is significant, they amend the financial plans and change financial targets.

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