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PLAN, MANAGE OR EVALUATE? WHEN IT COMES TO RETAIL, WHICH IS THE VISION OF THE FINANCIAL MANAGERS?

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ABSTRACT

This article shows a panorama of the financial retail management in the state of Sao Paulo - Brazil, where there is little innovation present in the sector and a low usage of some financial tools make it, at the same time, fragile as well as promising. This research sought to map what the principal action of the financial manager is in relation to planning tools, management and the evaluation of the results, plus, of course, to check whether there is any existing financial innovation in Sao Paulo state retail. The sample was comprised of 98 retail managers from various sectors. The initial hypothesis was that the management tools would be those most widely used in retail, nevertheless, other tools were also known to be used. In the end, this conjecture proved to be correct and still we concluded that from the acquisition of skills and competencies, in particular those related to financial aspects, the managers are able to make their companies innovative and competitive in the presence of various national and global challenges.

Keywords: *Retail; Financial management; Innovation; Competences, Abilities*

1. INTRODUCTION

Companies must have certain skills and managerial competences so that they can manage their business in a consistent manner. Innovation is not always an easy skill to acquire. In this way, when the research optical focus is directed towards the financial question, finding innovative tendencies in whichever segment studied; it appears to be a daunting task. It is not expected that the managers who work with finance, repeat the innovation *boom* that occurred between 1960 and 1980 (SHARPE, 1964; FAMA, 1965 and 1970; BLACK and SCHOLES 1972; ROSS, 1976), in which the successors of Markowitz (1952) ended up developing what today is known as the modern Finance Theory. In this way, the present study sought to map out what the main financial manager action is in relation to planning, management and the evaluation of results and the relationship with investors and corporate governance (RI and CG) as well as tools regarding projects and risk analysis were positioned from the point of view of their use. More than this, we investigated whether there is any existing financial innovation in retail in the state of Sao Paulo.

According to Parente (2000), retail consists of all activities that encompass the process of selling products and services to meet the personal need of the final consumer. A retailer is any institution whose main activity consists of retailing, that is, the sale of products and services to the final consumer. Like every company, there is a need for indicators that enable its management, according to its own particularities and highly competitive environment. McClelland (1973) defines competence as the underlying individual feature related to superior performance, usually focused on results. In this respect, it differs from the skills that are directly linked to the process of doing something and those abilities that are closely related to the natural talents of individuals.

Management skills (CARBONE, BRANDÃO, LEITE, & VILHENA, 2009), enable for the administration of resources and the performance of the organizations, ensuring in a way the possibility of viewing a competitive horizon. Although skills are duly related to individuals of an organization, they should be duly aligned and articulated in theoretical models and empirical studies, as evidenced according to DeNisi (2000). These competencies are identified and developed through learning processes in order to positively influence the results of an organization. In this way, one can categorize as personal and professional skills, being this second category divided into managerial skills related to finance, marketing, personnel management, production, information technology, among others.

With regards to the financial district, the skills may be related with the dexterity of individuals in understanding numbers and how they relate to one another; on the other hand, skills can be easily related to applying them in a formula context such as, for example, the use of an Excel worksheet for the inventory control of a company. However, financial competence is directly related to the ability of interpretation and analysis of data and information that subsidize the decision-making process.

Kuazaqui (2013) identifies in an exploratory study a lack of managerial instruments in retail business in the city of Sao Paulo. Among those ignored, include cash flow (51.39%), sales price formation (22.23%) and accounting (79.17%) within a sample of 72 companies. By cross-examining the answers, we were able to understand the intimate relationship between the financial aspects involved, in addition to cash flow, in the formation of prices. One can observe from this profile, that companies may have difficulties in relation to more operational processes and those closely related to skills and not necessarily with regard to essential managerial skills. The initial hypothesis of this study was that retailers, while being a highly operational area from a financial point of view, they would over valorize management tools to the detriment of the others.

2. METHODOLOGICAL ASPECTS

The survey was conducted with companies in the retail sector in the State of Sao Paulo, with the purpose of identifying finance practices adopted by them in accordance with the view point of the professionals interviewed. However, the experimental unit of the research was the financial manager of each company. A fundamental piece of retailing that is not easily restored.

The sample was composed of 98 companies distributed by the same groups of activities defined by the Monthly Commerce Survey (IBGE, 2014). The distribution found within the sample was as follows: a) vehicles, motorcycles and auto parts (33.7%); b) hypermarkets and supermarkets (19.4%); c) furniture and appliances (11.2%); d) food, beverages and tobacco (1%); fabrics, clothing and footwear) (12.2%); f) information and communication (6.1%); g) construction material (6.1%); h) medication, cosmetics and personal hygiene (3.1%); i) books, newspapers, magazines and stationery (7.1%).

An inferential fragility of the sample is that the collection was non-probabilistic intentional (LAKATOS and MARCONI, 2003), which restricts the expansion of results for an analysis of retail in the state of Sao Paulo, as well as an in-depth study of the sample in question. The data were collected through telephone interviews. The database for the research was mounted through private contacts lists of a Research Nucleus of a school of higher education in the State of Sao Paulo, which is located in the city of São Paulo.

Regarding the method, the definition by Richardson (1985) that ranks a research that is based on measurement of items was used, in both data collection and analysis through statistical techniques such as quantitative ones. However, the exploratory and descriptive character of the method needs to be emphasized, as it sought to achieve a new understanding of retail financial management in Sao Paulo and become familiar with the phenomenon so in the end one was able to have tangible conclusions (SELLTIZ et al., 1975).

At the end of the interviews, 98 questionnaires had been validated without missing data. The questionnaires presented open and closed issues. The open questions were necessary for the profile of the respondents' description and focused on training, current profession, position held, among others. Closed issues had as a measurement scale a variation from 01 to 05 (LIKERT, 1932), in which 01 indicated no use of the tool and 05 indicated a lot of use. The data were subjected to a statistical analysis, and for this, we used STATISTICA 12.0 software. In the analysis of the data, the companies were divided into sizes according to the criterion used by IBGE (2010): microenterprise of 0 to 9 employees; small company of 10 to 49 employees; medium size company 50 to 249 employees, and large company of 250 or more employees.

3. RESULTS AND DISCUSSION

Among the 98 managers interviewed in the State of Sao Paulo, each representing their company, 33.7% had training in accounting and 31.6% in administration, values that were considered statistically equivalent[i]. This seems to be a surprising result for demystifying the issue of financial management being in the hands of engineers or people with a background in Exact Sciences. This result showed that retail management is an opportunity for the future administrator. Another highlight is that 33% of managers already occupied the post before they were 30 years old.

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Table 1. Some highlights of the 98 interviews with the financial managers

→ **60%** of the companies classified as medium or large;
→ **67%** of those interviewed between 31 and 50 years of age;
→ **59%** of those interviewed were males;
→ **35%** of those interviewed had some kind of Post-graduate degree;
→ **34%** of those interviewed had an Accounting degree;
→ **32%** of those interviewed had a Business Administration degree;
→ **34%** of those interviewed occupied a Finance Management position, and 45% of those were between 36 and 45 years of age.

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→ **3%** of those interviewed had Engineering degrees.

The distribution of the positions that were investigated took place as follows: 34.7% of the sample was made up of financial managers, followed by managers occupying positions as analysts or aides, assistants or overseers being 20.4% of representativeness and they were grouped for being positions with about the same significance when it comes to retail.

After completing the Chi-square test, it was noted, moreover, that having a postgraduate course is relevant to the position (p-value = 7.4%). This indicates that some specialization in the area is critical for leadership positions, since the best-qualified staff occupy them. Among those who attended a post-graduate course, the majority (47%) occupied a position of Finance Manager, while among those who had not attended the majority (30%) occupied positions of assistant, analyst, overseer or aide.

The reality of retail facing planning, the implementation and control

As already mentioned in the methodological description, the questionnaires presented open and closed questions. The closed questions used the Likert scales with a variation of 01 to 05, where 01 indicated no use of any financial tool and 05 indicated a lot of use. Thus, the average of the answers was obtained as a measure of the degree of the use of a tool (gu) as Malhotra (2001) establishes. Some of the issues were related to the company's financial planning, other relating to management, evaluation, relationship with investors and corporate governance and others concerning project and risk analysis tools.

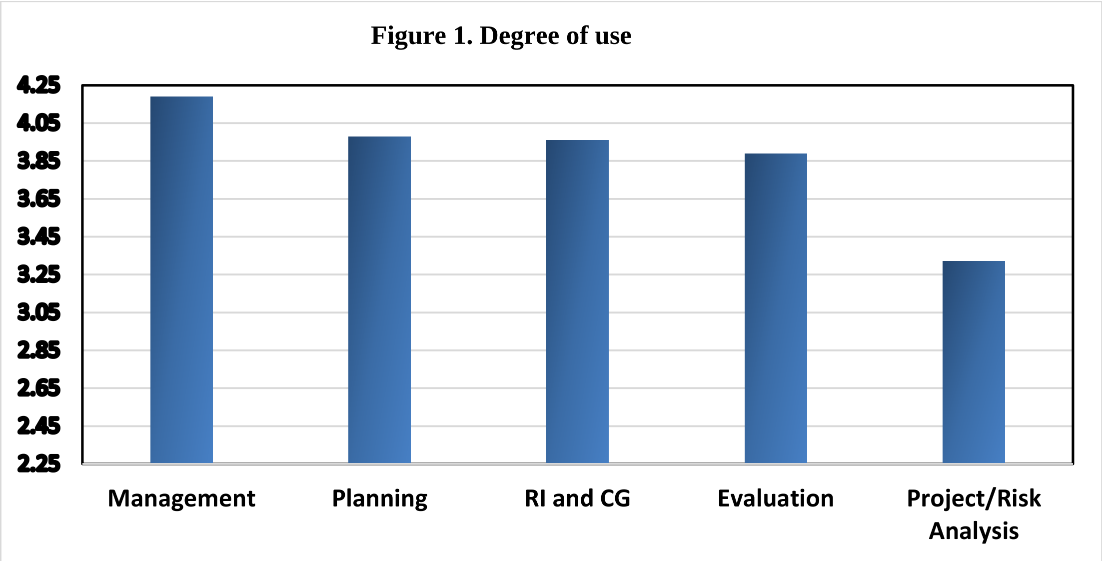

Figure 1. Degree of use
Source: the authors

What we were able to observe in retail was a finance manager trend favoring the activity of generating concrete actions to the detriment of other activities, as shown in Figure 1. With that, the initial hypothesis was supported and it seems to be consistent with the sample, which had a predominance of managers operating at supermarkets and car dealerships, sectors that are more or less airtight and that end up favoring action executions. Of course, there is some financial planning, but in relation to its importance, planning ranks second.

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To detail what was more or less valued, in relation to financial planning tools, it was found that the cash flow projection tools (gu = 4.52), expenditure projections (gu = 4.50) and revenue projections (gu = 4.21) were the most frequently used. These were followed by investment projections (gu = 4.00), up to one year budget projections (gu = 3.80) and probably for the projections, the use of statistical tools (gu = 3.76). We noticed little concern for the long term since the budget projections for over a year obtained the lowest degree of utilization (gu = 3.06). This shows how much the retail managers are anxious to move quickly and seize opportunities.

In relation to management tools, it was found that there is a balance between the importance given to receivable accounts management (gu = 4.64), payable accounts management (gu = 4.53) and tax accounting (gu = 4.47). In addition, cost accounting (gu = 4.15) and credit management (gu = 4.01) presented close and also high degrees of use, and internal audit tools (gu = 3.86) and external audit (gu = 3.68) were those which presented the smallest degree of use.

In relation to assessment tools, it was found that the profitability indicators (gu = 4.28), the products contribution margin (gu = 4.13) and profitability indicators (gu = 4.13) were the most widely used. Productivity indicators (gu = 4.06) and benchmark tools (gu = 3.57) presented intermediate degrees of use. Balanced scorecard (gu = 3.19), probably because it is more sophisticated, is the less used assessment tool by the sector.

In addition to the tripod: planning, management and evaluation, the relationship with investors and corporate governance (RI and CG) and tools regarding projects and risk analysis were also investigated from the point of view of their use. In relation to investor relations and corporate governance tools, transparency in communications (gu = 4.34) was the most used, followed by the development of communication channels (gu = 4.01). The lowest uses were given to the financial reporting FASB standards[ii]or IASB[iii] in addition to accessibility and assistance to external queries and they obtained a degree of use of 3.74. In spite of the respondents putting transparency in communications firstly, there is a paradox when they show a minor concern with the access and attendance to external queries, which features perhaps an ignorance of the usefulness of the tool.

With regard to tools selection and projects and risk analysis, it was found that risk projections (gu = 3.98) were the most widely used. Sensitivity measuring tools (gu = 3.42), construction of key risk indicators (gu = 3.73) and internal loss data base (gu = 3.66), had very close and low degrees of use, when compared with the assessments of other tools and the simulation scenarios tool (gu = 1.79) was the highlight of the lowest one used.

If an analysis is made from a market point of view, one is able to understand that, although managers have punctuated the management with the greatest importance, such managers also care about the financial dimension of the business, once the cash flow projections of expenses and revenues point to a concern that the company remains healthy and attentive to short-term market scenarios.

The difficulty that you can still see in the training of administrators is that projection is not an easy task when the scenario is not one that is right under the manager´s ‘nose’. This fact ends up being emphasized by the fact that long-term projections are the tools that have a lesser degree of importance. The slightest importance can be attached to any one of the training deficits of a manager who needs to resort sometimes to statistical tools, for projections that are considered to be alternative scenarios for the company. There is little use for risk projections, for example, that can be quite improved through time series modeling. One needs to understand how to measure if there is any tendency in revenues or expenses, or investigate whether they are seasonal events. In the book *The Drunkard´s Walk*, by Leonard Mlodinov (2011), there are several examples of failure when you underestimate the effect of randomness. A great part of financial projections is based on the belief that the good situation, which the company is passing through, will be maintained *ad infinitum*. For managers who have already had the insight that this does not occur, the solution sought was to put aside long-term projections, rather than using the tools suited to situations of uncertainty caused by the economic scenario, or by unexpected changes in the context of their plans.

The issues of size and business activity of enterprises.

Another point investigated in the research was the size of the company, since there is the assumption that large and medium-sized enterprises operate according to an organizational culture and a management model that encourages dialogue and the exchange of ideas, so that planning, management and evaluation are common tasks. In this way, the undertakings were divided into sizes as in the criterion used by the IBGE (2010): a) micro-enterprise, of 0 to 9 employees; b) small company, of 10 to 49 employees; c) medium company, 50 to 249 employees; d) large company, more than 250 employees.

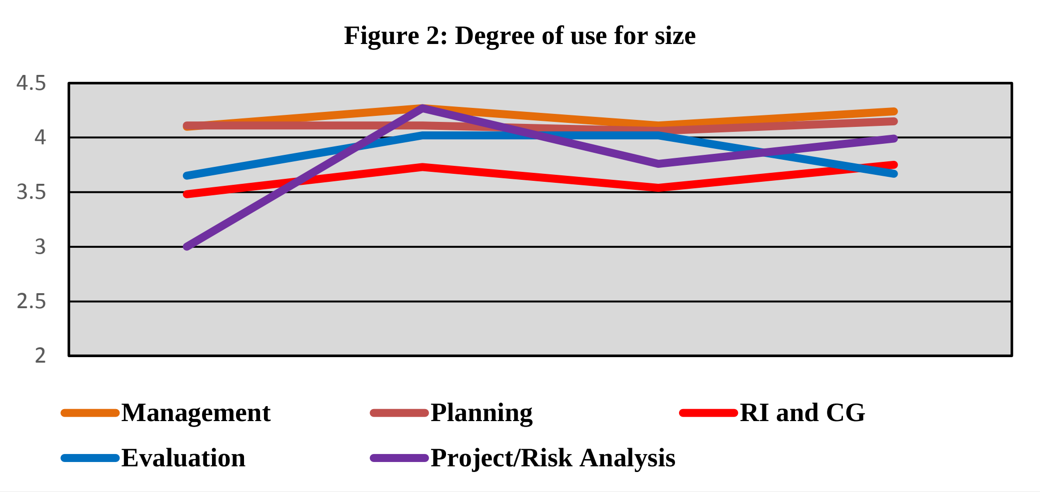

Figure 2. Degree of utilization for size
Source: the authors

It was expected that micro retail did not carry out RI and CG nor analysis or projection or even risk. What, in fact, was surprising was the degree of importance that the small retail revealed in relation to RI and CG, as shown in Figure 2. What is believed is that the weight of the matter concerning transparency in communications was what boosted the degree of use assigned to this action for a small retail.

Regardless, as for the size of the companies, there were no significant highlights in relation to the degree of use of planning, management, evaluation, investor and corporate governance relations and project and risk analysis tools. Upon analyzing micro, small, medium and large companies, the degrees of use assigned by managers are all very close and consistent with the overall result that the management is at the top of the pyramid, followed by retail financial planning.

However, in relation to segments, we noticed that the segments of textiles, clothing and footwear showed the highest degree (gu = 4.33) of use of financial planning tools, followed by the segment of books, newspapers, magazines and stationery (gu = 4.22). While management tools were more relevant to the segments of hypermarkets and supermarkets, vehicles, motorcycles and auto parts, both with degree of use of 4.32, which corroborates to raise the index of the use of management tools for these being the segments with the highest number of companies in the sample.

The fabrics, clothing and footwear group also elected assessment tools as relevant to the segment (gu = 4.50) as well as the activities of project and risks analysis had the highest degree of use for the textile, clothing and footwear (gu = 4.18) sector. Finally, the segment that showed the highest degree of use of the tools for RI and CG was furniture and appliances (gu = 4.40).

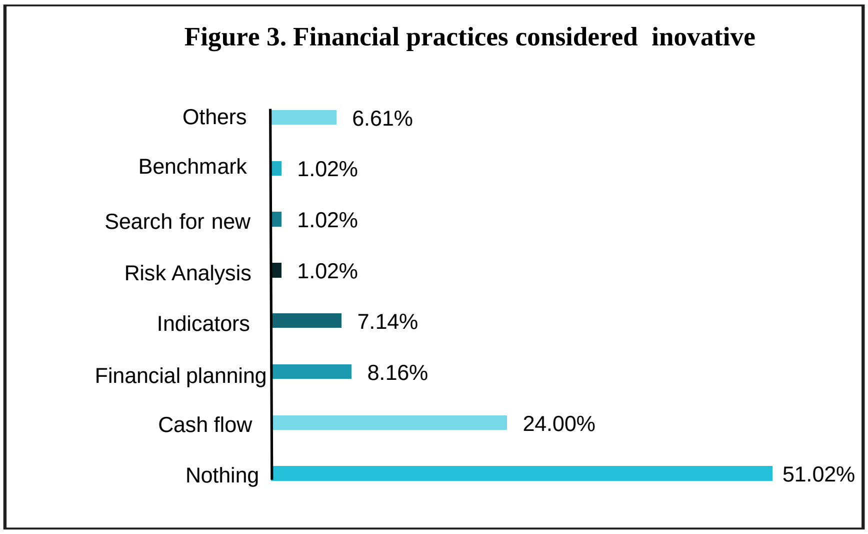

Figure 3. Financial practices considered innovative
Source: the authors

What is observed is a retail that acts without much planning aimed at the global market, which in turn, has incorporated many of the tools for project and risks analysis and RI and CG in their strategies. The results show that many of the financial tools are not being used in various industries, as has already been observed in another study by Fonseca et al. (2010), which assessed the use of financial tools in the food industry.

Nevertheless, we investigated among the managerial practices developed, if any were said to be innovative. Figure 3 is a summary of what managers have stated as being innovative. It is worth noting that 51% of managers are aware that their actions are not innovative in any aspect. Bringing to light that 67% of the managers are adults between 30 to 50 years of age, and therefore, still young. It is expected that the changes do not come at the bottom of the pyramid, but the opportunity is in the recycling of those managers who still consider innovative financial practices as being traditional. In addition, 18% of respondents stated that the company where they work does not have good points; however, 34% of respondents stated that the company does not have negative points. Another 9% believe that the administration of the cash flow of the company is a positive and innovative point of the company, while 4% claim that non-reliance on third-party capital is the differential of their company. Only 8% of respondents identified lack of planning and control as negative points.

4. FINAL CONSIDERATIONS

With the financial crisis, felt since mid-2008, which still affects a large part of developed countries, coupled with the discovery of Brazil by international managers, investors and speculators who are going in looking for new replacements on the market, the question arises: is it not the time for administration courses in the State of Sao Paulo to turn to "do it" differently which would prepare young people for innovation management? As well as for arousing the interest of future administrators in activities related to corporate governance and investor relations, as well as strengthening the need for the use of risk management tools and strengthening the use of metrics and financial assessments associated with *marketing* metrics?

We saw that being an administrator and having a Post-graduate degree are the differentials for becoming a manager in the retail field. Furthermore, the hypothesis that retailers would valorize the carrying out of financial tasks was observed, seeing that management tools were those that had a higher degree of use.

What managers need is to understand the usefulness of some financial tools that are well known and used by successful companies and apply them to the retail context, in order to facilitate management, optimize profit and make the business more competitive.

Another point of weakness raised by the research was the need to deepen the knowledge of the financial tools that do not seem to be used very much. The idea is that having knowledge of them would cause human skills to migrate from the world of skills to the world of managerial skills and, from that, could enhance individual experience of managers and their groups, enabling innovation and retail transformation.
In the end, the appropriation of these managerial skills, especially those related to financial aspects, will make managers able to make their companies competitive and innovative vis-à-vis the various national and global challenges.

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[i] Two values are statistically equivalent when the p-value equivalence test is less than 5%, even if the two values are apparently different.

[ii] Acronym for *Financial Accounting Standards Board*, an international body that regulates the accounting standards.

[iii] Acronym for *International Accounting Standards Board*, another organ like the previous one.