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Case Study of Financial Management in Two Family-owned businesses

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This thesis looks into how family-owned businesses are able to be competitive when other types of companies succeed by attracting more investors. Specifically, the thesis involves a case study of two medium to large sized companies to look into this. These companies are export focused and have operated for over 50 years.

Theory is primarily compiled of course book with some other internet sources

This study has been done in the way of questionnaire that will be sent to these companies for answering. From these answers I will analyse the result to my investigative questions.

From these answers I find that the companies are run very much in the same way as other companies that are not family-owned. They are just more traditional in their values and focuses.

Keywords
Financial Management, Business, Case Study, International Trade

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1 Introduction

In this introduction I will be telling in detail what my thesis is all about. I explain my goal and how I will plan to get to that goal. Also included will be my own analysis of what risks might there might be and how I plan to get around the issues presented by the said risks. Companies I will be studying will also be introduced along with the scope of the study.

1.1 Background

Family-owned businesses are respected everywhere in the world and always highly regarded by the communities they are in. Modern teachings in business management always say, how important it is to attract new investors to company to succeed and expand. Family-owned businesses do not seem to be that interested to get these new investors and they often do well.

I wanted to consider this subject since I myself consider establishing a business someday. I am not really into the idea of sharing the company with multiple people I might not even know. Therefore, I wish to know how successful family-owned businesses do their finances. I wish to understand these companies from their financial management decisions.

1.2 Research Question and Investigative Questions

To understand what I want to accomplish with my thesis, it is first important to establish my Research Question (RQ) and the Investigative Questions (IQ) that will serve to answer my RQ. My Questions are following:

RQ: How do successful family-owned SMEs manage their finances?

IQ1: How does Helsingin Mylly manage their finances?
IQ2: How does Aarikka manage their finances?
IQ3: What differences do they have?
IQ4: What can we learn of their decisions and are there especially good practices to note?

The RQ is my hopes from this thesis encapsulated in a single question. The companies I am researching are medium to large sized companies. Larger companies will hopefully

give the answers that might also help regular companies with their financial management. As well as starting new businesses looking for ways to ensure success.

As one can deduce from my IQs, one of my companies is larger and one is medium sized. Better introduction will be given later. The first two IQs are really all about getting an idea from these companies on their preferred financial management practises.

The IQs after them are all about comparing the answers received from the first two and analysing them. IQ3 is straightforward, as it requires just comparing the two but IQ4 will require more thinking and analysing. It goes deeper into the result I am looking for from this thesis.

Bringing in some structure to the thesis and my research is my overlay matrix:

Investigative Questions	**Theoretical Framework**	**Methods**	**Results**
IQ1: How does the Swedish company manage their finances?	Fundamentals of Corporate Finance (Brealey & Myers, Marcus, 2012)	Questionnaire sent to the company	
IQ2: How does the Finnish company manage their finances?	Fundamentals of Corporate Finance (Brealey & Myers, Marcus, 2012)	Questionnaire sent to the company	
IQ3: What differences do they have?	Fundamentals of Corporate Finance (Brealey & Myers, Marcus, 2012)	Comparing results from IQ1 and 2	
IQ4: What can we learn of their decisions and are there especially good practices to note?	Fundamentals of Corporate Finance (Brealey & Myers, Marcus, 2012)	Analyze answers by comparing to theory collected	

1.3 Risks

As I plan to make this thesis's primary research as a questionnaire, there are risks immediately involved. The first issue might be that I am not given straight and true answer. Companies might consider some aspects of their financial management as a corporate secret. They might also omit facts from their answers as they do not consider that part as being that important. Smaller companies might want to cut corners with different aspects they do not consider to be important.

Another risk might be misunderstanding the question or not understanding it at all. I plan to ask my questions based on modern theory of financial management. They might not follow up on the latest news or findings in the business management field.

Finally, there is the risk of me not doing my research properly and failing to ask the right questions. It is easy to lose focus on yourself when you focus on asking someone else about something.

The best way around this is to start by doing the research properly and thinking all the aspects that are involved in the financial management of these companies. Once I feel that every relevant aspect is considered, it is important to form the questions in a way that they do not need much explaining and are easily understood for anyone, who oversees the firm's finances.

It will also be important to stay in touch with these companies throughout the process just in case they themselves have questions. It will be important to be ready for making follow-up questions in case answers raise more of them.

1.4 Demarcation

To ensure, that I stay on track with this thesis it is important to formulate the scope of this project.

I will be doing this entire project as a case study, where I study these two companies as they are. Both are from Finnish countries, so company culture should be similar. I study them in a qualitative fashion not focusing on the numbers involved in their finances.

As mentioned in the title, I focus on the financial management of these companies. Both companies are also export focused businesses that are family-owned.

Even though this will be done as a case study, my idea is to look at the field of family-owned businesses as a whole. The two companies I have chosen simply work as example companies that give me direction how to see the rest of the companies in general. This thesis is still done by one student so there is no time or resources to make it grander.

1.5 Companies

As the thesis revolves heavily around the companies, it is time to introduce them as well.

The first company is called Aarikka. It was established in 1954 and it specializes in primarily wooden design. Products involve everything from jewellery to sculptures and textiles as well as all kinds of household objects. They focus on Finnish clean design and materials. The company employs subcontractors that can be everything from traditional firms to individuals making products at home.

Aarikka as its markets focuses on Europe, USA and Japan. The company is owned today by Martinex Oy.

The other company is Helsingin Mylly Oy. Its story begins in 1600s Estonia and it moved into Finland in 1930s. The company focuses on granary products it refines from local grain and sells forward to 30 different countries around the world.

Helsingin Mylly has 3 different production facilities of which 1 is very modern and uses no fossil fuels in its process. Of the two it is undoubtedly the bigger one and will give an interesting contrast into the results.

1.6 Benefits

As mentioned before, one big benefit of this thesis for me is to provide me with information of how family-owned business handles its finances on day-to-day basis. This is beneficial for me also, as my study specialization is financial management. When I graduate, I will most likely be stationed in different financial management positions, so this thesis will mentally ready me to that.

I can also see this being beneficial to the school. Many other students focus on larger multinational companies or start-ups, so I cannot imagine school getting much material of more traditional family-owned businesses.

Finally, the whole business field will benefit from getting more information of these kind of companies that are widely celebrated. You can never know too much in modern business life. Having more understanding in the financial management of two of these companies should provide with valuable insight to how to run a sustainable company. These companies have operated for over 50 years after all.

1.7 Key Concepts

When moving to the theory part of this thesis, it is important to know what concepts are important to this thesis. These concepts are under the concept of financial management

Financial Management – Management of all financial activities of the company.

Corporate Finance – How the company gets all the funds it needs to operate

Debt Policy – Policy of how debt affects firm’s equity

Cash Flow – Available money or equivalent that can be used to finance the company’s activities

Financial Manager – Person, who oversees financial planning and management

Financial Planning – Act of planning the need and use of funds

Market Risk – Risk of operating in any market

Corporate Tax – Tax the firm needs to pay during or after financial period

Corporate Performance – Following of performance of different parts of the company

These concepts are something I see being central to my thesis. They involve some aspects that I will not involve in my thesis. Good example would be corporate finance. It includes bonds and futures, which I do not see as being important. I doubt that my case companies have anything to do with those things.

2 Financial Management in Family-Owned Businesses

Previous chapter introduced the thesis and its scope as well as key concepts. In this chapter these concepts and the theory behind them are opened up as this theory will be the basis for the study

Unless otherwise mentioned, all theory in this chapter is from the book Fundamentals of Corporate Finance.

2.1 Family-owned business as a concept

As the thesis is focusing on two businesses that are both family-owned, it is important at first to explain what that kind of ownership means. According to an article by inc.com (2018) family-owned business is a business that has two or more family members that own most of the shares.

This type of business is the oldest type of business as it is the way farms have operated from the beginning of time. These businesses are usually inherited forward to the next successor in family line.

Since these types of business entities revolve heavily around the family ownership, it can lead to troublesome situations. The succession of business is the first issue. If there are more than one successor in line ready to take over, it can be problematic on how the ownership is shared. It will require lots of planning and preferably help from the outside in the form of professional help. It is also possible that there is no willingness for succession at all.

Another day to day issue is the attitude family will have with running the business. Family issues and business issues mixing up can be a dangerous combination for the company, as it can lead to bad decisions or the decision making becoming impossible to begin with. In these kind of situations, it helps to have people outside of the company to balance everything out and provide with impartial opinions.

Family members however, can easily see these non-family members in the firm as unwanted outsiders. They might try to make the working conditions for these employees difficult to get rid of them. These non-family members might also have difficulties in advancing in their career because of these issues.

Proper planning helps with these issues, however. Good family planning can help with roles in the company. Business planning helps with the day-to-day matters in the firm as well as the future of the firm.

2.2 Financial Management in General

Financial management refers to the “planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise” (Management Study Guide).

It is about managing the tangible and intangible assets of the company in the most efficient possible way.

Tangible assets are anything physical you can touch such as machines and buildings. Intangible assets are things you cannot touch. These include computer programs, advertising and research and development.

These assets are mainly managed by Financial Manager. This title is a very general term to refer to a person who manages the firm’s financial assets. This title can point to three different positions in a company:

Chief Financial Officer (CFO): this is the highest in the rank when it comes to financial manager. CFO is in direct contact with chief executive officer (CEO) and relates to all the most important financial decisions in the company. These decisions include financial policy and corporate planning.

Treasurer: Treasurer raises the capital the firm needs and looks over the cash reserves of the business. He also maintains relations with bank and investors who hold the securities of the company.

Controller: Last one oversees accounting and budgeting. He prepares the required financial statements. He also manages the businesses internal budget and looks after the tax affairs. This person ensures that money the firm has is used efficiently.

Financial manager answers to the firm’s top management, board of directors. He provides them with the important financial information the company generates, so that they can make the necessary decisions to manage company right. (Brealey & Myers, Marcus, 2012, 37)

To raise money for the company, financial manager needs to do **financial decisions**. These are actions such as asking investors for money in exchange for either more shares of the firm, or repayment of the funds at a fixed rate. In short this means loan from the investors.

As investors get shares of the firm, they become part-owners of it. They become **share-holders**. These shareholders will want in the long run dividends, payments that are paid for their ownership usually at the end of an accounting period. This period is usually one year.

The loan or share is called **financial asset**. There is near endless variety of financial assets. Pretty much anything that can be given in exchange for money raised is a financial asset. Another example of this would be bond for example.

The money that is raised is needed for **real assets**. These assets are assets that are used to produce goods and services. These assets include any machines and equipment required to generate income for the company.

Financial Manager produces several of different documents based on the accounting done by the company. Two of these documents are legally required for the company to produce. Larger companies need to publish these statements openly to public in the name of transparency.

The first legally required document is the income statement. This document shows the firm's entire financial period's activities. These activities include revenues, expenses and at the end of it the net income the firm can announce for their financial period. Income statement is also important, because financial manager counts the tax firm needs to pay from it.

Another thing that the statement includes is all the deprecations of the firm's tangible assets. This is shown as an expense and is widely used as a tax planning method. All tangible assets need to be reduced from the accounting at a certain rate that the company can decide themselves. There are legal boundaries that set the maximum time the asset can be part of accounting and maximum amount in percentage you can depreciate of them per financial period.

Different assets have different rules to them as to how long they can be a part of accounting and a firm can depreciate them in different ways. One way is to use the maximum amount per financial period. With small appliances such as telephones rule is usually maximum of 25 % depreciation of remaining value and 5-year maximum period. This gives the best effect early on and because of that, is recommended to be used if having a good year to reduce the tax you need to pay. (Brealey & Myers, Marcus, 2012, 62)

Second method is to simply divide the value of asset by years and depreciate that amount annually from the remaining amount. Last one is double declining method. It is basically previous one, but at twice the rate. This means that you double the reduction and thus, get it out of your accounting faster with the tax reduction effect you most likely are after.

The second legally required document is the balance sheet. This document shows the entire company's assets and liabilities. Assets include both tangible and intangible. Liabilities are loans and other financial assets the firm has. Balance sheet includes also the final value, net income, of the income statement. This document is usually made at the end of the financial period to show the company's financial standing in total.

Balance sheet shows the values of all that the company has, which is why it is important that the depreciations are done. Machines lose value over time, so it would be wrong for them to stay in the bookkeeping bloating the value of the firm's assets and thus giving the wrong picture of it. (Brealey & Myers, Marcus, 2012, 56)

The last document that companies often want is statement of cash flows. It shows all the cash payments the company has made and can shed some light into the spending of the company. Despite the name, payments are not required to be done in actual physical cash. All actual payments and receivables that have happened are recorded here.

The reason why you do not just use income statement for this is because it shows the payments over time. Statement of cash flows show only the money that has at the time changed hands. Income statement shows deals done meaning that payment may not have happened yet. (Brealey & Myers, Marcus, 2012, 64)

The final thing financial managers need to calculate at the end of financial period is the corporate tax. Depreciation has already been mentioned but another thing that can be used to lower the tax that needs to be payed is interests paid to debtholders. Any interest you pay to the people you owe money to can be used as means of reducing the taxable income before the tax portion is calculated.

The tax percentage that is calculated goes in steps. There are lower income levels where the corporate tax is at lower percentage to help smaller companies. Tax is calculated by taking the earnings from the financial period before taxes, reducing the debt interests and depreciations and then comparing to the tax level you are at according to tax authority charts. Then you calculate the tax you need to pay with the percentage you get. Companies that have not made profit do not need to pay taxes. (Brealey & Myers, Marcus, 2012, 522)

2.3 Finance of activities

Companies need to consistently make sure that they have the funds they need for their operations. There are many ways for a company to raise money. Corporate finance is all about generating the necessary funds for the company to be able to operate.

The most common way to generate funds is **internally generated funds.** It refers to the earnings the company makes plus depreciation. Firm relying on its own ability to generate income might not see much growth as the earnings themselves might be just enough to cover the daily operations.

If the firm does not generate enough income on its own it will face **financial deficit**. Deficit comes when money needed is larger than money made on its own. If this happens the company must see ways to generate more funds

Common way for a company to generate more funds is to start selling shares. This will mean that should someone buy these share they will become shareholder and thus have a claim on the company.

Shareholders have right to vote in the company. Larger the ownership, the more voting power they have. Company votes with its shareholders over many things the firm does. For example, debt is something that shareholders often vote for. That whether to take debt or not.

Debt itself comes in different forms. Different firms create new types of debt all the time to generate income in new ways.

Debt in general is an agreement, where debt taker borrows money from debt giver and agrees to pay certain amount of money back as interest as well as the borrowed money

itself. Sometimes this interest is called coupon. This interest is paid as long as the debt is active meaning as long as it is not repaid in full. (Brealey & Myers, Marcus, 2012, 488)

Interest rate banks often use to calculate their interest rate to offer from is **prime rate.** It is a benchmark rate different banks can offer to customers. Interest rate offered by banks to customers with good credit rating is floating interest rate. It means that bank might offer a deal of interest rate one percent over prime rate. It means that if prime rate is 2 % the bank offers you a loan at 3 % interest rate.

When taking a debt, the savings and Loan Company can demand collateral for your debt. This collateral could be something like your house for example. Should you in this case be unable to pay the debt, the debt giving party can take your house for itself as means to pay for the debt.

When you put something as a collateral for a debt that debt can be then called secured debt. Meaning that loan giving party has the claim on the collateral no matter what if you default the debt. Defaulting means that you are unable to pay the debt.

If taking debt, it is important to keep in mind that it effects your company in many ways. One way it starts to affect is by adding **operating risk**. This risk refers to the decrease in the firms operating income. Debt needs repayment and interest payments alone decrease the amount of income you can expect from your company.

With debt financing your company your **financial leverage** is lessened, as you now need to earn more money to get the same stock returns as before the debt. It increases the **financial risk** towards your dividends payment ability.

With money going to debtors instead of shareholders, they will require more returns in the future.

Taking debt however does create an **interest tax shield**. With more interests to pay you can make more reductions to your tax calculations and thus pay less taxes overall.

This all shows, that if a company intends to finance itself with debt money instead of equity-based shareholder investments, it better know what it is doing. For investors a company taking debt means that it has less dividend payment power as opposed to just taking money from investors.

All this raising of funds is needed to ensure proper cash flow for the company. This cash flow refers to funds readily available for the firm's day-to-day activities, such as payment of rent and purchasing of goods to be sold.
This cash flow is calculated by adding up together cash flow from the capital investments, operating cash flows and accounts receivables.

Cash flows from capital investments refers to all the gains that are received from the sale of assets. One example would be the selling of old company car that has been used and is now replaced. Cash flow from these capital investments can be of course negative, as that car needs to be replaced and something is bought in its place.

Operating cash flow is the daily operations of company. It is calculated by taking the revenues from sales, and subtracting from it costs of doing business and taxes. Once again, this value can be negative as costs can be larger than the sales that have happened.

Accounts receivables is the account, where is recorded all the sales that have been made on credit. Goods are delivered, or service is done, but the payment has not yet been made. Because these payments are expected to be payed in short term, they are counted towards the active cash flow of the company. Usually a lot of company's payments themselves are done on credit so rarely the funds are needed right then and there.

If the cash flow for the company is negative or below the threshold the company wants to have every month, extra funds are needed. There are different ways to increase company cash flow temporarily. Most obvious of them is to simply have the owners invest into the company and add money from their own pocket to the company. Other way is to take a short-term credit loan from some bank or other creditor.

An article on enterpriceinnovation.net (2017) displayed a report of a study done by Credit Suisse Research Institute shows that family-owned businesses are generally of much better financial health than non-family-owned businesses. Even investors seem to prefer family-owned businesses regardless of ownership size, since these companies are in general more quality and long term focused than others.

Final way is usually the least preferred way of liquidating of company assets. Different assets of the company are sold to gain the funds required. There are many different type of assets company can sell but it is always least preferred since assets are usually used to generate more profit.

2.4 International markets

In international trade one of the most important things to keep track of is the **exchange rate**. This rate refers to the differences in the value of currency, especially over time. If of course trade is done with payment immediately in the same currency the exchange rate is then not an issue.

If trade is done immediately from one currency to another the exchange rate, then is called **spot rate of exchange**.

Exchange rates become truly an issue when a trade is made at one moment and the payment is received at another. The trade is done between different currencies. At the time of trade seller's currency may be worth for example 1.5 of the different currency, but when the payment is received the value is 1.45. In this kind of scenario, the seller takes a small loss from the difference in the value of currencies.

This loss can also happen to the buyer. To go around this issue both parties can agree to a **forward exchange rate**, where the exchange rate is agreed upon and used during payment. This way the risk of loss from exchange rate differences is somewhat mitigated and both parties know what to expect from the deals outcome. (Brealey & Myers, Marcus, 2012, 727)

When trading outside of your country it is also important to keep track of risks that might endanger your business endeavours in that area. This risk that affects the whole area and the company with little to do about it is called **market risk** or **systematic risk**. Investors handle this by making sure that they diversify their investment portfolio by buying shares from different. (Brealey & Myers, Marcus, 2012, 403)

An article on The Guardian.com (2016) shows how important good connections to other markets are for SME: s. Britain was at the time top exporter but only with larger companies. With smaller companies the country is at bottom five. According to report, they could stand to make billions more if SME: s were helped with their access to international trade. The whole Brexit is creating large problem for all international businesses that intend to trade with Britain.

2.5 Company Performance and Planning

For any company it is vital to keep track of how well the company is doing. This helps with decision making as well as overall understanding of the firm's activities and standing in the market. Financial Manager keeps track of this performance by periodically calculating different financial ratios from the bookkeeping and comparing those to previous ratios and competitor's performance.

First of these ratios is **Return on Capital (ROC)**. ROC measures how well company's income does against the total amount of money that has been invested into the company. The income number used is the one you gain after reducing all the costs and taxes that apply to it.

$$ROC = \frac{\text{After-tax operating income}}{\text{Total Capitalization (Investments and Loans)}}$$

Similar one is **Return on Assets (ROA)**. ROA measures the same operating income from the previous but compares it against total assets of the company. These assets are everything ranging from amount of money in the bank to the value of machines or other similar owned property.

$$ROA = \frac{\text{After-Tax Operating Income}}{\text{Total Assets}}$$

Final one of the main three ratios is **Return on Equity (ROE)**. ROE compares the after-tax operating income to the ownership of the company. Share amounts and other similar ownership related items.

$$ROE = \frac{\text{After-Tax Operating Income}}{\text{Equity}}$$

Then there is the Asset Turnover, which measures how well the sales of the company do against the assets that the company has. Figure for the assets that is used is the value of

them at the beginning of the year. Different assets require maintenance so it is important to see how well the company can handle those procedures.

$$\text{Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets in the Beginning of the Year}}$$

Another turnover ratio is the **Inventory Turnover**. This one measures how well the **Cost of Goods Sold (COGS)** go against the inventory at the beginning of year. Closer this figure is to 1 or 100 % the better. This will then mean that there is less and less extra inventory lying around waiting to be sold. COGS, as the name implies, applies to the goods that are sold forward. Rest of these costs remain in the inventory until the associated goods are sold.

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Inventory at the Beginning of the Year}}$$

Next one is **Profit Margin**. This one shows how much the company has costs going against the sales. These costs include COGS and associated figures such as maintenance. Lower the ratio, the less profitable the company is.

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

Variation of the previous is **Operating Profit Margin**. Otherwise similar to the previous except this time income compared is the one you have after deducting taxes. This way the Firm knows how well it does fully. This figure, however, can only be gained at the end of the financial period when the taxes are finally calculated. Regular Profit Margin is only a rough estimate before that that does not include all the final costs.

$$\text{Operating Profit Margin} = \frac{\text{After-Tax Operating Income}}{\text{Sales}}$$

Next ratios are all about the **Financial Leverage**. Financial leverage is all about measuring the effects of whatever loans the firm has.

First there is the **Long-Term Debt Ratio**. Long-term debt is debt that is paid over years, meaning it is usually the larger debts that are usually taken to finance larger acquisitions and investments. This ratio is compares the long-term debt the company has to its Equity, meaning ownership of the company. In the Balance Sheet, these figures are on the same side so it is about seeing that is the Firm financed by Shareholders or the bank and to what degree. Firms with higher debt are usually riskier than firms with low debt.

$$\text{Long-Term Debt Ratio} = \frac{\text{Long-Term Debt}}{\text{Equity}}$$

Similarly, the company can just calculate the **Total Debt Ratio**. This one approaches the situation differently by comparing company's liabilities to assets. Liabilities are all the debt-related items including VAT to be paid.

$$\text{Total Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

There are, of course, other ratios to choose from, but these are among the most common ones used. There can also be different ways to calculate the same ratio. It all depends on what the company values the most and is most interested in seeing.

Planning is the one you will need all these ratios and other above mentioned knowledge for. Planning varies from short term planning that spans usually less than a year and long term which covers usually five or more. This activity is naturally not very exact science as it involves forecasting figures based on existing data and different assessments from the people in the field of finances.

Planning will eventually be more accurate as there is more data and more experienced people reviewing the said data. The whole activity is done often by diving the year into quarters or doing it month-by-month basis. Either way, you take existing data and make forecasts based on expectations and future intentions. (Brealey & Myers, Marcus, 2012, 68-74)

3 Questionnaire design and Questions

In the previous chapter we went through the theory that applies to this text. In this chapter I explain how I design the questionnaire I will present to the case companies as well as explain the questions in the questionnaire.

3.1 Questionnaire design

My questionnaire will be of open question design. To help me create a good and clear questions I will be using tips as given by website Smart Survey (2018).

According to the tips as given by the website, good questions have simple and understandable wording. The words should not confuse the respondents but be clear with their intention and meaning. Next is important to use only individual questions. To put too more than one questions in each part could confuse respondent and lead to inaccurate data.

It is also important to be specific with my questions. Make sure that the person answering fully understands what is wanted. Finally it is important to keep the targets of these questions in mind. Otherwise I might put in a question they do not know how to answer to.

3.2 Questions and their meaning

I will first show here the question emboldened and immediately after it explain what I am after with it as well as some personal thoughts.

Does the family-owned business model cause any notable features into the financial management when compared to theory?

In the beginning of chapter 2 when I started to explain the theory there was the part telling how family-owned businesses differ from regular businesses. With this question I wish to understand in general, that is the financial management in these companies alike. From experience, I know that regular companies follow the theory of financial management pretty much to the letter. Because of this it is interesting if respondents can point out anything notable.

What functions does the financial manager perform in your company?

Financial Manager can in theory perform all kinds of tasks related to management. It is because of this that I wish to understand how financial management is seen in these

companies. This manager can be called with all kinds of fancy titles but the true meaning of its position lies in the functions it performs.

In what ways does Your Company try reduce the tax it needs to pay?

Company tax is the cost every company tries its best to make as low as possible. Larger companies have usually better possibilities for reducing the tax burden but with smaller companies methods are usually more limited. Both of my case companies are of small to medium size, but more importantly, are family-owned. I wish to see how they handle this tax.

Is there a pre-planned amount of cash flow Your Company needs to have to cover its day-to-day activities?

With this question I wish to see how planned are the short term activities of the target companies. More details will also reveal more on how the company uses funds in general. Smaller businesses might just be interested in hoping that they have enough to pay the next invoice.

How does Your Company acquire funds needed for possible larger investments that cannot be covered by internally generated funds?

Every company needs to be ready to expand if the markets show, that there is an opening. However, these expansion are almost always expensive and regular sales can usually only cover so much. Therefore it is interesting to see how they would, in theory, acquire these funds. I suspect that Long-term debt will play a role but what kind? That is the question I would like to get an answer to.

How does Your Company manage the risks that come with operating in the international markets?

When trading over the border trade tends to become more risky and complicated immediately. Therefore the management of these risks will play a major role in ensuring profitable operation. Both of my case companies primarily operate internationally so it is interesting to see, how these kind of seemingly simple companies manage out there. Of course, there are all kinds of international trade agreements in place, but they only open the doors to new markets usually and provide with some basic support.

What kind of figures does Your Company track to monitor its performance?

With smaller companies there usually are less figures to follow in general. Therefore, it will be curious to see what performance figures, if any, the company tracks down. Knowing what kind of performance data is valued the most can explain a lot about the firms values when it comes to financial management.

How far into the future does Your Company plan its operations and to what detail?

Smaller companies probably do not plan too far and accurate, so it is interesting to see if family-owned firms with some legacy have some extra due diligence. How far and accurately the company plans can explain a lot about its operations and general attitude to business.

4 Results of Questionnaires

In the previous chapter I showed the questions I planned to ask from case companies as well as my reasoning for them. In this chapter will be shown the results to those questions and my immediate thoughts on the answers. Results will be shown question by question basis. Aarikka will be shown as Aarikka and Helsingin Mylly will be shown as Mylly.

Companies both took part in the questionnaire in different ways. Aarikka wanted it to be done as a phone interview in Finnish and Helsingin Mylly answered the questionnaire form in English. Aarikkas participant was its CEO and Helsingin Myllys was its CFO. Aarikkas answers will be translated and paraphrased to the uses of the thesis.

It is also important to note that Helsingin Mylly was a last minute replacement to the original one that backed out, so answers are not as deep as with Aarikka as there was no time for follow-ups.

Does the family-owned business model cause any notable features into the financial management when compared to theory?

Aarikka: Money is more visible and with that company is better maintained
Mylly: None

Aarikkas answer makes sense since the company is smaller and thus easier to maintain. Different details do not get lost into the company structure and bureaucracy. Helsingin Mylly however requires more work and structure overall to function right.

With these answers already I am glad I got two different businesses as it shows how the size of the company alone can “hide” the family-owned status. Helsingin Mylly obviously needs to function in a stricter manner to stay competitive.

What functions does the financial manager perform in your company?

Aarikka: Key person
Mylly: Treasury, bookkeeping, controlling, ICT, risk management

Once again Aarikka shows the hallmarks of a smaller company. In such company every person has comparatively larger role and different people need occasionally to fill each

other in. People’s functions are not as clearly defined but merely have main functions and then help each other when needed.

With Helsingin Myllys answer I think that as CFO the person answering does not necessarily do all of those functions alone. Bookkeeping by itself, for example, is very labour intensive work. I believe that CFO mainly compiles and assesses the reports containing those different functions. The answer still shows that He has a very diverse and important role in the company.

In what ways does Your Company try reduce the tax it needs to pay?

Aarikka: In an honest way with no trickery. Companies have a responsibility to everyone with their actions.
Mylly: Tax optimisation

I remember from my phone interview with Aarikkas CEO that the responsibility was a very important aspect when it comes to taxes. It was clear that they were concerned over the community they live in. With that the answer was very much the like I was expecting. No overseas holding companies or other means of avoiding taxes.

Likewise, Helsingin Myllys answer too focuses on more on traditional means of taking care of taxes. Even though they are clearly larger company that would be more tempted to find creative ways around all costs, they still focus on a simple straight cut way. It is hard to say if this is about family-owned aspect or traditional Finnish honesty. Either way, a somewhat surprising answer.

Is there a pre-planned amount of cash flow Your Company needs to have to cover its day-to-day activities?

Aarikka: Cash flow maintained along the products that are to be sold. By need.
Mylly: Yes

Once again Aarikkas answer is very much along the lines I expected. Although it is a little weird that there does not seem to be any clear amount or other such figure in use. The company has functioned for a long time and obviously has continued sales. And they are no corner store when it comes to size.

With Helsingin Mylly it would have been great to get more details with the answer. It must be admitted that the question itself did not take that into account. Otherwise the answer is something you would expect from large company like that.

How does Your Company acquire funds needed for possible larger investments that cannot be covered by internally generated funds?

Aarikka: Primarily funds from own activities and owners. Bank loan if needed.
Mylly: Bank loans

When it comes to Aarikka, the answers are once again in line on what you would expect. Very traditional and relatively risk free.

With Helsingin Mylly it is interesting to see that bank loans are only mentioned. Their company without a doubt has the size and image to try different means as well such as bonds or other investors. I think in this the family-owned side starts to show. Like mentioned before, bank loans are rather risk free and simple. They are also easy track and manage. It is also possible that they function in such a field where it is important keep risks low and activity easy to predict.

How does Your Company manage the risks that come with operating in the international markets?

Aarikka: Background checks on customers, as there are some who do not pay.
Mylly: Collection, pre-check of the clients

With both the answers are surprisingly simple, when you consider that both have a lot of activity over the borders. I was expecting to see some kind of means to manage payments and interest rates and the like. There was also no mention of risks losing cargo or anything like that.

Background checks at the end of the day are rather basic way of preparing for new people you plan to work with. It does seem to indicate, that they have had no issues with their international trade and thus have seen no need for more strict approach. There also might be the matter of not wanting to scare the client away by making the sign too many documents. Easier to just eat up the losses should they occur.

What kind of figures does Your Company track to monitor its performance?

Aarikka: Sales and profit margin
Mylly: ROI, EBIT, quick ratio, NWC%, effiency/kg etc

Aarikka goes with surprisingly little detail, when it comes to their performance tracking. I was expecting to see some kind of cost tracking and basic ratios. It would seem that their operations are so well in check that they consider profit to be the only thing to truly worry about. Possibly their costs are so well under control that there is no need to keep track of them.

Helsingin Mylly otherwise came up with impressive list of different figures. Since the answer ends with etc. it is fair to assume that there are plenty of other figures as well. The one listed were probably the most important ones for them. Earnings Before Interest and Taxes (EBIT) was a rather basic part of income statement. NWC% was something that surprised me as I did not expect for it but now seems obvious. It stands for net working capital and shows how much available money the Firm has for its operations at the moment.

In the end their answer is in full something you would expect from a company of their size and nature. I did allow the whole family-owned part distract me as a big company does need a lot of information to function efficiently.

How far into the future does Your Company plan its operations and to what detail?

Aarikka: 2-3 years at most. Keeping track of growth possibilities and investment needs. Planning made on concern level.
Mylly: 3-5 years into the future

Aarikkas answer in the beginning part seems understandable, as they might not have any real need or benefit of planning too far ahead. It is still interesting to see that growth is constantly a thing to look out for. One might expect these family-owned businesses to simply be content of what they have and stick with it.

They still are part of a concern so it makes sense for them to not only look out for the company itself but to think of the big picture. They are part of a concern at the end of a day.

Helsingin Mylly once again has a very simple and short answer but one we can still take a lot of when looking at the context. 3-5 years is rather standard and when looking at their other answers the planning most likely is very much like with other large corporations containing lots of data and quarterly planning with months giving a little extra detail.

Their business is still linked with farms so it is safe to assume that keeping track of growth seasons and weather plays a major role in the planning process.

Overall the two companies did answer in the end very much in the way I expected with some surprises. I am happy to have gotten Helsingin Mylly in the end to take part in my project, as their answers gave some wonderful context and overall comparison to each other.

5 Discussion

Now that the results are in and they are presented with accompanied thoughts, it is time to reflect on what has been achieved so far. In this last chapter I go over the reliability of my text, discuss the findings in greater detail and have final words about the whole thesis overall.

5.1 Reliability of the thesis

The thesis overall was done with the help of instructions given to us and me following to them as I deemed them to be helpful for my work. In my writing I often go with a specific idea and style that I follow rather loyally. It is a style I am most fond of and gives me the motivation I need to follow it through.

My style of writing has gotten me some negative feedback in the past. Some like and some don't. While I do not see it harming the overall reliability of my thesis, I can see it taking me off course and writing about something else. I generally tend to stay on point and not ramble too much about unconnected facts.

However my general laziness and the fact that I tend to write with my own style can hamper the overall quality of the text. I also prefer to keep my texts as short as possible and only focus on matters I consider to be important to the text. This can lead to some facts being leaven out of the text.

As a back bone for my text I used a book that was used in my specialization courses as a course book. This book generally included everything I considered necessary for my text so finding other material to back my findings up proved troublesome. Many texts I found generally included material already found from the book or were inaccessible with school systems.

I vividly remember cursing at some of these situations since the source I was looking seemed to include a lot of useful material I could use in my thesis. This unfortunate fact forced me to use sources that were not as good as I would have wanted. I could have used other systems to get around this issue but it seemed so complicated that I decided against this.

This all considered my text did not have as many sources as I am sure some teachers would have wanted hurting the quality of theory part and forcing me to rely more on the book. That is the reason I call it as backbone of my thesis.

Another issue I can see being a problem is the less than optimal use of time in my work. Much of the questionnaire work I did was at the last minute as I had trouble contacting the case companies and getting an answer from them. My questions themselves were ready in time but getting the initial results was something that lagged.

Interview with Aarikka was done in time and was overall helpful and included details as well. Helsingin Mylly was a last minute replacement to the original Swedish company that pulled out when it was time for questions. Because of this there was not really any time for follow-up questions, that could have cleared up a lot of issues I had with the original simplistic answers. The questions themselves could have been better formed as well.

Because of this my results were not as clear as I would have wanted them to be.

Finally there is the matter of the whole subject of the thesis being my own invention that formed as the work went forward. Because of this the outline of my work was never specific. My interest in the subject was more grand and because of that, too big for the thesis.

I also found that there were a lot more functioning family-owned businesses than I thought. This made picking the right company tricky. I had to figure out more specifications for case companies on the fly in hopes of getting good examples. I never had a clear idea of what kind of company to pick in the first place.

Because of all of these issues, the work caused me a lot of stress and made me want to just finalize the work quick to get it over with. I could have focused on It more to improve accuracy of findings and keep the text better contained.

5.2 Findings overall

The results of the thesis ended up being satisfactory to me. There were some interesting details I would have wanted to dive more deep into. One of these being the underlying implications of family-owned business model. I feel that not even the case companies, that

took part in this thesis, truly understand the effects of the ownership model to their companies.

I feel that for them it is just a nice company to work with and do not spend more time thinking about the true effects and how they could use that knowledge to their advantage. Aarikka seemed to be more in the understanding of this but even there, I need to think if it was just surface understanding rather than deep carefully though fact. Understanding it in full could help everyone run their business better.

I also feel that the effects go far beyond just financial management, which was my focus for this thesis. Financial management in the end is very mechanical part of the company. About following the money and calculating its best effect. Yet the family-owned part extends its reach far beyond it.

It is without a doubt something worth looking into more deeply.

5.3 Final words

My experience with the thesis was without a doubt an experience that grew me as a person. It forced me into situations I normally would have stayed out of.

Still, I do feel the process could have been better managed from the school side. It felt like we were given the tools and encouraging words and the off you go. With that it is easy to see why many have trouble of finishing it.

The thesis itself was very narrow one for me and left me wanting more. Maybe it is something I can follow up by myself later but it still raises the issue of why the whole ordeal is even necessary.

For me it was not a bad experience but something that needs work. It left me on my own very often and advisor advises seemed to only confuse my at times.

With all said and done all I can say is that this part of my life is completed and it is time to move on.

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Appendices

Appendix 1. Answers from Helsingin Mylly

Company: Helsingin Mylly Oy

Does the family-owned business model cause any notable features into the financial management when compared to theory?

None

What functions does the financial manager perform in your company?

Treasury, bookkeeping, controlling, ICT, risk management

In what ways does Your Company try reduce the tax it needs to pay?

Tax optimatisation

Is there a pre-planned amount of cash flow Your Company needs to have to cover its day-to-day activities?

Yes

How does Your Company acquire funds needed for possible larger investments that cannot be covered by internally generated funds?

Bank loans

How does Your Company manage the risks that come with operating in the international markets?

Collection, pre-check of the clients

What kind of figures does Your Company track to monitor its performance?

ROI, EBIT, quick ratio, NWC%, effiency/kg etc.

How far into the future does Your Company plan its operations and to what detail?

3-5 years into the future