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3. Financial Activities of Major New Zealand Companies : Survey and Analysis

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FINANCIAL ACTIVITIES OF MAJOR NEW ZEALAND COMPANIES : SURVEY AND ANALYSIS

A. INTRODUCTION

The subject of finance in undergraduate Commerce and Business degrees in New Zealand universities has become a notable part of the curriculum especially for programmes offering accounting and business administration specialisations. The growth of the finance sector in New Zealand and the enlargement of the finance function and activities within firms has increased student interest in the study of finance. Growing enrolments in finance subjects reflect these developments and interest.

One main objective of finance teaching is to prepare students for the workplace particularly through the provision of learning materials and activities which give a strong base for understanding the finance function and the activities of key personnel working in finance. A continuing problem faced by finance educators is whether their finance curricula have external validity, i.e., having real-world relevance.

Gitman and Maxwell (1985) recently evaluated the relevance of finance curricula to the actual activities of finance professionals. Their U.S. study revealed some interesting disparities and conflicts between the real world and finance curricula (as reflected in the content of leading U.S. finance texts). Following on from this study a similar investigation was undertaken in New Zealand. By surveying New Zealand finance executives on the perceived practical importance of various corporate financial activities, and comparing the findings of such a survey to current topic emphases in popular finance texts, commonly employed to support New Zealand finance teaching, a means of evaluating curricula relevance was provided.

Finance executives surveyed were drawn from the top 200 companies in New Zealand. It was assumed that the size and prominence of these companies would require quality contemporary finance practices, thereby constituting useful exemplars for comparative study. To make a comparison between practice and texts it was assumed that the space devoted to each topic in the texts (See Appendix) was a useful indicator of the level of academic emphasis given to topics. As with the Gitman and Maxwell study (1985) the time spent by finance executives on an activity is assumed to signify its practical importance; naturally some activities may be more time consuming but less important than other more easily achieved activities.

Set out below are details of survey methodology, respondents' profile and discussion of survey outcomes. Included in the discussion are tabulations and assessments related to the time spent on financial activities, short and long term. Some comparisons are also made with the outcomes of the analysis of space allocation in texts. A summary is provided in the final section of the study.

B. SURVEY AND RESPONDENTS

1. Sample

From a list of Management Magazine's top 200 New Zealand companies (turnover), 80 randomly selected companies were set as the respondent group. A questionnaire was mailed (June, 1986) to the chief financial executive. Accompanying the questionnaire was a letter explaining the purpose of the survey and requesting the addressee or his/her nominee (a person with an overview of the finance function) to complete the questionnaire. One mailing was made. Forty nine responses (all complete) were received, giving an effective and satisfactory response rate of 61 percent. No identification was made of the salient differences between early and late respondents.

The 80 questionnaires were coded to allow responses drawn from the first 100 and the second 100 of the top 200 to be segregated. The responses were closely divided between the first 100 (26/41 or 63%) and the second 100 (23/39 or 59%). The respondents to the questionnaire comprised largely finance managers (44%), corporate secretaries (18%) and corporate accountants and treasurers (22%). The majority of respondents were therefore company officers able to offer reliable information on corporate financial activities. The majority of companies (81%) employed less than 20 full-time professional finance staff and 39 companies received three fifths or more of their earnings from domestic operations.

2. Questionnaire

Prior to mailing the questionnaire was circulated to several experienced finance executives for comment and review. The questionnaire, based on the Gitman and Maxwell (1985) instrument, posed no difficulty for securing full responses and the instrument was viewed as valid for establishing corporate perspectives of financial activities within New Zealand companies.

The questionnaire was divided into three parts. The first part contained five questions seeking a profile of the respondent and the company. The second part contained eight questions which sought general and specific information on the relative importance of working capital management, financial planning and budgeting, capital expenditure management and long-term financial activities. The final part comprised three questions to assess current and prospective financial skill levels of finance staff. The questionnaire contained no open-ended questions, all questions required a check or a specific complete response which best reflected the companies activities, policies and attitudes; personal opinions were not requested.

Table 1 Centralisation vs Decentralisation of Financial Activities

Financial Activity	Percent Responding Centralised	Percent Responding Decentralised
Long-Term Financing Activities	100	-
Short-Term Investment Management	98	2
Pension Management	98	2
Tax Planning	98	2
Cash Management	96	4
Capital Expenditure Management	83	17
Financial Planning and Budgeting	82	18
A/c Payable Management	48	52
Credit Management	43	57

Fifty three percent of companies had four or more major installations throughout New Zealand. A question in the first part requested information on the centralisation of financial activities. Table 1 indicates that, apart from payables and receivables management, all other activities were largely centralised. Decentralisation is logical for receivables and payables management; it is appropriate to administer customers and suppliers at the local level. It is not surprising that other actitivites were largely centralised; there are strong reasons for these activities to be the prerogative of central administration, because of their complexity and their company wide application.

C. FINANCIAL ACTIVITIES

To assess the relative importance of four major financial activities - Financial Planning and Budgeting[1], Working Capital Management, Capital Expenditure Management and Raising Long-Term Funds - respondents were asked, from a broad corporate perspective, which one of these activities was considered to be of greatest importance to their firms ongoing viability. Table 2 shows the percentage analysis of this question as well the approximate percentage of time spent on each of these major financial activities.

Table 2 Financial Activity Ranked by Greatest Importance, with Percent of Time Spent on Key Financial Activities

Financial Activity	Percent Selections	Percent of Time Spent on Activity: 0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Weighted[2] Average Response
		Response Percentage						
Financial Planning & Budgeting	59%	4.1%	14.3	42.9	26.5	8.2	4.1	34.7%
Working Capital Management	35	14.3%	18.4	20.4	22.4	18.4	6.1	34.7
Capital Expenditure Management	4	40.8%	42.9	14.3	-	-	2.0	16.1
Raising Long Term Funds	2	47.9%	37.5	10.4	2.1	2.1	-	14.5
TOTALS	100%							100%

1./ In the New Zealand context this is regarded as largely an activity with a short-term horizon; reviewers of the questionnaire saw this activity as not part of strategic planning which has a long-term horizon.

2./ Weighted-average was found by taking the sum of the product of the response percentage and the midpoint of the time/percent range across the values. This average was adjusted to a base of 100 by dividing individual weighted-average responses (after Gitman and Maxwell).

The weighted-average responses for these activities (shown in final column of Table 2) reveal that financial planning and budgeting and working capital management equally absorb the largest amount of total time; more than double the time allocated to capital expenditure management and raising long-term funds. It may be that time allocation reflected the market and production conditions companies faced during the period of the survey. The New Zealand economy at this period was contending with volatile exchange rates, stagnant export markets, substantial increases in labour costs and relatively high inflation and interest rates. These events may have forced companies to take the short view, thus perhaps explaining the relatively low importance assigned to long-term financing activities.

To scrutinise the allocation of time more closely further analysis is provided below by examining major categories within the balance sheet and assessing time devoted to specific short-term and long-term activities.

1. Asset and Equity Management

Part of Table 3 sets out the relative time spent on major balance sheet categories. The weighted-average responses show that asset management occupies more time (54%) than liability and equity management (46%). This outcome appears to be aligned to the data in Table 2 where asset management areas have more priority in time than liability and equity management areas (raising long-term funds).

Table 3 Relative Time Spent on Asset vs Liability and Equity Management, and on Short-Term vs Long-Term Activities

Activity	0-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	>70%	Weighted Average Response	Text Survey
	Percent of Time Spent on Activity — Response Percentage									
Asset v Equity										
Asset Management	6.1%	12.2	12.2	14.3	20.4	16.3	10.2	8.2	54	37
Liability and Equity Management	10.2%	8.2	10.2	20.4	24.5	8.2	10.2	8.2	46	63
TOTALS									100%	100%
Short-Term vs Long Term										
Short-Term Activities	4.1%	6.1	8.2	4.1	16.3	28.6	22.4	10.2	62	32
Long-Term Activities	10.2%	12.2	18.4	32.7	16.3	2.0	4.1	4.1	38	68
TOTALS									100%	100%

The final column of Table 3 indicates that text emphasis in asset and equity management differs from corporate attention to these areas. Texts devote relatively little space to the asset area and considerably more space to the liability and equity management area. Developments in the theory of valuation and accompanying empirical research no doubt have provided text writers with an attractive array of material for incorporation into their texts. Perhaps this more easily accessed material compared to asset management research material (lowly reported applied and empirical studies) has created a bias in text coverage.

Table 3 (lower half) shows that short-term activities consume more time (confirming Table 2) than long-term. Text coverage however, for short-term and long-term activities (final column) reveals a marked difference in emphasis. The text survey (see Appendix) provided evidence that long-term topics dominate (68%) in text treatment of financial activities with considerably less space devoted to short-term topics (32%). One of the U.S. explanations for these differences (Gitman and Maxwell 1985, p60) has relevance to New Zealand. They claim more managerial time is devoted to dealing with volatile and dynamic short-term markets and the low frequency of events relating to long-term financing activities demands considerably less managerial time.

2. Working Capital Activities

Time spent on each category of working capital activity is set out in Table 4. Weighted-average percent of time spent on each category is also provided by rank. The rankings indicate some higher level of importance to cash management, receivables and inventory management and short-term financial planning and budgeting. Time consumed on these activities is understandable given the continuing concern of companies to ensure their liquidity position; priority in attending to cash position and asset realisability is critical for meeting corporate obligations. The low ranking of short-term investment management may be explained by the fact that the temporary investment of short-term cash surpluses[3] is a routine activity requiring a relatively small amount of professional time in major companies.

3./ The questionnaire sought information on what were the important securities held in the short-term portfolio - the most important securities were bank bills, commercial paper, call deposits and demand deposits.

Table 4 Time Spent on Individual Working Capital Activities

Working Capital Activity	Percent of Time Spent on Activity 0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Weighted Average Response
	Response Percentage						
Cash Management	18.4%	42.9	18.4	10.2	8.2	2.0	17.7
A/c Receivable Management	22.4%	34.7	28.6	12.2	-	2.0	16.5
Inventory Management	34.7%	34.7	22.4	4.1	2.0	2.0	14.0
Short-Term Financial Planning & Budgeting	26.5%	49.0	18.4	4.1	2.0	-	13.3
A/c Payable Management	55.1%	24.5	12.2	8.2	-	-	10.6
Short-Term Borrowing	53.1%	30.6	10.2	4.1	2.0	-	10.4
Banking Relationships	59.2%	24.5	14.3	2.0	-	-	9.3
Short-Term Investment Management	70.8%	16.7	8.3	4.2	-	-	8.2
TOTAL							100%

3. Capital Expenditure and Long-Term Financing Activities

Tables 5 and 6 provide detailed analysis of time spent on long-term financial activities. Capital expenditure activity is set out in Table 5. The weighted-average response indicates that project follow-up and review has the the lowest ranking and project analysis and review the highest. The rankings may surprise many professionals because of the relatively low ranking of capital expenditure planning, an activity of some complexity and the consideration of substantial outlays of funds. As observed by Gitman and Maxwell (1985, p61) such low ranking of planning may reflect the fact that many projects are renewal or process improvement projects involving adaptations, modernisations and alternatives - and planning in this context is less taxing of time and effort and is logically relegated behind analysis and implementation activities.

Table 5 Relative Importance of Various Capital Expenditure Activities

Capital Expenditure Activity	Percent of Time Spent on Activity — Response Percentage: 0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Weighted Average Response
Analysing & Selecting Projects	21.3%	36.2	23.4	14.9	2.1	2.1	22.5
Defining & Estimating Project Cash Flows	22.9	37.5	25.0	8.3	2.1	4.2	22.4
Implementing Projects	29.8	23.4	27.7	17.0	-	2.1	21.8
Capital Expenditure Planning	25.5	34.0	31.9	8.5	-	-	19.4
Project Follow-up & Review	51.1	29.8	14.9	2.1	2.1	-	13.9
TOTAL							100%

The relative importance of long-term financing activities is shown in Table 6. Observers of company financing activity would find the rankings of the top three activities not unexpected. The permanent and universal importance of debt management warrant no comment here. In the context of the recent deregulation and internationalisation of finance markets in New Zealand, the high ranking of investment banking relations appears logical. The presence and growth of investment banks in New Zealand reflects a growth in corporate demand for and dependence on their special services and advice in the rapidly changing finance market. The growth of entrepreneurial companies and heightened interest in corporate acquisitions and mergers over the last three years is perhaps echoed in the relative high ranking of acquisition analysis.

Lowly ranked lease analysis and dividend administration may be activities that warrant little formal attention within New Zealand companies. The routine nature of dividend administration and the pre-packaged nature of lease propositions may account for low corporate attention. Despite these rankings, textbooks do accord importance to these areas and each area generally commands a specialist chapter.

Table 6 Relative Importance of Various Long-Term Financing Activities

	Percent of Time Spent on Activity						Weighted
	0-10%	10-20%	20-30%	30-40%	40-50%	>50%	Average
Long-Term Financing	Response Percentage						Response
Debt Management	22.9%	33.3	25.0	8.3	4.2	6.3	22.1%
Investment Banking Relations	30.4%	39.1	23.9	6.5	-	-	15.8
Acquisition Analysis	37.2%	37.2	23.3	2.3	-	-	14.2
Shareholder Relations	56.5%	26.1	13.0	4.3	-	-	11.6
Cost of Capital Determination	56.5%	32.6	4.3	4.3	2.2	-	11.4
Equity Management	61.4%	29.5	6.8	-	2.3	-	10.3
Dividend Administration	80.4%	15.2	4.3	-	-	-	7.5
Lease Analysis	83.0%	14.9	2.1	-	-	-	7.0
TOTAL							100%

Shareholder relations did not receive a high ranking. The financial press and the sharebroking community, through their regular commentaries and reviews, suggest that companies do devote considerable energy and time in ensuring that their internal provisions for dealing with current and prospective shareholders (individual, institutional and corporate) are up to the mark. These views imply that shareholder relations should not be ranked behind investment banking relations. However, with the projected increased regulation of corporate and share dealing activity in New Zealand there may, in time, be an increase in the importance of shareholder relations. Also, as the dominance of corporate and institutional investors is felt in the finance market, the time devoted to this area may increase.

D. CURRENT AND PROSPECTIVE SKILLS

Within the respondent group of companies the typical skilled professional in finance may be profiled as being within the 30-40 age range, largely male (modal percent range of females employed was 5-10%), employed in the finance area for less than 6 years, earning an annual salary of between $30000 - $40000 and possessing education to bachelor's degree level.

Table 7 Ranking of skill levels required for various financing activities

Financial activity	Rank (1 = highest, 2 = second highest...) 1	2	3	4	5	6	7	8	Weighted Average Response
	Response percentage								
Financial planning and budgeting	61.2%	16.3	10.2	8.2	2.0	2.0	-	-	1.79
Cash management	18.4%	42.9	12.2	12.2	4.1	6.1	2.0	2.0	2.77
Long-term financing activities	18.8%	8.3	25.0	14.6	10.4	6.3	14.6	2.1	3.69
Capital expenditure management	-	4.1	24.5	22.4	22.4	14.3	6.1	6.1	4.61
A/c receivable management	4.1%	10.2	8.2	18.4	16.3	20.4	14.3	8.2	4.91
Short-term investment management	2.1%	10.6	8.5	8.5	23.4	21.3	10.6	14.9	5.21
A/c payable management	-	4.2	2.1	10.4	14.6	18.8	35.4	14.6	6.06
Pension management	-	2.2	13.0	8.7	4.3	8.7	15.2	47.8	6.41

The skill level of professional finance staff was surveyed. Specifically, respondents were asked to assess the skill level required for various financial activities and their expectations relative to future finance job opportunities.

An examination of Table 7, where skill levels currently required are ranked, indicates that financial planning and budgeting has top ranking followed by cash management and long-term financing activities. These rankings perhaps reflect the enduring volatilities in markets (product, labour, finance) which force companies to deal more resolutely with prospective conditions and to orchestrate closely cash and finance flows to mitigate adverse shifts in market conditions. Behind this may be a concern for current and prospective leverage positions and for securing acceptable long-term finance flows.

The rankings in Table 7 provide one means of reviewing the content of textbooks. Some disparity between rankings and content exists. Financial planning and budgeting and cash management usually are limited to a chapter each in most texts[4] although they have the highest rankings in terms of required skill level. On the other hand the lower ranked long-term financing activities and capital expenditure management generally receive at least three to four chapters each.

Table 8 gives perceptions of growth prospects for job opportunities for persons skilled in various finance activities. Consistent with some previous tabulations, respondents indicate strong job growth prospects in the areas of financial planning and budgeting, cash management and, to a lesser extent, long term financing activities. Again these indications may be a reflection of current business conditions or they may signify that these areas do have real long-term importance in corporations and that to some degree, current text emphases have got it wrong. Prospects for growth in the areas of account receivable and account payable management are, not surprisingly, perceived

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4./ It may be argued that, because finance students frequently study accounting courses which include these areas, this restricted treatment is warranted to avoid possible duplication in the curriculum.

as being relatively low. Routine and computerised monitoring systems have no doubt removed the need to extend job opportunities in this area.

Table 8 Growth Prospects for Job Opportunities for Persons Skilled in Various Financial Activities

Financial Activity	Increased Future Need	No Change In Need	Reduced Future Need
Financial Planning and Budgeting	73%	27	-
Cash Management	62%	36	2
Long-Term Financing Activities	54%	44	2
Capital Expenditure Management	38%	58	4
Short-Term Investment Management	36%	62	2
A/c Receivable Management	25%	71	4
A/c Payable Management	15%	83	2
Pension Management	13%	79	8

A number of respondents made annotations on the section of the questionnaire from which Table 8 was drawn. The annotations related to foreign exchange management as being an area of increased future need. Clearly they divorced (from their company's perspective) cash management from foreign exchange management. It appears that these companies do not consider foreign exchange management as part of cash management as is the case for many other companies.

E. SUMMARY

This article has reported the survey outcomes of 49 completed questionnaires received from a random sample of 80 companies drawn from New Zealand's top 200 companies. These outcomes were compared with a survey of topic coverage emphasis in texts most commonly used to support finance teaching (undergraduate) in New Zealand.

It was shown that financial planning and budgeting is a dominant activity, current and prospective, for finance executives. This activity appears to warrant more treatment and coverage, in the curriculum and in the mainstream textbooks. This shift in emphasis would require finance teachers to supply more financial planning and budgeting learning materials, to extend curriculum research into the area, and to provide more case studies, through research, about the nature and scope of operational financial management.

The study found that practitioners devoted a majority of time to the management of assets, whereas textbooks seem to place less emphasis, extending considerable treatment to liabilities and equities. This difference in emphasis may be explained by texts favouring the widely researched finance concepts and phenomena (debt and share equity oriented) rather than the less researched areas of managerial finance (working capital oriented). A related finding showed that practitioners gave more time to short-term financial activities while text coverage placed more emphasis on long-term financial activities. The restricted text treatment of working capital management may be explained by the texts giving emphasis to appealing researchable concepts rather than the more mundane issues of day-to-day financial administration. Again further empirical research (practice and curriculum) appears to have some justification. The development and direction of the finance curriculum, as evidenced by recent text treatments, could usefully reference the field of finance practice and be subject to more critical scrutiny by both practitioners and academics alike.

The findings of the study may prompt more communication between finance academics and practitioners and thus raise the cross-flow of knowledge and skills. The apparent needs of practitioners, which could be better served through revised curricula and text treatment, have been highlighted. The exchange of views between practitioners and academics is warranted if the continued supply of well-educated and employable finance professionals is deemed to be critical.

Appendix

A. Most Commonly Employed Textbooks - N.Z. Undergraduate Programmes

Bishop, S., Crapp, H. and Twite, G., (1984), Corporate Finance, Holt, Rinehart and Winston.

Brealey, R., and Myers, S. (1984) Principles of Corporate Finance, 2nd Ed., McGraw-Hill.

Peirson, G., Bird, R., and Brown, R., (1985) Business Finance, 4th Ed. McGraw-Hill.

Van Horne, J., Nicol, R., and Wright, K., (1985) Financial Management and Policy in Australia, Prentice-Hall.

Weston, J., and Brigham, E., (1985) Essentials of Managerial Finance, Holt-Saunders.

B. Summary of Survey of Textbook Content

Topic	A Percent of Total Pages	B Assets vs	 Liabilities and Equity	C Short- vs Term	 Long Term
Finance Overview	6%				
Financial Analysis and Control	7			7	
Financial Planning and Budgeting	5			5	
Working Capital Overview	4			4	
Current Asset Management	9	9		9	
Short-Term Financing	5		5	5	
Capital Budgeting	20	20			20
Cost of Capital	6		6		6
Capital Structure	10		10		10
Long-Term Financing/Markets	24		24		24
Dividend Policy	4		4		4
Totals	100%	29%	49%	30%	64%
Percentages Based upon 100%		37%	63%	32%	68%

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Gitman, L. & Maxwell, C., (1985), Financial Activities of Major U.S. Firms: Survey and Analysis of Fortune's 1000, Financial Management, Winter, pp.57-65.