CURRENT CHALLENGES IN FINANCIAL MANAGEMENT OF PRODUCTION ENTERPRISES

Anna Saniuk

INTRODUCTION

Small and medium-sized manufacturing companies, in order to develop dynamically and increase employment, require more professional management. Globalization, strong competition and technological advances mean that manufacturing companies must pay particular attention to efficient management. In other words, effective action must be taken with regards to planning, organizing, decision-making, motivation and control. Conducting business activity in conditions of crisis involves a greater risk to the company's liquidity, which means the timely settlement of all business obligations is essential. The current market situation is also forcing traders to engage in a more cautious financial policy. There is a need to make changes and seek new solutions to the financial management of enterprises, aimed at the special protection of financial resources flows in the company through better financial planning (budgeting) based on reliable, detailed data; reinforcing the control of the execution of the plans, determining variances and more in-depth study and analysis of their causes.

Adaptation of a product to customer needs plays a key role in the production enterprise, which means there is a need to manufacture good quality products quickly and cheaply. An important factor in company development is also efficient and fast customer service. To save time and reduce the cost of manufacturing products, a company can be seen as a set of business processes. Manufacturing companies must strive to reduce the time and costs of business processes in a way that does not cause deterioration in the quality of the manufactured products.

Development of information technology has led to businesses having the ability to collect, store, and quickly analyze a wide variety of accurate data which may be used for the management of the organization. Information management systems are becoming more widespread and accessible, not only in large enterprises, but also in the sector of small and medium-sized enterprises. These allow many operations to be streamlined and lead to the enhancement of the the quality of information used. In this way, time can be saved and the effectiveness of decision-making processes in the enterprise increased.

In this article, an attempt has been made to determine the latest challenges of effective financial management in enterprises. New methods and solutions that help organizations to better manage financial resources are presented.

1 THE SITUATION IN THE SECTOR OF PRODUCTION ENTERPRISES

Manufacturing companies play an important role in any economy. The vast majority of them belong to the sector of small and medium-sized enterprises (SMEs). In Poland, as well as in Europe, the SME sector represents approximately 99% of established firms [26].

Research indicates that the situation of production companies around the world has stabilized. The value of the index of economic activity in the European Union amounted to + 51,9, which means an increase up by 12.3 points in relation to October 2010; the value of the indicator is largely undermined by Greece [2].

Companies expect to increase the number of orders, revenues and profits, and increase the rate of production capacity utilization. It is predicted that the manufacturing sector in most countries of the European Union will have improved results. In Britain, Germany, the Netherlands, as well as in Poland, new investments and employment growth are expected. The only clearly negative situation is in Greece [1], [2].

The global economic crisis began to affect the economy of Poland in the second half of 2008. Growth in industrial production fell from 10.7%

in 2007 to 3.6% in 2008. The deepest fall in production, by 10%, was reported at the beginning of 2009. From 2010 there was a continuous increase in production. However, in 2011, the production industry has grown at a somewhat slower pace [26].

There is now also good sentiment in Poland. In February 2011, the index of economic activity of production companies in Poland reached the value + 50.6. In comparison with the survey conducted in October of 2010, this means a slight decrease of 2.6 points. 63.5% of Polish companies predict that economic activity will continue to grow over the next 12 months. Poland has passed through the economic crisis relatively gently in contrast to many EU countries [2].

The use of modern equipment and technology increases the complexity of production processes, and this affects the demand for highly-qualified staff. Therefore, the competitiveness of a company's production is affected by the following factors [26]:

- human capital,
- infrastructure,
- labor costs,
- costs of materials and raw materials.

The biggest barriers to the development of a manufacturing enterprise are as follows [24]:

- non-strategic approach - a lack of long-term development planning,
- low adaptive capacity (long delay in responding to changes in the environment),
- lack of ability for continuous improvement of the company (as a result of which it grows more slowly than competitors),
- focusing on competing with price rather than high added-value products.

The production sector must also adapt to current developments and trends in the market, one of which is a significant increase in the unpredictability of orders. Many companies reduce costs through effective inventory management. This applies to both production enterprises and retail traders. In practice, this means that large, traditional supplies are replaced with orders of single pallets or smaller quantities of products. There is also strong pressure from customers for short deadlines for fulfilling orders and quick responses to changes in contracts or their cancellation. Consequently, this leads to a considerable variability and unpredictability in demand and the need to increase the stocks of manufacturers.

There is strong price pressure on the market, with, on the one hand, intensifying competition from producers from countries with low labour costs (e.g. China, India), and on the other hand, growing material, energy and labour costs in Europe,

A negative development for production businesses, particularly in the electronics industry, is the shortening of new product implementation time. Demand for new devices is very often changing faster than the time needed for the design of the device, and its manufacture and distribution.

More and more companies on the market are applying automatic processing of payments, which helps to reduce the time taken for receiving payments. In such undertakings, timely payments considerably increase. However, this trend is also a threat to companies which do not have adequate systems for handling them.

To conclude, the situation on the market primarily causes strong pressure on cost reduction, demand for increased quality of manufactured products and the shortening time of business processes in the enterprise. Producers must, therefore, strive to implement new solutions and methods that allow time and cost savings in product execution without a reduction in product quality. In the following parts of the paper, the most popular current methods and solutions in financial management are presented: Business Process Management, Activity Based Budgeting, Balanced Scorecard, outsourcing of product manufacturing processes and the formation of manufacturing networks.

2 BUSINESS PROCESS MANAGEMENT

Continuous pressure to reduce costs and increase the quality of manufactured products, and simultaneously a shortening of customer service time, are causing manufacturing companies to seek effective methods of increasing custo-

mer satisfaction [20]. As a result of this, Business Process Management (BPM) and process controlling have emerged. Every company creates a product based on defined processes, using available resources. To succeed in the market, a company must establish a system of efficient management, which aims to fight against the competition and the increasing volatility of their environment. Accuracy of decision-making by company management depends mainly on the credibility, reliability and usefulness of the information collected and processed, and a smooth running system of assessments. Therefore, the role of process management in the economic activity of enterprises is increasingly important.

The idea of business process is as traditional as concepts of tasks, department, production and outputs. The current update management and improvement approach, with formal definitions and technical modeling, has been around since the early 1990s. Note that in the IT community, the term "business process" is often used as a synonym of management of middleware processes or integrating application software task [21].

The BPM concept assumes crucial importance for the functioning of business processes carried out in the enterprises - repeatable activities or sets of repeatable actions whose purpose is to develop a product or service. It is therefore a kind of a sequence of steps performed in order to provide something, the result of which is a response to a client request. Business processes in an enterprise can be optimized, thanks to their identification, enabling the reduction of the costs of individual processes, shortening of their duration and improvement of the quality of processes (efficiencies).

Business Process Management (BPM) is a holistic management approach focused on aligning all aspects of an organization with the needs and wants of clients. It promotes business effectiveness and efficiency while striving for innovation, flexibility, and integration with technology. It is argued that BPM enables organizations to be more efficient, more effective and more capable of change than a functionally focused, traditional hierarchical management approach [4].

The implementation of Business Process Management in an enterprise has a considerable impact on cost estimates. Cost information is collected and filed by various actions, allowing much more accurate and reliable analysis of the costs. Individual processes are treated as cost-centers.

Controlling in the process approach is based on the assumption that the company profit resulted from the implementation of processes. It deals with the measurement parameters and processes, which allows processes (cost, time, quality, quantity) to be monitored and gauged in order to reduce costs, improve the quality of customer service, risk management, etc.

In a procedural approach, IT systems which allow for rapid collection and processing of information and its use for the processes of decision-making.
Because BPM allows organizations to abstract business process from technology infrastructure, it goes far beyond automating business processes (software) or solving business problems (suite). BPM enables businesses to respond to changing consumer, market and regulatory demands faster than competitors.

Business Process Management allows:

- identification, mapping and analysis of processes,
- directing the flow of information,
- a reflection of the processes in electronic forms entry and control data,
- the construction of electronic forms, consistent with the process, and their circulation,
- control of the various stages of implementation of operations,
- selecting and implementing improvements,
- re-engineering - revamping the processes from scratch for better results.

BPM is an approach to integrating an organizational "change capability" that is both human and technological. As such, many BPM articles and pundits often discuss BPM from one of two viewpoints: people and/or technology.

Identification of the actions also allows for the accurate determination of their cost, which can be used to compare the profitability of the company's operations to outsourcing certain activities to other companies.

The development of Project Management and the Product Lifecycle Management can also be observed. Project Management is the discipline of planning, organizing, securing, and managing resources to achieve specific goals. In practice, Project Management requires the development of distinct technical skills and management strategies. The primary challenge of PM is to achieve all of the project goals and objectives while honoring the preconceived constraints like: scope, time, budget, optimizing the allocation and integrate the inputs integrate the inputs necessary to meet pre-defined objectives [10].

Product Lifecycle Management can be regarded as the integration of the different tools, methods and approaches for effective use of corporate and non-business resources throughout all phases of product life cycle (from the development, through production and servicing, up to the disposal). A very important aspect of PLM is the necessity for teamwork and integration of all systems, tools and processes in the enterprise and its surroundings, especially in the digital form [7].

3 COST PLANNING AND BUDGETING

Financial management is very importan, particularly accurate and reliable for planning costs. There is now a need for much more detailed information about costs and effectiveness of the implemented processes. The opportunities of the global market decide: to guide companies on customer needs, the quality of manufactured products, the pace of activity and its performance. The basic priority of the business of manufacturing companies is therefore permanently maintaining profitability. Consequently, not only must the cost of manufacturing products be accurately assessed, but it also be carried out to plan, monitored, and controlled.

In order to effectively manage costs it is important to have exact knowledge of the unit cost of roving individual products, carefully keeping pricing policy, based on reliable information relating to the pricing and margin surplus and economy-oriented inventory costs [11]. Determination of the actual unit cost of a roving individual product strictly relates to technological standards, which must be continually reviewed and updated.

Most companies, in practice, apply budgeting as a tool for planning, a method of day-to-day management of the company, which, according to assumptions, allows management to streamline the company's activities and minimize the economic risk. The budget is a plan of action for the enterprise, showing the allocation of resources in the a quantitative and/or meaningful continually controlled and modified way [19].

Primarily, the usieof budget is necesarry because of:

- the complexity of the processes of business management,
- a large change in the dynamics of the conditions of external environment,
- increasing the possibility to use alternative solutions,
- increasing opportunities for mistakes, the consequences of which may be acute for the production company.

Nowadays, there are an increasing number of critical opinions on the use of traditional budgets. Careful planning is, first of all, highly time-consuming and cost-consuming. In an age when the external environment of enterprises changes all the time and very quickly, it is necessary to react to such changes immediately. Hence, traditional budgeting can very often hinder rather than help nowadays. Traditional budgets are not generally matched to the continuous changes in the structure and processes in the organization. They do not minimize costs because they do not consider creativity. The popularization of other tools for financial planning such as Activity Based Budgeting (ABB) and Balanced Scorecard (BSC) can be noticed. Budgeting based on the concept of ABC applies in particular to enterprises which have adopted Activity Based Management (ABM). Balanced Scorecard is a relatively new solution. It is an instrument for the control of strategic manage-

ment accounting and can also be used as the basis of planning. It allows strategies in the enterprise to be implement effectively a strategy in the enterprise [19].

3.1 ACTIVITY BASED BUDGETING

Activity Based Budgeting (ABB) – budgeting by activities - was founded as a development of Activity Based Costing. The cost objects are measured and analyzed, e.g. products, customers, orders, and distribution areas, market segments, etc. This method moves away from the traditional division into fixed and variable costs [16].

Budgeting based on activities consists of five stages [19]:

- estimation of the volume of production and sales for each product and customers expected in the next period,
- forecasting the demand for organizational activities,
- calculation of the demand for resources needed to carry out the activities,
- determination of the actual resource demand for the implementation of the demand,
- establishing a nominal capacity for action.
- ABB results in a move from functional management to process management. This type of budgeting requires knowledge about the management of process, technology, production, sales, logistics, management accounting and economic indicators. Consequently, close cooperation between technologists and workers is needed. ABB can only be applied if Activity Based Costing has been implemented in the enterprise. It is often necessary to apply integrated information management systems. The most important benefits of Activity Based Budgeting are [16], [19]:
- providing information about the reasons for the formation of deviations, which allows for effective management,
- establishing a basis for the monitoring and control of the enterprise
- allowing the determination of resource requirements,
- assisting in the effective management of resources, costs, actions, processes, products, customers,
- transferring the responsibility for the achievement of the aims.

In ABB different bases of settlement costs (e.g., customers, orders, products) can be applied, which is particularly useful in the manufacture of many different products which use different production processes and various resources in make-to-order production. When the activity costs are assessed according to Activity Based Costing, the Activity Based Budgets can be generated almost automatically.

3.2 BALANCED SCORECARD

Enterprises are constantly changing. The success of enterprises depends more and more often on factors which cannot be measured by means of financial metrics (e.g. the relationship with the client, rich and well organized network of suppliers, etc.). A financial system of measuring efficiency in such conditions is no longer efficient, and indeed prevents monitoring the implementation of the strategy. Balanced Scorecard (BSC) is a tool which enables the company's Board of Directors effective implementation of the strategy. The role of non-financial indicators in BSC is particularly important. These indicators are often omitted in traditional budgeting [19].

The Balanced Scorecard should be worked out after the formulation of strategy and before the specification of actions to implement it. At this stage, the executive team has to address the many problems that may occur and delay or completely cease the implementation of the strategy. BSC is often called a “missing tool” for the strategic management process.

BSC covers four perspectives: financial, customer, internal processes, and learning and growth. Each of them should be determined by the strategic objectives, measures, specific objectives and activities. The financial perspective shows how the company is perceived by owners (i.e. shareholders). It is an essential element of the construction of the Balanced Scorecard because the defined level of return on investment is the most important objective of

the manufacturing enterprise's functioning. The other perspectives should contribute to the implementation of the financial perspective's objectives. There are two main mechanisms for the implementation of the financial strategy: to maximize revenues and productivity. The perspective of the customer shows how the enterprise should be seen by customers. The internal processes perspective determines which processes should be improved to measure up to the expectations of clients and owners. In the perspective of lifelong learning and growth, ways to create the potential for change and improvement in the enterprise in the future should be sought. The potential here is understood to mean the intangible infrastructure, i.e. employees, organization of information systems, culture, etc.

4 OUTSOURCING AND MANUFACTURING NETWORKS AS FACTORS OF COST SAVING

One aspect of reducing the cost of production is the possibility of outsourcing the manufacture of certain elements of the products or services to specialized entities, who are able perform their manufacture more cheaply or quickly. The basis for determining the range of tasks of the company should not be technological considerations, but the amount of costs which must be paid in respect of the implementation of such tasks. Narrowly specialized units typically receive the benefits of economies of scale and are able to provide lower costs of manufacturing of products in comparison with enterprises where most activities required in the scope of tasks intended for the manufacture of certain goods and services are implemented independently [18].

The impacts of a lack of such a solution in which enterprises cooperate with other specialized organizations are higher costs of planning, coordinating and supervising activities in comparison with the option to stand-alone performance, due to the ranges of jobs offered by such bodies. Such costs have been identified by O. Williamson and subsequently referred to as "transactional costs" and defined as the comparative costs of planning, adaptation and mastery of the accomplishment of the tasks in the different management structures [23].

The work of R. Coase can be considered a precursor to the theory of transaction costs. One of the first works in which the author addressed this problem was the article "The Nature of the Firm" (first published in: "Economica", nr 4, from 1937, he was subsequently to cover min. in the work of R. Coase „The Firm, the Market and the Law" of 1988). Originally, the author used phrases for costs such as price mechanism and the marketing costs.

The use of outsourcing requires very accurate determination of the costs of the processes and timing of their implementation so that they can be reliably compared with the prices and terms proposed by an external company. An important aspect is also the exact estimation of transaction costs. Too cursory cost estimates do not give reliable information and can not bring the expected savings in manufacturing certain elements of the device outside of the company. The application of Business Process Management or Activity Based Costing to determine the cost of individual processes could be one solution to this problem.

When outsourcing certain processes outside businesses. There is also the risk of cooperation with potentially unreliable, inaccurate and unproven companies. Therefore, such cooperation should be limited only to the best of counterparties with good reputations in the market.

The risk factor of cooperation is the main reason for creating manufacturing networks. Indeed, this enables the joint production of products, the joint implementation of production orders, but within a group of specially selected and verified companies [17].

Development of cooperation between enterprises carrying out common production orders in manufacturing networks leads to a high degree of enterprise specialization in limited fields of production and much more potential for advanced computer and telecommunication systems such as global networking or groupware systems [25], [9]. There are many organizational kinds of manufacturing in cooperation such as the "manufacturing network", "network organi-

zation" [12], [13], [3], "collaborative network" [15], "virtual cellular manufacturing" [14] or the most popular model called "virtual enterprises" or "virtual organization".

The idea of manufacturing in a network means joint manufacturing, while enterprises offer essential production capacity to manufacture products according to production orders. This solution allows for the execution of production orders by a group of specialized enterprises, where one of them could not have realized a given production order because of lack of production potential [22].

Enterprises are expected to be successful compared to networks, markets and hierarchies if the productive process is modular, components change frequently, the productive process is complex and knowledge specificity is low. In these conditions virtual enterprises are hybrid organizational forms distinguished by the outsourcing of non core activities to frequently changing partners and by a large use of information and communication technologies [6].

Virtual organizations differ from other traditional enterprises in the following features: dynamics of network reconfiguration with flexibility, agility, operational dimension, competitiveness, resource optimization and innovation. VO's can form integration as well as reconfiguration dynamics [5].

Such a solution may increase the quality of manufactured products by exploiting the potential of specialized companies, shortening the time of manufacture (the simultaneous production in various enterprises of different parts, subassemblies, components) as well as reducing manufacturing costs through more efficient utilization of the potential of different enterprises.

CONCLUSION

Automation of production, specialization in production enterprises, development of the sector of small and medium-sized enterprises and the crisis in the world market is causing top management to focus more and more on issues connected to financial management. Liquidity and strong price pressure has forced producers to apply new methods and solutions that allow reductions in both time taken in company processes and costs. Business Process Management, Activity Based Budgeting, Balanced Scorecard, Outsourcing and the formation of manufacturing networks are the most popular new methods and solutions to be implemented in production enterprises.

The analysis conducted in the article allows currently trends in financial management in enterprises to be determined. The most important trends include:

- perception of the company as a set of business processes that generate costs and use resources,
- highly accurate planning and budgeting of costs, based on data from the operating manufacturer's system,
- systematic and detailed control of implementation of the plan, including detection and analysis of deviations,
- continuously comparison of the profitability of business processes inside the company and their implementation on the outside (outsourcing),
- the creation, together with other enterprises, of manufacturing networks.

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Author

Eng. Anna Saniuk, Ph.D.
University of Zielona Góra
Faculty of Mechanical Engineering
Institute of Computer Science and Production Management
E-mail: a.saniuk@iizp.uz.zgora.pl

CURRENT CHALLENGES IN FINANCIAL MANAGEMENT OF PRODUCTION ENTERPRISES

Anna Saniuk

Abstract: In this article, the latest challenges of financial management in manufacturing enterprises are presented. The crisis on the world market means that financial management has taken a highly important role in today's enterprise. Liquidity and strong price pressure has forced producers to apply new methods and solutions that allow reductions in both the time taken in company processes and costs.
Adaptation of a product to customer needs plays a key role in the production enterprise, which means the quick and cheap manufacture of good quality products. To save time and reduce the cost of manufacturing products, a company can seen as a set of business processes, which generate costs and use resources. Business Process Management is therefore very popular in manufacturing enterprises.
It can be seen that there is a need for highly accurate planning and budgeting of costs, based on data from the operating manufacturer's system, and systematic and detailed control of implementation of the plan, detecting and analyzing deviations. Many enterprises use Activity Based Budgeting, which allow s the very precise calculation of indirect costs.
The situation on the market is changing very quickly. Because of this, many companies implement the Balanced Scorecard - a tool which enables the company to implement their strategy. The Balanced Scorecard should be worked out after the formulation of strategy and before specifying actions to implement it.
Production enterprises can try cost-saving through outsourcing the manufacture of certain elements of the products or services to specialized entities, which are able to conduct such activities more cheaply and quickly. The basis for determining the range of tasks of the company should not be technological considerations, but the amount of costs which must be paid in respect of the implementation of that task.
Manufacturing enterprises are now more specialized and consist of small and medium enterprises. They therefore very often form manufacturing networks to realize production orders better, faster or more cheaply.

Key words: Financial management, manufacturing enterprise, business process, budgeting
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