

## Meaning and Essence of Scientific Concept “Business Finance” in Market-Oriented Economy

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**Abstract:** A peculiarity of modern science of finances is complex interconnection of theory and practice which is manifested in existence of applied economic subjects having relative independence as compared with theoretical aspects. Research taken in recent decades give grounds to believe that current classical theories and models of finance fail to forecast behavior of businesses or affect the changing economic situation to a sufficient degree of reliability. Changes in conception of competitiveness and investment prospects of Russian businesses, current forms and methods of fund-raising put an ambiguous question: to be a subject or an object of economic processes that take place in national economy. In scientific literature, educational materials, courseware and various sources of data scientific concept “business finance” is often substituted with the concepts “finances of economic agents, economic transactors, economic entities, business entities, business units, self-regulating subjects of economic sphere, market participants, enterprises, corporate enterprises, organizations, firms, etc.” that have their own meaning and interpretation depending on the position of the researcher or his/her affiliation to this or that scientific school.

**Key words:** Business finance • State • Tax • Theory of finance

### INTRODUCTION

A peculiarity of modern science of finances is complex interconnection of theory and practice which is manifested in existence of applied economic subjects having relative independence as compared with theoretical aspects.

It is not infrequently when theory of finance contradicts current practice which complicates the process of managing company finances, turning them into a category far from reality.

In this respect the pressing issue is how far financial theory and implementation of its recommendations in reality are from each other and whether effective practical application of suggested theoretical models is possible.

As what is meant here is correct usage of generally accepted conceptual framework in financial science, it is reasonable to find a common meaning of the terms among representatives of different opposing scientific schools. All of them have their own methodological foundation,

tools of research and their own recommendation of practical application.

A great number of suggested methods and used terms and pluralism of scientific opinions lead to the fact that companies doing business activities have to solve the problem of which model of economic behavior to choose under current conditions of economic management by themselves. Businesses often lack recommendations that they might stick to in their practical activities, or have a vague idea of how to apply theoretical insights.

Study of these aspects can give an answer which model of socio-economic development of society is necessary for effective development of the state, as the configuration of the world financial system varies with growing globalization. The world financial system comprises national ones that have deformed under the influence of new kinds and forms of economic relations which caused increase in the share of finance sector and predominance of revenues from financial markets transactions over incomes in real sector [1].

Research taken in recent decades give grounds to believe that current classical theories and models of finance fail to forecast behavior of businesses or affect the changing economic situation to a sufficient degree of reliability.

At the same time many businesses are often not ready to apply scientific research results due to depreciation of plant, mismanagement, underskilled personnel, etc.

To some extent this situation is caused by discrepancy between activities of businesses of various proprietary types and assumptions of their rationality that lie in the foundation of theoretical insights, or can not be effectively put into practice.

Modern state of Russian economy makes us take a new look at the role of business finance in preserving national welfare and creating conditions for developing expanded reproduction. Business finance ensure formation of budget revenues of both households and budgets of different levels, extra-budgetary and other funds in the form of taxes, insurance fees and other statutory payments. Besides businesses create jobs and thus form the basis for earning an income by individuals both for themselves and the households which interests they represent.

Restoration of production potential of Russia requires radical reform in real sector of economy and new approach to understanding significance of business finance, which is to facilitate to overcome structural atomism of industry, create sustainable interaction between economic agents of various proprietary types and increase efficiency of socio-economic development of society on the whole.

Transformation of political, economic and social processes, having taken place in the Russian Federation for two decades, is accompanied by spread of entrepreneurial activity as a major component of market economy which promotes development of new types of relation arising between elements of financial system, implementation of private property rights, advance in business initiative and financial literacy of population.

In the course of implementation of cardinal reforms in political, economic and social life of this country in the last decade of the 20th century there appeared a decentralized sector of economy in the financial system of Russia – private finance, one element of the latter is business finance.

In scientific literature business finance is finance of economic agents (profit and no-profit organization of various proprietary types), having not only economic substance, but also legal registration confirming such types of companies, having a share in material and non-material production and rendering different sorts of services to legal entities and individuals [2].

Changes in conception of competitiveness and investment prospects of Russian businesses, current forms and methods of fund-raising put an ambiguous question: to be a subject or an object of economic processes taking place in national economy.

To our mind the most appropriate approach is to distinguish basic types of companies conducting their operations in context of dominant instruments of distribution and redistribution of ownership of means and results of production depending on the form of state system and existing ideology with all their regularities and peculiarities. For example, definitions of business finance, which were given in textbooks of the end of the 20<sup>th</sup> century, reflected the specificity of financial science of that period.

Nowadays we can follow the trend of growth in business activity among Russian companies, but it is characterized by unevenness in different sectors of economy. Thus, larger corporations of extractive industries show greater activity while economic behavior of companies in the processing sector is less active. Economic activity and efficiency of smaller and medium-size businesses have become the lowest, as they are considerably squeezed out from all sorts of industries by large integrated business structures.

Moreover, a specific feature of forming model of economic behavior of businesses in the Russian Federation is a wide use of such instrument of redistribution of ownership as mergers and takeovers aimed at creating integrated business structures, while many takeovers being conglomerate ones.

At the same time, it's not entirely proper to apply common approach to definition and interpretation of the scientific concept "business finances" without taking into consideration their amount, structure, principles of formation and management, percentage of tax deduction to budget system and taking into account just only motives of gaining and distributing profit.

In scientific literature, educational materials, courseware and various sources of data scientific concept "business finance" is often substituted with the concepts

“finances of economic agents, economic transactors, economic entities, business entities, business units, self-regulating subjects of economic sphere, market participants, enterprises, corporate enterprises, organizations, firms, etc.” that have their own meaning and interpretation depending on the position of the researcher or his/her affiliation to this or that scientific school.

Some scientists, in spite of seeming similarity of definition “business finance” and terms related to it, make use of different terminology which requires certain specification as it is not often correct and partially disagrees with the processes taking place in economy.

There is no unanimity of views on definition of the concept “business finance” among national scientists and a part of researchers identify it with *monetary or financial relations*, some consider that this is a system of *economic relations* and others mean it to be *an economic category*, etc. [3, 4, 5, 6, 7, 8 and others].

Some authors when formulating an interpretation of scientific concept “business finance”, suggest universal definition, uniting all conceptions and approaches, combining mixed terminology or take position which is not linked to this or that scientific school.

And some part of authors connect business finance with formation and usage of money funds, flows, savings, sources of funds, financial resources, gross income, capital, reserves, means, etc., that is, what is obvious is polarity of views and opinions which leads to blurring the interpretation of this concept.

Foreign scientific literature and academic books on economy mean in their turn that business finance is basically finance of firms, corporations, companies, integrated business structures and the like [9, 10, 11, 12, 13, 14, 15, 16 and others].

According to Modigliani F. and M. Miller the capital structure of a firm is a matter of indifference; and that, consequently, one of the core problems of corporate finance – the problem of the optimal capital structure for a firm business – is no problem at all. It may be helpful, therefore, to clear up such possible misunderstandings [9].

Cheng F. Lee and Joseph E. Finnerty assume that finance is a field of knowledge uniting all other economic subjects and makes the center for integration of corporate structures which enables a broad definition of business activity [10].

Bodie Z. and Merton R. C. suppose that a company is an economic subject involved in production of goods and rendering of service.

Finance aimed at study of how a firm takes its financial decisions are called business or corporate finance, the main purpose of it is to estimate and analyze the amount of assets, manage risks, organize financial management and so on and so forth [11].

The taken review of terminological problems of defining the essence and meaning of the scientific term “business finance” showed that in this context there exist a great number of related terms, amply presented in national and foreign literature. All of them have right to exist and do not contradict each other, on the contrary, they complement each other, allowing to more deeply reveal socio-economic essence and meaning of the category under study. Pluralism of opinions and different points of view supplement each other and let take position of the appropriate scientific school in case of necessity and reasonableness of arguments.

This is connected with the fact that in conditions of Russian reality, the existing traditional system of economic (monetary, financial) relations of businesses with the state, legal entities and individuals have considerably complicated and elaborated owing to transformation of national economy being under strong influence of globalization and regionalization.

At the same time the concept of “a business” frequently coincides with the concept “economic agent” in scientific and academic literature. Many Russian and foreign researchers are unanimous in the opinion that an economic agent as a subject of economic relations is a basic element of financial system, the components of which are the state, companies, households and individuals.

However, what is often meant by the concept “economic agent” (or business, economic entity) is *enterprises, organizations, establishments, companies, firms* of various proprietary types and sometimes business proper.

Discussion of definitions of the concept “business finance” stirred up in scientific community, is mainly centered on distinguishing principles on which their activities are organized, the number of functions, qualitative features and boundaries of interaction with other economic subjects. What is not discussed is application and adaptation of financial science theories to practice, or demand for them, or consequences of their employment.

It is necessary to proceed with research in this regard as the transformations that took place in social and economic life of Russia, changed patterns of ownership as

well as priorities in collective interests of company workers because the representatives of those interests changed themselves. The quality and significance of business finance proper have changed as previous partnerships have been broken, new connections are being built, motivation of economic agents has graded, directions of the interaction have switched.

The area of current concern is to integrate various methods and concepts offered by financial theory with requirements of real sector in order to better quality of management, eliminate ineffective operation, secure diversification of production, enable to win leading position in this or that segment of the market represented by similar businesses according to private motives of owners, etc.

Functioning of public and regional budget systems is in direct correlation with financial stability of businesses. The higher is efficiency of their operation, the better and to the fullest social, cultural and other needs of society are met and theory of finance that is aimed at practical application can considerably facilitate those tasks.

Based on the above stated, what is offered to understand by “business finance” in scientific and academic literature is economic relations (including financial and monetary ones) arising from interaction with governmental and municipal bodies, legal entities and individuals in the course of formation, usage, distribution of money revenues and savings, during production and sale of goods, performing works or rendering services.

Without denying other existing points of view on the essence of the scientific concept “business finance”, we assume to think that the suggested definition reflects all properties characteristic to the category of “finance” proper and allows to treat the relationships arising between different economic subjects more systematically.

At the same time, from the point of view of methodology, it is advisable to put concepts “finances of economic agents, self-regulating subjects of economic sphere, enterprises, organizations, establishments, companies, firms, corporate enterprises, etc.” under the umbrella scientific concept “finance of economic agents”.

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