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CONCEPTUAL BASIS OF OPERATIONAL FINANCIAL MANAGEMENT ON SOCIALIST ECONOMY – A MARXIST THEORY PERSPECTIVE

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Abstract:
Financial management is an activity planning, budgeting, audit, management, control, search and storage of funds held by an organization or a company. The object of study of operational financial management is the financial category working capital, in which financial decisions materializes in short term. The theory of operational financial management focuses precisely in this category and the influence of proper management of its components on the risk and profitability of an organization. This research work is a theoretical analysis of the operational financial management from a Marxist perspective: the consistencies and inconsistencies exist between the major economic categories are identified; and they are reflected as the linkages between the cash cycle of financial management and operational phases of the industrial capital of Marxist theory. Finally, the validity and necessity of the application of the theory of operational financial management in a socialist economy is explained.

Keywords: working capital, cash cycle, phases of industrial capital, Marxist theory

1. Introduction

Today, the economic reality requires that the results of the business system are superior economically, with increasing levels of efficiency, effectiveness and productivity. In this sense, developing effective management of business finance as a key business management subsystem, it is an imperative. It is necessary to develop financial investigations in response to the great challenge of finding and applying new knowledge, tools and procedures that enhance financial management. Consequently, it is essential to introduce the instruments of microeconomic theory in business management, with special emphasis on the operational financial management as an essential part of corporate finance.

The instrument developed for the study of operational financial management in business careers is, in essence, heavily influenced by the neoclassical thought, which is mainly characterized by the replacement of the concepts of the labor theory of value by theory subjective value. Therefore, the application of the tools of operational financial management is only valid in a society building socialism, if it is preceded by a critical analysis that takes as a basis the Marxist Leninist.

Marxist foundation will allow to reveal the essence and therefore the course successful analysis and assessment on certain economic facts that are explained in the light of the use of non-Marxist categories, without affecting the economic and social foundations of the study and socialist practice, or nor the Marxist conception upon which the economic theory of building socialism. (Sanchez Noda, 2004, p. 134)

It is considered appropriate to base this work from the following thesis: the essence of the theory of operational and financial management consonances there are contradictions regarding the Marxist conception. The technical literature - from classical to the most modern - has not delved into this direction. The aim of this paper is to analyze the conceptual basis of the theory of operational financial management from the Marxist theoretical perspective.

1.1 Relations between categories of operational financial management and Leninist Marxist political economy

In different periods of historical development of finance, we have developed research on the operational financial management, and particularly their fundamental category: working capital. To properly address the conceptual basis of the theory of operational financial management and its relationship to Marxist-Leninist political economy is necessary to contextualize it in two perspectives: technical discipline and school of economic thought to which it belongs.

From a technical perspective, finances and discipline are a body of principles, theories and empirical findings related to the generation and localization of financial resources (which means making decisions regarding cash flows on the basis of the financial environment, government finance and corporate finance). It is in the context of the organization where financial management, which is framed and the theory of financial management operational legitimate develops.

From the point of view of the school of economic thought, it is wise to recognize that the instruments developed for the operational financial management has had as a backdrop the enterprise economy and, specifically, financial science, which found strongly influenced by the economy neoclassical, emerged in the second half of the nineteenth century.

"*Despite the changes since that time can be said without exaggeration that the core of the neoclassical contribution remains to this day, having become an integral part of the theoretical body of economic science*"

(Sabino, 1991, p. 215)

The neoclassical school has developed an economic approach based on the marginal analysis, and has favored the explanation of the phenomena with mathematical and statistical view. Their analysis is based on the role of human subjectivity in the process of creating value, so that the concepts of the labor theory of value are replaced by the theory of subjective value. Some of the most notable followers and theorists of financial theory currently taught in undergraduate and graduate in Cuban universities and the most recognized worldwide, among which are: Gitman (1986); Brealey and Myers (1993); Weston and Brigham (1994) -, like other economists more recent generations, have a great influence of neoclassical economics.

The operational financial management is a function of financial management consisting of planning, organizing, directing and controlling the economic activities that generate cash flows because of current investment and financing required to sustain this investment, from taking short-term financial decisions. All with the goal of achieving stability in the risk / return binomial and, ultimately, contribute to the organization of wealth maximization.

The object of study of operational financial management is the financial category working capital, in which financial decisions materializes in short term. The theory of operational financial management focuses precisely in this category and the influence of proper management of its components on the risk and profitability of an organization. In this sense, identify the relationships among financial categories and Marxist categories, and establish links between them in form and content. Key financial categories of operational financial management to analyze from the Marxist Leninist logic are: working capital associated with the investment in current assets, risk associated with liquidity, and hence, the development cycle cash- and profitability associated with the ability to generate performance. The working capital category has been used by accountants, administrators and researchers in two main directions. The basic definition refers to working capital and the investment made in current assets. This definition explains the interest from the point of view of financial management to address the current investment provided to support the operations of the organization, its correct levels and the impact of financial policies in the short and long term. This definition takes into account also that in current assets generated funding to carry out the operations cycle materializes; this is current assets is the material expression of self-financing and / or alien used to form the current economic structure of an organization.

Another definition refers to working capital and surplus of current assets over current liabilities, which corresponds to the portion of current assets financed with long-term funds (ie long-term liabilities and equity). This is an approach that assumes that the working capital is affected only by the daily economic transactions carried out in an organization (purchases, sales, receipts, payments), without recognizing that they must contribute to a financial policy with impact beyond the short term.

At this point, some relationship between current assets and the Marxist definition of working capital could be established. The fundamental distinction of working capital lies in the nature of their rotation, which is performed several times with respect to a rotation of fixed capital. The disbursement of the capital invested in working capital is renewed for shorter periods.

Thus, the components of working capital:

> *"…are entirely consumed in each working process they enter and must be replenished, therefore, fully and with new copies of the same kind in each new work process*"
>
> (Marx, 1973, vol. II, p. 149)

Marx (1973, Vol. II) emphasizes that:

> *"…the value of working capital [...] only comes on for the time during which the product is made. This value is fully incorporated into the product and therefore to sell this, returns whole circulation, and can thus be disbursed again…"*
>
> (p. 156)

The current asset corresponds to the Marxist classification of working capital in one of its points: the nature of the rotation. However, the classification of Marx does not match the other point, that is, not all current assets completely consumed or transfer their value to the new product created in a production cycle. The most representative accounts of current assets from an accounting perspective are financial: inventory, accounts receivable and cash; which, by developing the above-mentioned cycle they will progress to a higher form. The inventory is necessary in the process of production and sales of an organization; it is considered as an investment, while cash outlay required to generate a return in the short term (Gitman, 1986). They primarily include raw materials, materials and finished products. From accounting and financial analysis, raw materials comprise purchased items that represent basic materials for operational activity. This approach corresponds to the Marxist approach, identifying objects work as those who work transformed during production and are used to create material goods. Therefore, raw materials and inventory as part of current assets are: productive capital, working capital and work objects. For its part, the materials are those parts and any other auxiliary material that stand between labor and raw materials; They are needed to develop the transformative process on the work object and are denominated in the Marxist-Leninist as "*means of labor*" theory. However, materials last longer than raw materials because they last several rotations and can be used in various production processes.

Therefore, the materials as part of the inventory and current assets are: productive capital, fixed capital and working media. Inventories of finished products meet those items that have been produced for sale. From Marxist analysis, inventories of finished products find their counterpart in the Marxist category of goods, which is the result of work and targets the change from buying and selling process.

The commodity has use value and value. The inventory of finished goods (or goods) is commercial capital, which is one functional form of capital manifested in commodities produced sold. It describes the anticipated value of initial shape and goodwill, which the new value is created by the labor of the worker above the value of the labor force, which the capitalist appropriates fee is included. For this reason:

> *"…the product is not simply a commodity but a commodity pregnant with surplus value"*
>
> (Marx, 1973, vol. II, p. 39)

The sale of the finished product or merchandise requires the launch of commercial capital to the sphere of circulation, which, when undertaken, will become accounts receivable or cash. Accounts receivable represent the rights of the organization against debtors for unpaid bills in cash. Marxist analysis (as well as financial criteria) states that:

"…to develop the movement of goods, a number of factors that chronologically separate sale of a commodity for conducting price stand."

(Marx, 1973, vol. II, p. 99)

At this time, one of the owners of commodities sells goods that already exist, while the other simply purchase as representative of money, or as representative of future money. The seller becomes a creditor, the debtor buyer. As here the metamorphosis of the commodity, or the development of their form of value, moves, money takes on a different function. It becomes a means of payment. (Marx, 1973, Vol. I, p. 99)

In this situation, the money serves two functions: as a measure of value (in determining the price of goods sold) and as a means of payment.

"It is beating the deadline for payment when the payment method enters really outstanding, that is, when it passes from the hands of the buyer at the hands of the seller"

(Marx, 1973, Vol. I, p. 100)

This is true assuming that the deadline payment is made. From the accounting and financial perspective, accounts receivable -at usually carried out in a period no longer than a year are to become effective. From the Marxist perspective, the cash used to acquire other assets, and against which payments are rotated, is money capital (which is embodied in those initiators monetary means the circuit of capital used in the acquisition of means of production and force work, to start a new production cycle and ensure the subsequent creation of surplus value). The purchase of production factors makes money constitutes money capital. This cash or money capital performs the function of means of circulation, to act as intermediary in the process of movement of goods.

This process began with cash also concludes with cash (end of the first metamorphosis of the commodity); but these initial cash-the final- and are distinguished by the difference in magnitude (DM-D '). Accordingly, at the time the collection of accounts receivable the organization manages to enter-and see materialized in his account of income- the capital initially advance, in addition to an increase (or surplus) constitutes goodwill. Given both the Marxist analysis and financial theory, it should be noted that money is the starting point and end of any process of recovery.

"Buy to sell, or more precisely, buy to sell more expensive (DM-D ') seems at first glance as if it were only the very formula of a form of capital, merchant capital but is not so. Industrial capital it is also money becomes a commodity, to become once again more money through the sale of that"

(Marx, 1973, Vol. I, p. 118)

Financial accounting accounts are the general categories that are part of working capital. It can be said that there is some relationship between their definitions with Marxist-Leninist categories. However, the accounting and financial perspective does not include between current assets Marxist labor category; ie, the labor force has no direct representation in working capital accounts (although they do have in current liabilities in the form of accrued liabilities and specifically on wages payable).

Finally, working capital depends heavily on the relationship between the amount of inventory investment, credit terms granted to customers who generate accounts receivable, and their realization in cash. These relationships, expressed in time, are integrated into its dynamics in the financial category cash cycle.

2. Correspondences between the cash cycle and the cycle of money capital

The cash cycle is the "period of time between the actual cash expenditures the company incurred to pay (materials and labor) productive resources and cash inflows from the sale of products" (Weston and Brigham 1994, p. 460). The cash cycle theory of financial management finds similarities with the cycle of money capital of Marxist-Leninist political economy. The starting point and end-point of each of these cycles is money. The process of "*buy to sell*" is organized in operational finance, in four economic transactions (credit purchase of raw materials, materials and labor, paying bills and salaries payable, credit sales of finished products; and collection of accounts receivable credit sales), and is divided into three cycles: payment cycle, cycle inventory, and billing cycle.

2.1 Payment cycle (first phase)

The financial criteria teaches that the economic operation constitutes the starting point of the cash cycle is the acquisition of raw materials, materials and labor, which involves market competition to buy them. Is called payment cycle time lag between economic transactions (credit purchase of raw materials, materials and labor) and paying bills and salaries payable.

According to Marx (1973, Vol. II), the first phase cycle of money capital (DM) "*represents the investment of a sum of money in a sum of commodities*" (p. 28). "*These goods are, in part, means of production, otherwise, workforce, ie, the material and personal factors of production of goods*" (p. 29). It is in this process where the money capital becomes productive capital, "*Capital endowed with the property of creating value and surplus value*"

(p. 30). As capital money, money assumes the functions of general means of purchase, and general means of payment (keep in mind that both the labor force and raw materials and materials are paid after being employed). The financial criteria and Marxist agree on the idea that this first phase is:

> *"…the transformation of the capital value of its money forms their productive or form, more concisely, the conversion of money capital into productive capital"*
>
> (Marx, 1973, vol. II, p. 30)

The matching criteria lies in the function of capital employed, and are to unify the necessary measures to develop production and preparing the process of creating surplus conditions.

2.2 Inventory cycle (second phase)

The operational financial management sets the transformation of raw materials and materials into finished products ready for sale -a from a process of production as a second stage of the cash cycle products. The time between economic transactions (credit purchase raw materials and materials, and credit sales of finished products) is called inventory cycle. Marxist analysis explains that it is at this stage where capital takes function of productive capital: leaves the sphere of circulation to move into the sphere of production. At this stage, the productive consumption of goods initially acquired takes place. Consequently, new goods are obtained with higher value initially paid capital: it is, as has been said, of a commodity "*fraught with goodwill*". It is here, in the inventory cycle, where the new value is created.

2.3 Billing cycle (third phase)

The billing cycle is considered by financial theory as third stage of the cash cycle, and refers to the time lag between economic transactions: credit sales of finished goods and collection of credit sales. This cycle requires the concurrence the market for selling new merchandise produced by the organization and collection of this sale; therefore, when the inflow of cash to the organization ends this cycle occurs.

Marxist analysis states that in this phase which moves from the sphere of production to the sphere of circulation-there is a return to the market for the sale of goods, which have a higher value than value original advance. When done merchant capital, there is a transformation into the form of money, but not simply as money, but as valued value. In this sense, says Marx (1973, t II.): *"D 'capital has returned to its original form, D, in the form of money, but in a way that has been done and as capital"* (p. 43). And later: (p. 45) "*by operating M'-D 'is both the value of paid-up capital as capital gains realized*".

2.4 Cash cycle (cycle of capital as a whole)

The analysis of the three components cycles cash cycle in its relationship with the three phases of the industrial capital, separate cycle leads to the conclusion, from an overview, there is correspondence between the cash cycle addressed in the theoretical foundations of operational finance and the cycle of money capital of the Marxist perspective. Both cycles (cash and industrial capital) begin and end with money; but at the end of the process, the money just recovered "*industrial capital in its money form, as money capital, is the starting point and the return point of the process as a whole*" (Marx, 1973, vol II, p. . 54). The three forms of capital form an indissoluble unit, which performs a cyclical movement capable of transforming capital from one form to another. This cyclical movement of cash (or cash conversion cycle) is determined, from a financial perspective, from subtracting the total payment cycle operating cycle. This could be summarized by the following formula:

$$E = I + C - P$$

Where:
E = cash cycle
I = inventory cycle
C = billing cycle
P = payment cycle

This concept of the cash cycle coincides with the concept of the industrial capital cycle approached by Marx (1973, t II.), When he says:

> *The movement of capital through the sphere of production and the two phases of the sphere of circulation is made, as we have seen, in succession over time. The time remaining in the sphere of production is the production time, which remains in the sphere of circulation, circulation time. Therefore, the total time it takes to describe their cycle equals the sum of the two: the production time over the circulation time.*
>
> (P. 115)

What distinguishes the cash cycle of industrial capital cycle is that the former assumes that the purchase is necessary to prepare the production process is carried out jarringly derogatory in relation to the payment of accounts. This causes, at the time the purchase on credit, the organization has available the material and personal factors and make use of them, even if you have not paid the price for your cash. If, for example, the purchase is made in cash, the payment cycle is canceled and the conversion cycle of cash equal to operating or cycle, equals the inventory cycle (production time) plus the billing cycle (circulation time). That is not only interested in the anticipated capital and provide added value that the cycle is repeated repeatedly, but also requires that this surplus is obtained more frequently. Then it states that one of the two determining appropriate operational objectives for financial management is to minimize the risk (ie, increase or decrease the effective rotational cash cycle). However, an inconsistency between the financial criteria and Marxist observed: the first does not address the creation of value in the sphere of production. By the way the accounting and financial information is generated, it is explicit in this perspective that the value is created in the sphere of circulation. This is a notion that ignores that "the alteration of value is unique to the metamorphosis P, the production process, which appears therefore as the real metamorphosis of capital, unlike the metamorphoses of circulation, which are metamorphosis purely formal "(Marx, 1973, vol. II, p. 50). Finance theorists see what appears on the surface: the valorization of capital not in production, but in circulation.

2.5 The importance of operational financial management in an economy in transition to socialism

Even if the theory of financial management operational -and his tools was conceived in the framework of bourgeois economy to avoid contradictions, it should be implemented in a society building socialism with the relevant Marxist critical analysis that allows applications creative in terms of social benefit. In this regard, Morales Dominguez (2004) states:

> *From the perspective of its ideological function of bourgeois political economy it cannot be never assimilated into a process of socialist construction; but from the point of view of its practical function itself; on the basis of a Marxist theoretical perspective that takes the instrumental capacity bourgeois political economy has developed to make capitalism work, and translated into the development of tools for building socialism.*
>
> (P. 169)

It is important to note that in socialist society the state is the apparatus that takes responsibility or realization of common interest, and acts as a subject of economic and financial management. In its role as custodian of resources, decisions on those considered "*scarce*".

Working capital, as part of industrial-capital plays an important economic role from a financial point of view and Marxist: is an essential good in the exercise of production that allows the creation of products and services with certain value. The purpose of financial management is to take short-term decisions to seek appropriate levels of risk and return, to favor the maximization of wealth. This translates into direct contribution to the efficiency, productivity and economic development of the organization, essential elements in the current context of the Cuban economy, which it calls to achieve effective and organized companies.

This requires raising responsibilities for control of resources, and make decisions on working capital able to liquidate or transform companies unable to keep a sufficient level (PCC, 2011). Therefore, the operational (or working capital) financial management becomes an instrument for obtaining better results in economic and financial order. From the financial point of view, the proper management of working capital results in its contribution to business development, liquidity and profitability.

Net profits after tax payment obtained will have two specific purposes: retention to carry out the process of growth and sustained development of the organization; or their distribution as dividends to the owners of the organization. Moreover, from the Marxist-Leninist analysis the objective for which a portion of the profits of an organization is related to the extended socialist reproduction, ie, with the constant resumption of production and development factor is retained material and personnel involved in it in a planned manner. In order to ensure the overall development of members of society, the basis is the social ownership of the means of production.

3. Conclusions

The study of operational financial management Marxist approach shows that his theory is supported by neoclassical economics, which recognizes diverse factors as creators of value: in this case, the assets as a factor with the ability to create value for themselves; which it is in contradiction with the labor value theory, and reveals the fetishism approached by K. Marx.

There is agreement on the criterion of theoretical finance and Marxist on the idea that the speed of rotation of cash or capital positively influences the performance or obtaining capital appreciation. The divergence is that the finance theorists see what appears on the surface: the valorization of capital not in production, but in circulation.
The operational financial management is a tool that seeks to improve the business, which can cause a positive impact on the state budget by increasing national income economic efficiency. In the construction of socialism, the positive impact is aimed at maintaining and raising standards of social justice that characterize the system.

The application of the theory and tools of operational financial management is successful in the context of a society building socialism, but it must be preceded by a critical analysis of its objective and an assessment on how their results translate economic and social economic development of the country and the overall development of members of society contribution.

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