

Financial Management Decisions in Newspaper Industry in Bangladesh: A Case of the Daily Prothom Alo

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Abstract: Being a vital and promising sector the newsstudy industry of Bangladesh should handle the decisions relating to financial management properly for its long term viability. Realizing the needs the study aims at analyzing the financial management decisions of the Daily Prothom – Alo. To get an insight the financial decisions of the year 2002 and 2003 were evaluated. After analyzing the data it is evident that the newsstudy does not look upon the financial decisions properly. But it is a fact that the newsstudy is one of the most circulated daily in Bangladesh. So, to keep the tempo up of its business growth the Daily Prothom – Alo has to look upon the all kinds of financial management decisions with a business outlook.

Key words: Financial management decisions, Profitability, Working capital management, Financial reporting

Introduction

Financial management is concerned with the financial decision making and other financial aspects of an enterprise or institutions. Thus, it involves financial planning and control, co-ordination and facilitation, financial merger and combination, insurance and tax management etc. It is an important aspect amongst the various aspect of management viz., purchase, procurement, sales/marketing, personnel, general management etc. Rather, it is the core of management of an enterprise whether manufacturing, trading, service rendering, educational institutions and the like. For an efficient and a successful financial management, it is necessary to perform the finance functions as effectively as possible. Finance functions are involved in the procurement of funds, utilization of funds and custody and safe-keeping of funds to fulfill the desired goals of the enterprises (Houque, 1987). So, an effective financial management is important not only in business organization but also for non profit organization like newspapers.

Media, especially print media, in Bangladesh has always played a very significant role in shaping the country's social, economic and most importantly political culture. Until so long ago, newspapers have been the only source of information for the people and the dailies tried to meet to their expectations all the time. But recently, other media outlets, mainly private television channels have become a major source of information. Though that doesn't diminish the importance of dailies, which could be proven by the arrivals of new dailies every year (BCDJC, 2004). So undoubtedly, newspaper is an important and influential media in Bangladesh. With the increasing popularity of satellite channels the number of the reader of newspaper has also been increasing. So, now there is a tendency of the big businessmen of Bangladesh to invest in the newspaper industry.

The investors of this sector now are not only giving concentration on the service but also profit. So managing the newspaper industry is now a challenging job. It may be argued that the newspaper industry is a service industry whose prime objective is to disseminate news, analyze events objectively, and molding public opinion to promote community welfare, national aspirations and economic progress. So the problem for newspaper management is exercising judgment and pursuing managerial policies to maintain business profits while providing public services (Sindhawani, 1979). In managing any organization the importance of the financial management decisions is immense and newspaper industry is not an exception. The newspaper industry, as a vital media, has to look into the matters relating to financial decisions with utmost sincerity. Because "A newspaper is one of the few consumer items planned to sell below its cost of production. Its dual-market economy enables it to be sold below its cost and still make a profit (Sindhawani, *ibid*).

Without proper utilization and accounting of money any institution is always under threat of its existence. This is very much true for the newspaper industry. Because, the newspaper can't perform its duty with a threat of its existence. As Rescoe Ellard says, "It isn't how much money the newspapers have to work with, but what they decide to use the money for, that counts. Wise investment leads to good editorial products" (Williams, 1978). Financial management is like mirror of any organization. Newspaper managers can be able to know about the whole newspaper with the help of financial management. It helps in his decision making and planning.

Objective of the Study: The main objective of the study is to evaluate the present financial management decision practices of the daily Prothom Alo. To achieve the main objective, the study covers the following specific objectives

To examine the financing decision of the daily during the period 2002-2003;

To get an idea about the investment decisions of the news paper under study.

To know the working capital management practices of the Prothom Alo

To examine the financial reporting practices as well as the profitability of the Prothom Alo.

To suggest measures as to the overall improvement of the financial management decisions of the daily.

Materials and Methods

The sample was selected purposively. Data were collected from annual financial statements of the daily Prothom Alo. The study covers a period of 2002 and 2003 financial years. Secondary data were collected from various journals, books for literature review.

Limitations of the Study: The financial information is very much confidential for any organization in this competitive market. It is also true for the newspaper. Under this situation, the study was conducted with scarcity of available data from the daily Prothom Alo as they keep all their financial record. The literature survey revealed that there is a scanty research work on this aspect of non-business organization particularly in case of newspaper industry in our country.

Newspaper Industry in Bangladesh: The newspaper industry in Bangladesh is becoming a profitable sector over time. Although the main thrust of the newspaper is to provide service but investors also seek to make profit or at least to get back their investment. In Bangladesh, since investment in newspaper now has been recognized as profitable one, so the big business firms of the country like Transcom Group, Beximco, Jamuna Group and Janakantha - Globe Group has invested in this sector. The businessmen are increasingly getting more interested in newspaper publication, realizing the power of the press. They are also buying newspapers and magazines which are not economically viable. As a result, concentration, rather than diversification, is gradually becoming the trend of the day. Newspaper industry is still developing in our country. Except a very few, most of Bangladeshi newspaper are published by big business houses. So it can be safely said that they have a good financial support. Some of the newspapers are published with political backing. This political support makes them financially solvent. With this background, one can't deny that the newspaper industry in Bangladesh is not so weak (Country Report: BFUNPW). After the mass upsurge of 1991 the newspaper industry got a momentum. With the abolition of some articles of the Special Power Act of 1974. The freedom of the press got a new dimension and a record number of newspapers and periodicals representing different shades of opinion were brought out during the 1990s. From that time most of the newly published newspapers have been publishing from the big business companies, as The Ajker Kagoj from the business house of Kazi Shahed Ahamed, The Independent from Beximco, The Daily Prothom Alo and Daily Star from Media World of Transcom Group, Daily Bhorer Kagoj from Karnafuli Group, Daily Jonokantha from Globe – Janakantha Group and the Daily Jugantar from Jamuna Group. According to an answer of State Minister for Youth and Sports Fazlur Rahman on behalf of the Information Minister to the Parliament, a total of 496 dailies are published from the whole country and 198 dailies are published from the capital. Despite the growth in the newspaper industry, especially in terms of number of publications, the financial position of almost agency does not appear to be good. Only a few, may be twenty or so, out of those nine hundred newspaper, are making profits (BCDJC:ibid). The newspapers are privately owned. Sometime back two dailies, the Bangladesh Times and Dainik Bangla were owned by the government and run by a board of trustees appointed by the government. The trust has been abolished and the government owns no newspaper (Parvin, 1999).

Although over 1,800 dailies and periodicals are published in the country, only about 15% of the population read a newspaper /periodicals once a week. The readership in the urban areas is comparatively higher at about 32%, while the rate in the rural areas, especially among rural women, is very low- only about 2%. (Rahman, 2003). As for circulation, the dailies claim to sell a total of 21, 23,752 copies countrywide and 64,122 copies in Dhaka city (Parvin, ibid).

Description of the Prothom Alo: A new Bengali daily the Prothom Alo is publishing from Dhaka City. The paper began to publish from November 4, 1998 with Matiur Rahamn as its Editor. The publisher of the daily's is Mahfuz Anam who also an editor of the leading English daily of Bangladesh the Daily Star. In the beginning, the paper started as a partnership venture and in 2000 it turned to a public limited company. The study is published from the Media World, a sister concern of leading business house of Bangladesh Transcom Group. Although it is a common feature for the Bangladeshi media to become biased, the Prothom Alo maintains neutrality in treating news, features editorial. So in the vast array of Bangladeshi newsstudys, The Prothom Alo occupies a unique position.

The Prothom Alo enjoys a reputation of being intensely independent in its opinion and thoroughly accurate in its facts. It produces the best possible news and views for a very demanding audience. To serve the reader the Prothom Alo maintains a brilliant reporter everywhere. More than any other newspaper, the Prothom Alo exercise tremendous impact on Bangladeshi political life. Everyday these newspapers have more comprehensive coverage. It publishes exclusive news stories and distinguished opinion pieces. So the circulation of the study is increasing day by day. It is now second highest circulated daily newspaper in Bangladesh. According to statement made in the parliament in early July 2002 by incumbent Information Minister Tariqul Islam, Daily Jugantor topped the circulation list with 2,70,000 readership (31.6%) followed by Prothom Alo 2,23,000 readership (29.9%)(BCDJC, 2004). Although it is the

government data but Prothom Alo claims it is the highest circulated daily in Bangladesh and it obtained the position within two years of its' journey. "It was possible to become the top circulated newspaper of Bangladesh within two years of its publication. It is a unique example in Bangladesh" (Sharif, 2000). The Prothom Alo offering readers articles and features that cover wide range of interest. Most evident is the extensive news coverage records international, national and local events.

Results and Discussions

Investment Decisions of the Prothom Alo: Although investment decisions covers a wide range of issue, the central focus is on the selection of assets to be held by the firms as it attempt to generate future cash flows (Jones, 1992). As the fund provided by the owner is costly and for its survival profitable investment is must and should be guided by different investment techniques. As a newspaper firm The Prothom Alo must invest in both in current asset for smooth running of day to day operation and in long term asset (equipment, machinery, plant, building etc) for providing adequate return to the capital suppliers. It is evident form the balance sheet of The Prothom Alo that in the year 2002 the fixed asset (Tk. 98, 97,092) was composed of only 19 percent of total asset and in 2003 it was only 10.39 percent of total asset(Tk.6,52,30,012). The composition of the fixed asset of the Prothom-Alo are computers, printers, scanners, printing accessories, camera, office equipment, air cooler, furniture and fixture, books and references etc.

Financing Decisions of the Prothom Alo: Once any firm has identified its profitable investment for generating future cash flows then it search for funds for financing it. In taking decision, the firm should consider certain things like mix of financing, return vis-à-vis its cost of project, risk etc. As we know debt is the least cost means of finance as interest on debt is a tax-deductible items but it also puts additional risk to the owners as failing to pay it ultimately leads to bankruptcy. Newspaper industry may be financed through different ways: Straight Mortgage, Corporation Bond, Life Insurance, Bank Loan, Common Stock, Preferred Stock etc. In case of straight mortgage on property the principal due for payment in a fixed numbers of years and interest accruing at an annual rate. Mortgage bonds have fixed coupon rate and having fixed maturity period. The Chicago, Ill, Daily News issued \$8 million in Mortgage Bonds at one time. Preferred Stock has no voting power. Issuing corporations is another favorite method of financing the activities of newspaper but rarely offered for sale as it has voting rights. Analysis of the sources of funds of The Prothom Alo reveals the fact that there has been a high dependence of the internal sources. In the year 2002 the capital structure were composed of 90 percent share capital provided by the founder company and only 10 percent was the long term loan. But in the year 2003 the share capital was the only items of capital structure. The times interest earned ratio of The Prothom Alo which measures the interest paying ability was quite satisfactory. It was almost 8 times in the year 2002 and 26 times in the year 2003.

The table below shows the working capital indicators of The Prothom Alo:

Year Ratio	2002	2003
Current Ratio	0.60:1	0.99:1
Cash Ratio	0.50:1	0.40:1
Net Working Capital Ratio	(0.40)	(0.90)
Inventory Turnover Ratio	39.42 Times	49.06 times

Working Capital Management Practices in The Prothom Alo: It is said that working capital is the lifeblood of the firm (Frederick C.Scherr, 1989) so effective management of working capital is required to preserve the financial health of the company.

The above ratios reveal the poor working capital management of the Prothom Alo. Current ratio indicates the liquidity position as well as ability to meet its current obligations of the firm. Both in 2002 and 2003 the current ratio was not only below the ideal industry average (2:1) but also unsatisfactory. In the year 2002 the current ratio is 0.60:1 means that the Prothom Alo had Tk 0.60 of current asset per taka of current liability. The liquidity position had improved slightly in 2003 from 2002. Cash is the most liquid asset. In the year 2002 the firm maintained Tk 0.50 as cash per taka of current liabilities but Tk 0.40 as cash per taka of current liabilities in the year 2003. The net working capital ratio in the both year was negative. So the Prothom Alo should hold more current assets like cash, inventory for increasing its liquidity as well as short run liabilities paying ability.

Inventory turnover ratio shows the effectiveness of inventory management. Low turnover ratio may result form excessive inventory levels, the presence of damaged or obsolete inventory, or unexpectedly low levels of sales (Jones:ibid:).On the contrary abnormally high inventory turnover may indicate poor inventory levels so that chance of stockouts is high and the production process may interrupt. The standard inventory turnover ratio is 8 times. The inventory turnover ratio of the Prothom Alo was 39.42 times in the year 2002 and 49 times in the year 2003. So it indicates that Prothom Alo was maintaining inadequate amount of stock of newsprint in both years that could not support high demand of newspaper.

Profitability of The Prothom Alo: Profitability is the ultimate outcomes of firms operations. A firm should make profit for its self-dependence and for survival. The Prothom Alo being a spokesman of the general public should be self-reliant not only for its survival but also for proving the readers with free flow of information and not to use by the other end. It is evident from the Profit and Loss accounts of the Prothom Alo that in the 2003 the profit after income tax was Tk.95,401,979 and in the year 2002 Tk.60,650,117 but after considering accumulated loss of the previous year the profit Fig. turns to negative. In terms of profitability (excluding the previous year accumulated loss); the profit margin ratio in the year 2003 and 2002 was 15.5% and 12.6% respectively. Return on Asset (ROA) was 96.88% in the year 2003 and 116.50% in the year 2002. For make up the accumulated losses the Prothom Alo has two options open. Firstly, increasing the revenue through increasing the circulation and advertisement and secondly, reducing the operating and other administrative cost without sacrificing quality. As newspaper industry is very much competitive as well as the selling prices is determined by the central authority so Prothom Alo can generate more revenue by increasing the circulation without raising the price of it. In this respect they can adopt some marketing policies like advertisement in various media, recruiting sales agent, establishing offices in various parts of country for gather news and local advertisement etc. At the same time budgetary control may also be established. The management should set the ceiling for expenditure for the person authorized to spend.

Financial Reporting Practices of The Prothom Alo: The management information system, today, has become inevitable to any organization due to the fact that organization cannot achieve their goals and objectives without the tools of management (Prasad and Rao: 1989). Financial reports like Balance Sheet, Profit and Loss Account, Statement of Retained Earnings used as tools for effective decision making and control. Besides, a newspaper firm has several stakeholders like readers, owners, tax authority etc. For proving them adequate financial information the firms should prepare a set of financial reports containing enough discloser and footnotes. Reporting practices or discloser of statutory accounts in Bangladesh is regulated by laws. Two important laws that govern the forms and content of report are i) The Company Act, 1994 ii) SEC Rules 1987. Besides, discloser of statutory accounts in Bangladesh is also guided by International Accounting Standards (IASs) as adopted by Institute of Chartered Accountants of Bangladesh (ICAB). Discloser of statutory accounts should also be made according to the IAS-1(Jahur and Nahian: 2000).

The Prothom Alo reports their financial performance mainly through Balance Sheet, Profit and Loss account and Cash Flow statement. It is also found that though the heading was Balance Sheet but it was basically a sources and uses of fund statement where enough disclosure was absent. The items in those statements were also not arranged properly as per guiding rules.

In view of the study of financial management decisions of the Prothom-Alo the following recommendations can be offered:

For taking benefit of competitive edge the Prothom Alo should invest more in printing machineries for low means and high quality production, in communication technologies (Telephone, Fax, Internet) for getting the local and international news in time and in delivering vehicles for reaching the news paper to the ultimate readers well ahead of time. The Prothom Alo should have own office building for its image development and to let readers know that they have plan to stay in business for long.

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The management should strengthen the capital base of the Prothom Alo by taking more debt in its capital structure.

The liquidity position of the Prothom-Alo should be improved by holding more of current assets.

The management of Prothom Alo should create buffer stock of newsprint inventory to prevent it from possible production interruption and to support increasing demand of The Prothom-Alo.

Internal cost control system and performance budget should be introduced.

It is suggested that the Prothom Alo should prepare their financial reports as per International Accounting Standards (IASs). It will certainly help them to generate more information instantly for taking prompt decisions and effective control.

Wastages of Newsprint inventory should be reduced (now it is almost 7%).

Conclusions

The financial management has always been important in the management of an institutions, whether public or private, profit making or philanthropic. The profitability and stability of any enterprise depends upon the manner the finance functions are performed and other related business functions. From the overall analysis of the financial management activities through ratio's it has found that finance function in most cases in The Prothom Alo has not been carried out effectively though there have ample opportunities for improvement. Lower means of production should be adopted for lowering per unit cost and enjoying competitive advantages. Improved marketing strategies, internal control and auditing, minimum wastages, optimum holding of newsprints, efficient asset management and payment system are

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also required for the Prothom Alo to serve the readers with free, fair and impartial news and the owners with adequate returns and also to uphold the slogan "Ja Kisu Bhala Tar Sate Prothom Alo (Prothom – Alo with all good things)".

Annexure 1: Projected Balance Sheet for the year ended 31st December 2003

Particulars	2003 (Tk)	2002 (Tk)
Sources of Fund	75,000,000	75,000,000
Shareholders Equity: Share Capital Long Term Loan		8,374,576
Total	75,000,000	83,374,576
Application of Fund		
Fixed Assets:		
At Cost	17,806,609	15,698,609
Accumulated Depreciation	7,576,597	5,801,517
	-----	-----
	10,230,012	9,897,092
Long Term Investment	55,000,000	70,545
Preliminary Expenses		
Current Assets		
Stock of News Print	7,578,853	7,465,429
Advance and Deposits	8,819,617	42,103,467
Cash and Bank Balances	33,168,953	42,103,467
Less Current Liabilities		
Bank Overdraft	1,311,669	6,523,664
Short term Loan	7,122,223	22,349,437
Medium Term Loan	-	10,000,000
Security Deposit Received	3,670,392	3,570,392
Payable for Printing	8,296,204	22,349,437
Liabilities for Goods	5,122,223	7,289,357
Liabilities for Expenses	7,868,680	6,505,109
	-----	-----
	33,391,390	70,573,619
Net Current Assets	(222,436)	(28,470,152)
Total	65,078,121	(18,502,515)
Profit and Loss Account	9,921,879	105,323,857
Total	75,000,000	83,374,576

Annexure 2: Projected Profit and Loss Account for the year ended 2003

	2003 (Tk)	2002 (Tk)
Revenue		
Circulation	368,866,999	294,264,214
Advertisement	237,242,975	177,272,984
Wastage and Unsold	10,158,240	9,747,897
Total Revenue	616,268,214	481,284,095
Cost of Revenue	496,300,006	36,014,768
Gross Profit/(Loss)	-----	-----
	146,968,208	113,270,327
Less: Administrative, Selling and General Expense	51,994,035	46,865,395
Financial Expenses	3,531,195	9,865,395
	-----	-----
	55,525,230	56,146,303
Operating Profit/(Loss)	91,442,979	57,124,024
Non Operating Income	3,959,000	3,526,093
Profit/(Loss) Before Income Tax	95,401,979	60,650,117
Provision for Income Tax	-	-
Profit/(Loss) After Income Tax	95,401,979	60,650,117
Accumulated Loss Brought Forward	(105,323,857)	(165,973,974)
Accumulated Loss Carried Forward	(9,921,879)	(105,323,857)

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Projected Cost of Revenue For The Year 2003

Particulars	Total-2003	Total-2002
Cost of Revenue		
News Print Consumed	330,565,027	257,784,978
Printing Cost	101,582,400	76,474,784
Binding and Cutting Expenses	2,183,760	2,144,443
Processing Expenses	1,016,340	908,071
News and Photo Service	1,527,000	1,427,199
Lines and Photo Service	3,978,000	3,170,117
Writers Honorarium	3,829,824	3,736,412
Salaries and Allowances	21,220,469	19,845,823
Festival Bonus	1,770,000	1,493,304
Overtime and Night Allowances	934,546	900,314
Gratuity Benefit	446,040	-
Recreation Leave	246,600	129,320
Total Cost of Revenue	469,300,006	368,014,768

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