

ESSENCE AND MAINTENANCE OF FINANCIAL MANAGEMENT AS MANAGEMENT SYSTEM OF ENTERPRISE FINANCE

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The place of financial management in the system of economic sciences, maintenance and essence of financial management, principles of management of the enterprise finance is considered in the article. The main objective and sub-goals of financial management are defined. The mechanism of management process of finances on the basis of feed-forward and feedback of information connection is presented. There are summed up the importance of the accounting-analytical information for objectives of analysis in system of financial management.

In a system of economic sciences financial management, marked out in independent area of special knowledge, is based on management as on science, collecting its basic features and methods and has an administrative and financial orientation, i.e. financial management widely uses knowledge of many economic sciences. There is enterprise finance, financially - economic analysis, economic-mathematical modeling, accounting, administrative accounting, statistics, pricing, credits, insurance, the taxation and other elements of these disciplines are components of knowledge on financial management. Intertwining, mutually adding to each other, they have created qualitatively a new discipline, capable of solving management tasks of such level, which are beyond the power for each of them separately.

The law of cost regulation in the market economy, and financial relations frame all process of reproduction at the enterprises and all economic relations. Therefore the financial management is the main component of the general management system of enterprise.

Financial management is management process by money turnover, formation and use of financial resources of the organization. It is an integral part of the general management system of the enterprise and represents as system of rational management of economic activities financing process of the enterprise which in turn includes movement of financial resources and formation of financial relations, resulting in this movement.

The essence of a financial management finds its concentrated expression in the financial

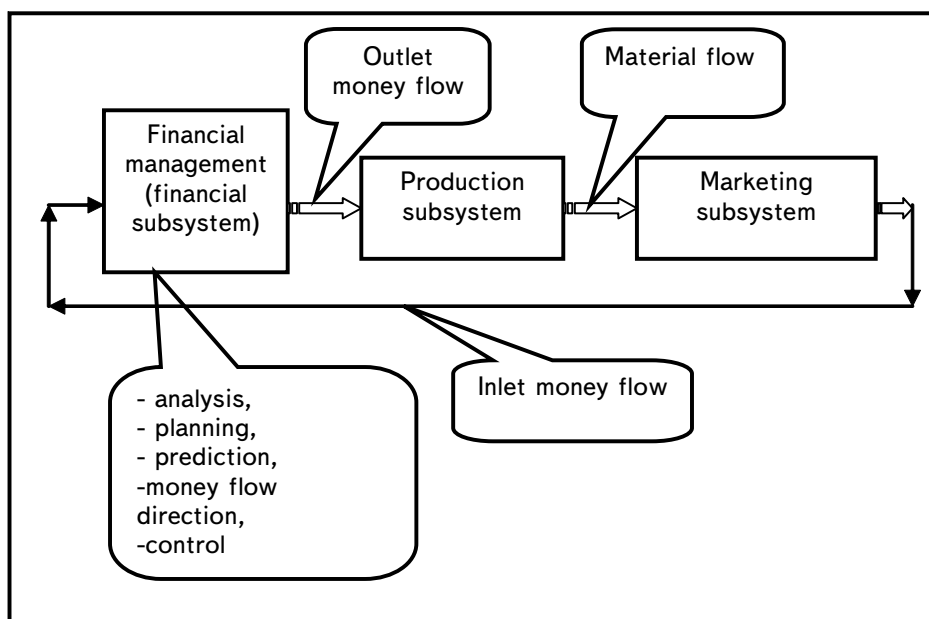


Fig. 1. Structure of economic system of the economic subject

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mechanism which is defined as the management system of financial relations of the enterprise through financial levers using financial methods.

Thus, financial management can be considered as an element, a subsystem of economic system. For example, this statement can be illustrated at fig. 1 for economic system of industrial type economic subject.

Analyzing the above-stated, it is important to notice, that efficient financial activity management is based on realization of some principles:

1. integration with general management system of the enterprise. Whatever field of enterprise activity management decision was made in, it influences on money flows and results of economic activity. Therefore at the enterprise the industrial, investment, personnel, supplying and other kinds of management are closely connected;

2. complex estimation of prepared management decisions. Any management decision on formation, distribution and use of the finance of the enterprise influences on complex of the enterprise indicators;

3. high dynamism of management. The enterprise works in the conditions of quickly changing external and internal environment. The management decision should be made taking into account real-life factors. Therefore the information on which financial management is based on, should be actual and decision-making should not be tightened in time;

4. variability of approach to development of separate management decisions;

5. focus on strategic objects of enterprise development. Any financial management decision is made taking into account realization of defined object.

On the basis of maintenance and principles of financial management its purpose is formed. The purpose of financial management as man-

agement system is efficient control of economic system money flows according to its functional purpose. The mentioned purpose can be presented by three main sub-goals:

1. Management of outlet money flow, i.e. management of accounts payable of the economic subject.

2. Management of inlet money flow, i.e. management of debit liabilities. This purpose is connected directly with management of funding source and can be in particular concretized on following tasks:

- ◆ Maintenance of sufficient volume of the financial resources required for economic development of the subject;

- ◆ Maintenance of financial stability and solvency;

- ◆ Profit maximization;

- ◆ Formation of money funds providing stable functioning of the economic subject etc.

3. Management of net money flow, i.e. optimization of the difference (excess) of money inflow over outflow. As a result of achievement this sub-goal, the reserve of money resources is created on an optimal level.

In the network of the formulated purpose and sub-goals, the economic subject may use a various set of financial levers, management methods of objects of financial management operated subsystem.

The achievement of defined objects follows from condition change of economic system according to the systems approach to management process of finance. The mechanism providing realization of this process is the organization which is considered by presence of two interconnected components (fig. 2): the subject of management - functional control of the enterprise; object of management - the organization which is carrying out fulfillment of formulated tasks and plans (the object of management undergoes on itself operating influence).

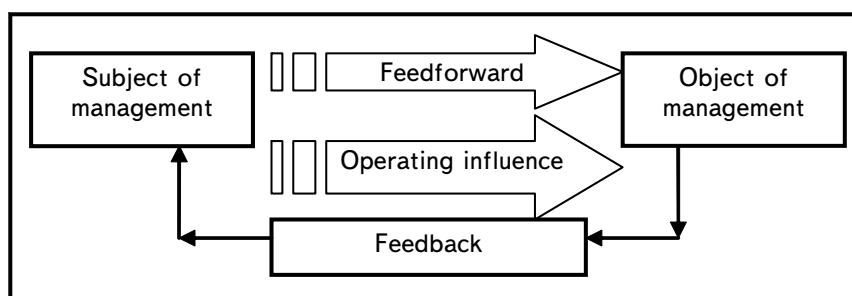


Fig. 2. Management process model

Feed-forward and feedback are the information about operating process, including results of management. Management process inherently is cyclical and can be presented by the simplified model of management process. It is visible from fig. 2 that in the absence of feedback (or if its not efficiency) can cause interruption of a cycle of management. This flow of the accounting information is formed by object of management and contains information about fulfillment of management decisions and information characterizing condition of the operated subsystem. The subject of management influences on object of management for the purpose of maintenance of qualitative definiteness of an organizational management system as a whole. To exercise management, control should know an actual state of operated process. It means that the control will cut off from functioning subsystems of the organization.

Summarising the above-stated, it is acceptable to assert that one of the main advantages of management method of the scheme of feedback is work of an organizational management system in the conditions of considerable envi-

ronment changes, that is in the conditions of high number of random influences of various sort.

In fig. 3 there is a scheme of work of organizational management system of finance. The accounting - analytical information is the major component of basic management category "control" and connecting function of management "communications". Through communicative exchanges of the accounting-analytical information between elements of economic system, control is built in management functions of feedback as a part of categories "planning", "organization", "motivation" and binding function "decision-making".

Management functions of feedback as a part of category "control" (accounting, analysis, synthesis, correction) provide realization of functions of feed-forward and define possibility of transition from one functions to another, connecting all links of management chain in unit.

The important place is assigned for accounting information on which basis the controls feedback has possibility to reveal deviation of actual indicators values reflecting actual result of

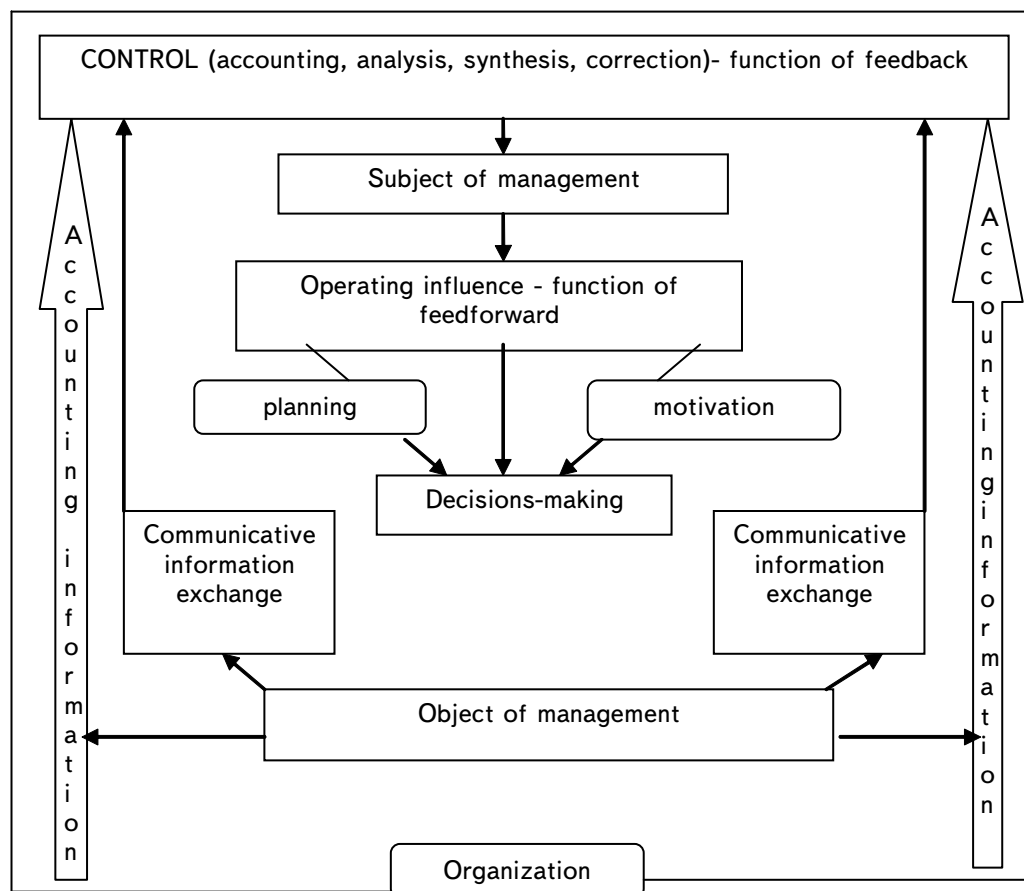


Fig. 3. Functions of feed-forward and feedback in the organizational management system

enterprise functioning from criteria, defining desirable (demanded) result of its functioning. Such deviations represent the characteristic of the current (established) condition of the organization. Their analysis will allow the subject of management to estimate degree of enterprise achievement of purpose of functioning and thereby to define efficiency of the chosen and realized ways of management. The financial analysis can be considered as the analysis in the management system of organization finance, that is, research of financial condition and financial flows of the organization for the purpose of reserves revealing to increase its market cost and maintenance of effective functioning. The essence of financial analysis makes information - analytical maintenance of accepted management decisions. Its content consists in use of scientific methods for explanation of decisions. A good selection of the necessary information, scientifically proved methods of analysis of this information provide optimal decisions in the given conditions.

The analysis of financial condition of the enterprise is the important component of efficient financial management. He allows us not only to estimate liquidity, financial stability, profitability and business activity, but also to reveal the basic problems and offer ways of their decision. The main objective of the financial analysis is acquisition of the most informative indicators giving an objective picture of financial condition of the organization, its profits and losses, changes in structure of actives and passives, in calculations with debtors and creditors.

The financial analysis allows not only to estimate the financial condition of the company, but also to predict its further development.

From the above-stated follows, that financial management corresponds to a management system of the enterprise finance where the important place is taken by the accounting information. In a general view management of the enterprise finance can be defined as a set of methods and ways directed to maintenance of financial system development of the subject of managing according to specified qualitative and quantitative indicators.

The carried out analysis of conception “the financial management system “ gives a chance to formulate the positions which opening the maintenance of the role of the accounting-analytical information in financial management of the organization.

1. Accounting-analytical information is the mechanism of auto-correction of the organization in the conditions of the uncertain environment (according to the system approach);

2. Accounting-analytical information is the major component of basic category of management “control” and binding function of management “communications” (according to the process approach in the management theory);

3. Accounting-analytical information provides organization of economic system (according to the information theory).

Thus, the author of the given research considers that financial management is the system, subordinating to itself other management systems of the enterprise (sales management, production management, personnel administration, etc.) and uniting them in the united organism of management directed to achievement of effective and rational management by money flows for stable functioning and development of the enterprise.

The above-stated allows us to conclude that the important condition of successful management of the enterprise finance is not only efficiency of management functions in itself, but their correct sub-organization within a united process where the most important place is taken by financial analysis.

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