The Role of Financial Management in the Company

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Financial management plays an important role in the development of enterprises as well as in the development of a country's economic activity. Financial management has a special place in the management system, because of the close connection between finance and management, technology, resources, personnel, etc. The modern financial manager needs to be flexible in order to be able to adapt to changing economic conditions. Its success and ability to find financing sources and manage financial resources depend on the success of the enterprise and the entire economy. For this reason, the primary task of financial management is to maximize the value of stocks by making decisions that increase the value of the company.

Key words: *financial management, management, control, activities*

1. INTRODUCTION

In the current conditions of expansion of the phenomenon of globalization, due to the dynamic changes of the market and market conditions, the management of the company is faced with many different requirements within its business, where the focus is on the fulfillment of the set goals. This implies that it is necessary to set up and ensure the smooth functioning of company management, which, in addition to numerous functions, offers the possibility of preventively exceeding potential limits in the achievement of goals, but also effective solution of existing problems in their business.

In addition to the objective of financial management related to fundraising, the goal of financial management is to manage finances - to maximize the profits of company shareholders through making adequate company decisions [1].

Corporate finance (business finance and financial management) as a discipline within contemporary financial theory aims to explain the real financial and investment decisions that need to be made by company managers. Because the decisions made are the result of the interaction of financial managers and investors, to understand them fully, one must understand the essence of the theories. Modern or neoclassical financial theory offers normative decision-making principles for rational agents - investors and managers.

On the other hand, rational theory seeks that managers should start by saying that stock prices in efficient markets reflect all publicly available information about the fundamental value of a business. Investors, on the other hand, assume that managers act in their own interest, rationally responding to incentives shaped through corporate governance mechanisms [2].

In situations of continuous action of external factors, a high degree of flexibility of the management structure to the resulting and potential changes is required. This essential feature of management is ensured through planning and control functions, which highlight their interconnectedness and interdependence. The planning process is a function of management, which determines the general and individual goals of the enterprise business, which are then analyzed for tasks and activities over a period of time, for the entire organizational structure. Planning also provides a form of control, since it examines the possibility of implementing a particular idea of the owner or more of

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them. On the other hand, control determines the factual state of business, ie. the degree of realization of the activities and tasks envisaged by the plan, which indicates the emergence of a strong correlation of planning and control functions, and their importance for the efficiency and effectiveness of the business of each company [3].

The modern way of doing business is characterized by both an increase in business opportunities for business development and an increase in the risk of business failure. Businesses remain committed to achieving a positive financial result at the end of the business year. For these reasons, a major task is put before the management of the company, to adapt in time to the modern transformation of business, to make the right strategic decisions and to make business moves that will ensure the future existence, stability and operation of the company [4].

The main goal of this paper is to point out the relevant role of financial management in the company, the role of the CFO in the activities of management of the company and their reflection on the process of business (strategic and operational) decisions, with the aim of maximizing profits.

2. BUSINESS MANAGEMENT ACTIVITIES

The organizational structure, as a fundamental condition for the existence of companies in contemporary markets, balanced by business factors, is caused by the diversification of relevant factors. The process of balancing the conditions of existence of an enterprise based on an adequate organizational structure consists of three interrelated and conditioned elements. First, the analysis of competitive forces shows why some branches are inherently more profitable or more attractive than others, and why the value of the business in these branches is growing. Second, the characteristics of the strategic group and the position within it can significantly influence the change in the relative position of the company in the branch, and thus the change in business value. Company value creation abstracts these factors by applying different methods and procedures in determining market position [5].

The task of financial management is reflected in the reconciliation of the financial operations of the company (current liquidity and investments, ie inflow and allocation of cash, and transactions of real assets) and the capital market (valuation of the company and commercialization of shares). That is why the important question is the linking of profits, risks and time in financial management in the field of: (1) Financing companies at different stages of a company's life cycle; (2) Optimal firm capital structures; (3) Company valuations; (4) Dividends and stock prices and returns; (5) Cash flows and liquidity; and (6) financial planning and capital budgeting [3].

In order for the management of a particular company to achieve a defined goal or several of them, with planning and control, it is necessary that adequate decisions are made in order to anticipate the functioning of the enterprise in the future, and thus harmonize its many activities within the tasks.

Also, one of the important activities, that is, the tasks of the company management, is the functioning of accurate and timely reporting, that is, the provision of information to the business owner about the status and value of the invested capital, ie. informing the complete hierarchical structure of the degree of results achieved. In this way, management realizes certain rights, but also obligations on accountability, through systematic control of business operations of the company, analyzing the efficiency and effectiveness of the decisions made, and finally, through reporting in the balance sheet and income statement, created for a given reporting period.

In addition to a number of the aforementioned activities and tasks of management, the allocation of resources, that is, the rational allocation of funds acquired, which generally involve cash, is one of the management responsibilities. In these situations, the process of making adequate decisions, with the aim of predicting business events, is crucial to achieving the planned results of the company. Here, special attention is paid to both general and individual goals, as the main outcome of the planning function. It is important to note that all decisions made can be strategic or operational in nature.

One of the most important decisions, which is the basis for further business of the company, is the choice of business strategy. In order to adopt a business strategy, the management of the company must first analyze the correlation of all socio-economic factors, but also no less important technical and technological components. After the analysis, the needs of the company are defined and the possibilities of their satisfaction are assessed. As part of this process, all potential sources of financing are considered as well as the scope and structure of potential investments.

Taking into account all the above, the company is deciding on the most appropriate business strategy for the coming period. There is some diversity in the division of these strategies, most commonly encountered:

- Penet penetration strategy, which represents an increase in sales of existing products in a given market. It is realized by purchasing another company or part of an enterprise that produces the same products, then by building a new factory or plant or a new production line to produce products from the existing range, market development strategy, which represents an increase in sales of existing products to new markets. It is achieved in the same way as a penetration strategy,

- Assortment development strategy, which represents developing new product sales and enhancing the range of existing products. It is achieved through the purchase of companies producing new products or by investing in new factories and plants intended for the production of new products or by enhancing the range of existing products,
- A diversification strategy, which represents the development of new business activities in an existing or new market, and is realized through the acquisition of companies engaged in activities that are different from those of the company or the construction of new capacities to perform different activities.

In strategic management theory, downsizing is the kind of transformation of an organization that goes about reducing the business activities of an enterprise, abandoning certain activities, narrowing its product range, closing down individual plants, and accordingly reducing the number of employees. In practice, however, „downsizing“ often comes down to the kind of downsizing that leads to downsizing, and everything else is merely used as an argument [6].

Unlike strategic decisions, operational decisions relate to the efficient use of available resources to ensure the specific objectives of the enterprise, where the primary result and liquidity of the enterprise.

One of the instruments of an enterprise for assessing the fulfillment of general and individual (specific) goals is precisely the budget reporting, which is basically contained in the balance sheet and income statement.

This type of report provides management and business owners[7] with a realistic picture of the business during the period for which the report is being prepared, starting from the aforementioned liquidity and profitability of the company, providing insight into the potential for optimization and improvement of the existing financial structure.

This type of report is submitted not only for the purpose of internal control of the company, and considering the achieved results in relation to the planned ones, but also in cases of external control of the business operations of the enterprise, which primarily refers to tax and other state authorities. Since these documents are of a public-law nature, they are also subject to review by the competent institutions.

Also, this type of reporting is a reference for potential lenders, investors as well as business partners, which is of great importance for business development, taking into account the laws of the market.

3. FINANCIAL MANAGEMENT SYSTEM IN A COMPANY

Governance is the ability to make a certain idea work through people. Business entities are represented by business management. The most common definition of management in management is that management is the process of planning, organizing, managing and controlling the financial, physical, human and information resources of an enterprise in order to (with and through people) ensure the effective and efficient achievement of the company's goals in a changing environment [8].

Management processes in the company include:

- Planning is the primary stage of the management process. The basic types of planning are strategic and operational planning.
- Organizing includes division of labor, microstructuring and macrostructuring of enterprises, delegation of authority and coordination.
- Leadership refers to ordering, motivating and communicating in order to achieve the goals of the company.
- Control, which is the final stage of the management process, which enables monitoring of the realization of the goals, with a tendency to equalize the real and planned actions.

Control of results is an essential part of controlling the effectiveness of management. This hypothesis is proved by the fact that almost all areas of functioning of a particular enterprise as a whole, ie the profit and investment sectors, are involved in the creation of enterprise management. In this situation, the instrument of evaluation of the results is imposed as a basic requirement of effective management.

The interdependence of planning and control, as the basic functions of management, is reflected in finding the bases and criteria for evaluating the contribution of individual organizational parts in the overall result of the enterprise. In terms of the value expression of this contribution, the only functional area that contributes to the overall result of management effectiveness, through the value of sales, is in the functional domain of sales, while for other areas of enterprise functioning, the costs, that is, the amount of expenses, are a way of contributing to the said result.

Also, the interdependence of planning and control can be reflected in defining the desired goals, that is, coming up with data on global and analytical deviation from these goals. Deviations are an important indicator of a change in the achieved result from the predicted ones.

When referring to the success of the management of the company, depending on the nature of the deviations, they can be classified into: deviations from the planned business result, from the plan of cash flows, or from the plan of the financial structure of the company. The cash flow plan, that is, the expenditure plan, is more closely determined by the deviation from the planned costs, and is directly correlated. This deviation not only affects the cash flow plan but also indirectly the overall result of the business.

The deviation from the borrowing plan is also reflected in the requirement to maintain a minimum cash balance as one of the conditions for efficient financial management, which is achieved by additional borrowing. Such borrowing will, to some extent, create a deviation from the projected cost of borrowing, which may further affect the delay in payment of interest obligations as a financing expense.

All these indicators together, create deviations from the planned profit. However, deviations from the planned value of material inventories also influence the need for additional borrowing, due to the failure to fulfill the work-in-progress and finished products plan [9].

Financial management should ensure the realization of the financial objectives of the enterprise, which can be categorized into: initial, transitional and final goals.

Financial management takes care of the acquisition, financing and management of assets, in order to achieve the basic objective of business operations of the company. The main areas of responsibility of the financial manager are: investing, financing and asset management.

4. BASIC DECISIONS IN FINANCE

Investors investing today expect a return on investment in the future that will be greater than the initially invested money (that is, the burden in terms of security of collection of receivables and the amount of costs) [8].

Investment decisions allow you to generate revenue and appropriate savings in your business. They are of exceptional importance for the company, because most of them are characterized by a lack of capital, and therefore the capital must be placed where it will be most effectively used. Similarly, one of the basic functions of business finance is to create a framework for rational investment decision making.

Financing decisions are decisions that relate to how to raise additional capital to finance the survival[10] growth and development of a corporate enterprise. It is profitable to use debt to finance the business of an enterprise until it reaches a rate of return greater than the weighted interest rate for the assumed debt of the enterprise.

Economic theory uses the time criterion to classify decisions in finance, therefore:

- Financing decisions concern placement in production, which as a result has a finished final product, which is sold directly to the buyer (the so-called short-term placement). The time process is realized within one year, that is, it covers all investments in all expenses and revenues that are generated in the same period.
- Investment decisions concern investments that require a longer period of time to arrive at a net return or new product (the so-called long-term placement, that is, the expected investment).
- In the real economic process there is a correlation (cause and effect) of short-term and long-term placements and expectations. The degree of agreement of the expected investment in the short term and those in the long term is very important. Accordingly, the realization of the final business results depends on the degree of realization of the expectations. Of course, only to the extent that this realization influences as a factor the formation of economic employment of all factors that are in the function of future expectations.

Management of financial function, includes the management of all operations that fall within the tasks of the financial function of the company. It can be concluded that the financial function is one of the basic business functions in the company that names its special tasks, on the performance of which all other functions in the enterprise depend.

The role of CFO in the current economic and financial moment is reflected in the following activities: CFO is a key member of business teams; the necessity for the position and the role of the CFO is equal to that of the chairman of the board of directors or the managing director; CFO is an internal consultant for strategic planning, taxes, financial reporting, accounting, control and services.

5. SYSTEM CONTROL OF BUSINESS AND FINANCIAL PROCESSES

Systematic control of business-financial processes in an enterprise encompasses a whole set of management activities that are related to the stages of the management process, which are observed in accounting literature and practice through[11]:

- planning,
- organizing,
- control,
- communication and

- motivation.

Planning is a basic function of enterprise management, which defines the goals of the current business, as well as the development of a particular organization in the coming period. Planning also identifies alternative options for the realization of the defined goals, which provides the opportunity to choose the most efficient way to achieve them.

The organizational structure of the company is created through the function of organization, which also divides the competencies and responsibilities, selects the executors and the instruments for performing activities, with the purpose of defining restrictions and responsibilities for the realization of the planned goals.

The planned results are assured by the control function, which is also the last stage in the management process. Thus, the management of the company seeks to maintain a certain level of planned values, using the instrument of periodic comparison of the achieved and the goal defined results. Performing this activity presupposes that there are outcome measures and ways to correct any deviations, that is, deviations from the plan.

Control is a function of management, at all levels in the organization, from those at the top of its management to those at the bottom of its management pyramid. The first menagment line. They all have to do the control work and they all have to do it in a similar way.

Control is necessary to ensure that the available resources are used as rationally and efficiently as possible by monitoring deviations from planned costs and effects and eliminating the causes of these deviant phenomena in a timely manner[12]. The need for control would not become without managers being able to accurately predict the future, and consequently to set plans from which there would be no deviation in practice. There are several reasons that lead to these deviations (deviations of actual from planned-desired effects) [13].

First of all, what can influence the deviation from the planned results are changes in the environment in which the management operates. The second reason may exist on the basis of personal, ie. human limitations, while the third reason for deviating from the plans is the discrepancy between the goals of the organization and the goals of its individual members, and finally, the failure of the plans is their poor definition[14].

The isolation of control as a function of management does not exist. It is performed exclusively in close correlation with other management functions. Control, as such, is aimed at identifying and eliminating deviations from desired, predefined effects. It is essentially a process of comparing the effects achieved with the standards, identifying the differences between these effects, analyzing the causes of those differences, ie the degree of deviation and taking corrective action to eliminate them in the future. It consists of four interconnected and conditioned phases[15]:

- defining standards,
- defining the achieved result,
- comparison of achieved performance with standardized and
- elimination of irregularities.

Communication is a key function of management that has the task of distributing information along the vertical and horizontal links of the organizational structure of the enterprise[16]. The key reasons for the importance of the existence of a management communication function are reflected in the successful operation of the company, which is possible only with the establishment of a system of information distribution. If there is a disruption of this system, or a part of it at any level, and for any reason, the management of the company will achieve negative effects, that is, the result of the business will be in a certain disproportion to the planned. With the help of motivation function, management influences the behavior of parts of the company, its groups and individuals in order to identify their goals with the goals of the company, as well as to make decisions and act in accordance with those goals [17].

6. CONCLUSION

The financial management of an entity takes care of the acquisition, financing and management of assets, bearing in mind the primary objective of the business. Accordingly, the main areas of responsibility of the financial manager are: investment, financing and asset management decisions.

Financial and investment decisions are interrelated. Financing decisions are related to raising funds for investments and regular operations, that is, choosing a capital structure, which means that the decision can have long-term consequences. It is important to note that financing decisions are based on the acquisition of cash to settle current liabilities, while investment decisions at certain short moments deal with how to invest surplus funds. The key to making a decision is managing risk. In doing so, the amount of investment also determines the amount of financing to be provided.

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REZIME

ULOGA FINANSIJSKOG MENADŽMENTA U PREDUZEĆU

Finansijski menadžment igra važnu ulogu u razvoju preduzeća, kao i u razvoju ekonomske aktivnosti zemlje. Finansijski menadžment ima posebno mesto u sistemu upravljanja zbog uske povezanosti finansija i menadžmenta, tehnologije, resursa, kadrova itd. Savremeni finansijski menadžer mora biti fleksibilan kako bi se mogao prilagoditi promenljivim ekonomskim uslovima. Njegov uspeh i sposobnost pronalaženja izvora finansiranja i upravljanja finansijskim resursima zavisi od uspeha preduzeća i cele privrede. Iz tog razloga, primarni zadatak finansijskog menadžmenta je maksimizirati vrednost akcija donošenjem odluka koje povećavaju vrednost kompanije.

Ključne reči: *finansijski menadžment, upravljanje, kontrola, aktivnosti*