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THE CONCEPT OF FINANCIAL MANAGEMENT IN THE COMPANY

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ABSTRACT

The modern way of doing business has the effect that the business of many organizations and companies becomes very complex, challenging, and subject to constant comparison with the competition, generally making it less predictable and much more difficult to manage. To survive the dynamism imposed by globalization, companies must improve their way of doing business and develop operating systems that will be able to cope with unpredictability and the emergence of changes. The essence and goal of the paper is to point out the importance of financial management as a way of overcoming risks and difficulties in business through the analysis of the economic concept. To point out the most important features of financial management through theoretical considerations, and to consider the possibilities of the contribution of adequate management in the financial function. An adequate model of change management in finance can open up space for better and more stable business operations and timely responses to negative business indicators on the market.

KEYWORDS

company, finance, management, risk, business

INTRODUCTION

Finance affects all segments of economic and social life. That's why a lot of attention is paid to this issue, both at the macro and micro level of the company. The task of financial management in a company is to maximize profits, survive in the market, facing numerous challenges and risks. The financial concept of company management aims to establish a balance between the assumed risk and the expected premium for the assumed risk.

The dynamic development of the role and increasing responsibility of financial management within the company directly depends on the level of development of corporate management and clearly defined goals established by the management of the corporation. In addition, it is important to highlight the fact that every financial crisis strongly affects the stability of the company's operations and directly contributes to the implementation of changes in the process of adapting corporate governance.

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With the development of the company, its need for a capital increase, especially its funds, grows. So the company needs to find constant sources of financing for new ventures and investments. The company's financing structure is determined by the rate of its productivity and efficiency. The financial function is comprehensively involved in the process of individual reproduction, in the operation of all other functions. There is almost no function in the range of which there is no interaction with the financial function. The circular movement of monetary capital begins and ends with it, the business process begins with procurement, and ends with sale. The initial and final stages are in the form of money, and the money should be obtained or had, and also under certain conditions and returned. The transformation of money in the process of reproduction is done by the circulation of funds, while the problem of acquiring, possessing and returning money is from the domain of financial relations and financial management.

DEVELOPMENT AND SIGNIFICANCE OF THE FINANCIAL CONCEPT FOR THE COMPANY

Financial management primarily deals with policies and decisions that direct the business operations of the company, defining long-term and short-term goals and providing the means for their realization. Through the concept of financial management, the implementation of financial analysis enables the monitoring of business results based on which strategic decisions are made.

In modern market economies, the management of company finances becomes a primary task, because the fertilization of financial capital at the maximum rate of profitability, that is, at the highest possible rate of profit, is the central motive of entrepreneurship. Financing is one of the biggest challenges facing businesses. „The range of possible sources of financing largely depends on the degree of economic development, especially the development of the financial system and financial markets" (Erić, 2003). More developed systems are those that have developed mechanisms of so-called indirect financing (Mishkin, Eakins, 2006) where there are more financial institutions and intermediaries".

Until the beginning of the 20th century, finance was considered an integral part of the science of business economics, when it was separated into a separate scientific area, dealing with the study of money value flows in a business entity, that is, a company. Finance is usually related to money, money transactions, and money management. In modern society, money, in various forms, permeates every pore of human activity, and finance represents a very broad and dynamic scientific field. Finance has the goal of using financial theory to explain and examine all important elements for making financial decisions about the placement of funds.

The first steps in the development of finance in the company occurred at the beginning of the 20th century in the USA. The finances of the company in that period were exclusively oriented towards the growth of the company as well as the problems of external sources of financing and the capital market. A turning point in financial thinking occurred in the 50s of the last century when the description of the development of financial thinking gave way to an analytical understanding of financial categories. The beginning of the new millennium includes the category of opportunity cost in the process of creating and managing the company's finances.

Finance, as a scientific discipline, achieves its goal and task by providing answers to the questions of how to harmonize goals and tasks with available funds. As a money management skill within a company, business finance is implemented through financial management that takes care of the acquisition, financing, and management of assets. The main areas of activity of financial management are investing, financing, and asset management decisions. „The development of corporate finance was initiated by pragmatic reasons, derived from the problem of business practice to control and harmonize value flows in the process of enterprise activity. The business activity of a company understood as the process of creating new value, is reduced, in the broadest sense, to two flows of value - goods and money, which permeate and form the essence of the company's business activity" (Stančić, 2006). „Without going into the different possibilities of differentiating the field of finance, today it is almost universally accepted that this scientific discipline includes three closely related areas: money and the capital market (microfinance), investment (investments), and finance of business entities. Although it is difficult to draw precise boundaries between these areas, the fact is that each of them focuses on specific financial problems" (Brigham, 2002).

The issue of financial management in the company is determined by the meaning and content of the financial function itself within the complex functional mechanism and the overall task of the company. Financial management means such an operational-professional activity that, using appropriate methods and instruments, ensures the timely and optimal execution of the basic goals and tasks of a specific financial function. „Financial management as a part of overall management comes down to directing, regulating and changing financial flows for the maximum achievement of the company's economic and social goals, as well as for achieving optimal business results" (Finansijski menadžment i računovodstvo, 2020).

Table 1. Basic groups of decisions within business finance

Decision	Description
Investment decisions	Enable the realization of income and corresponding savings in the company. They are extremely important for the company because most of them are characterized by a lack of capital, so it is necessary to place the capital where it will be used most efficiently. Analogously, one of the basic functions of business finance is to create a framework for making rational investment decisions.
Financing Decisions	Represent decisions related to how to obtain additional capital to finance the survival, growth, and development of a corporate enterprise. It is profitable to use debt in the financing of the company's operations until the moment when a rate of return is achieved that is higher than the weighted interest rate for the assumed debt of the company.
Decisions on dividends	If the company is organized as a joint stock company, it must decide on how much of the profit it will pay out as dividends to the shareholders. Decisions on dividends are decisively influenced by managers as well as by the real circumstances dictated by the market in which the company operates. However, decisions on dividends should still respect the expectations of shareholders, but at the same time be in line with the needs, policies, and goals of the company's development and operations.

Source: Barjaktarević, Lj., Jović, Z., Milojević, M., Poslovne finansije, Poslovni fakultet, Univerzitet Singidunum, Beograd, 2021.

In modern conditions, the acquisition of production factors implies the availability of funds for their payment, from which it follows that without an outflow in the company's cash flows, there is no inflow in the company's commodity flows. It follows that the provision of capital (funds) is a condition sine qua non (a condition without which one cannot do) for the initiation of commodity flows in the company (procurement, production, and sales). The company can count on receiving money from operations (inflows in cash flows) only after the completed cycle of production and sale of products and services obtained from the acquired factors of production (after the outflow from the company's commodity flows). The character of these two value streams indicates that there is no practical possibility of their synchronization in time or direction of movement.

Through the development of the concept of financial management, significant actions are taken in the direction of strengthening the fiscal responsibility of companies, because it is financial management that should enable strict compliance with public regulations defined in the direction of achieving a greater degree of fiscal responsibility. Financial management represents the internal "guardian" of fiscal responsibility because it strives for the constant implementation without exception of all defined public rules and the reduction or mitigation of the effects of all risks encountered by business entities in their operations.

FINANCIAL ENGINEERING AS A SOURCE OF BUSINESS FINANCING

Financial engineering is a set of financial services, the main goal of which is to facilitate the establishment and development of companies. For companies looking for more sophisticated financial innovations, financial engineering enables mediation in the structure of innovative deals. In the process of evolution of financial management in the company, some innovations are manifested through the introduction of new financial stock instruments and the issuance of securities. The growing need for external sources of financing for companies, finance has imposed the issue of maintaining liquidity and external financing.

„Financial management is part of the system of the overall corporate management concept. It refers to the comprehensive control of business indicators that can show the direction in which business activities should develop with efficient, timely, and rational use of the financial potential of the corporation, with the task of helping to achieve financial results, the achievement of the defined strategic and operational goals of the corporation and the planned business results" (Perić, 2018).

Financial engineering can be defined in the following ways:

1. Creation and design of securities in accordance with market and investor requirements;
2. Unpacking/separating one financial instrument into its component parts and repackaging those components into new financial instruments with changed structural characteristics;
3. According to Bodie et al. (2001) financial engineering is the process of innovating existing and creating new financial instruments (Stakić, Barjaktarević, 2021).

The task of financial engineering is to ensure the financing of the company, to propose new financing procedures, to prepare operations that ensure financing, and to arrange the financing of projects. In this context, the bank appears as the manager of the company for which it forms a banking pool for financing or organizes the issue of shares or bonds. For the financial engineering of the company, the banker arranges euro issues and the granting of euro loans, introduces the shares of the company to the stock exchange, and determines the initial quotation prices. As a process of innovating existing and creating new instruments, financial engineering ensures better liquidity and creates more favorable conditions for obtaining the necessary funds, because it transforms illiquid loans into liquid securities.

As an integral system of technologies, money, and people, financial engineering includes the decision-making system as well as its implementation in possible areas of human action. That is why financial development is a constant companion of financial engineering, which through business performance should ensure cooperation in the transfer of knowledge and transfer of experiences. The goal of financial engineering is an offensive performance both on the domestic and foreign markets. Financial engineering involves the creation of new securities through:

- unbundling and allocation of the cash flow of one security to create several new securities,
- by combining several existing securities (bundling). (Vašer, 1990)

As a result of the pursuit of new sources of financing, financial engineering provides new products to strengthen the financial position of companies through speculative bonds, zero-coupon bonds, asset securitization, financial derivatives, and repo deals. Speculative bonds are attractive because they offer investors higher earnings by 3-4% more than high-quality bonds. By issuing speculative bonds, the purchase of company shares is financed, especially for the so-called "hostile" takeover. In the case of bonds without coupons, the essence is that a larger batch of new bonds is created from one bond because coupons and principal are separated and each coupon becomes a separate bond. Securitization ensures the collection of "fresh" funds and the reduction of risk exposure through the transformation of illiquid loans into liquid securities. Financial derivatives (forwards, futures, options, swaps, and interest rate agreements) as a product of financial engineering enable financial market participants to protect themselves from interest rate changes and currency disturbances. Repo transactions represent a contract for the sale of securities with the obligation to repurchase them within a precisely determined period and at an accurately determined price.

Strong competition between banks and other financial institutions, frequent changes and amendments to legal regulations, and demand for new sources of financing have increased the importance of financial engineering. As a multidisciplinary scientific field, financial engineering contributes to the growth of investors' profits but it also has great importance at the macro level through the allocation of resources in the economic system. So its importance is great, both for the financing of the economy and for the development of the financial management of the company.

FINANCIAL MANAGEMENT OF THE COMPANY

Financial management deals with determining the best and most optimal capital structure. What is significant is that the financial function with its influence in this domain in companies, can change the entire state of business by changing its capital structure, so it is necessary to achieve an optimal combination of financing in which the market price per share could be maximized. "Knowledge is also an important resource and driver of any development. Human resources, especially highly educated ones, boost the competitiveness of both the entire economy and companies" (Đorđević, Cvetković, Momčilović, 2021).

For financial management, it is extremely important to see the connection between the future value of a certain amount and the interest rate, that is, the number of interest periods. The future value of money represents the value of the initial sum (investment) of money at some future point in time, at a given interest rate, and the number of interest periods until that future point in time. "To determine the future value of money (present investment) in financial mathematics, the compound interest account is used, which includes the following variables:

- amount of invested funds (X),
- the length of time to which the investments relate,
- interest on the invested amount (k),
- frequency of calculation of interest on interest (n)"(Stančić, 2006).

In financial analysis and planning, a specific time value option called discounting is used much more often than compound interest accounts, which provides an answer to the question: What amount should be invested today with a certain annual interest to get 1 dinar after a certain number of years, that is, how much is the present value of an amount that will be available at some point in the future.

The general formula for calculating the future value of stakes at the end of year n when interest is paid m times per year reads:

$$BV_n = SV\left[1 + \frac{i}{m}\right]^n$$

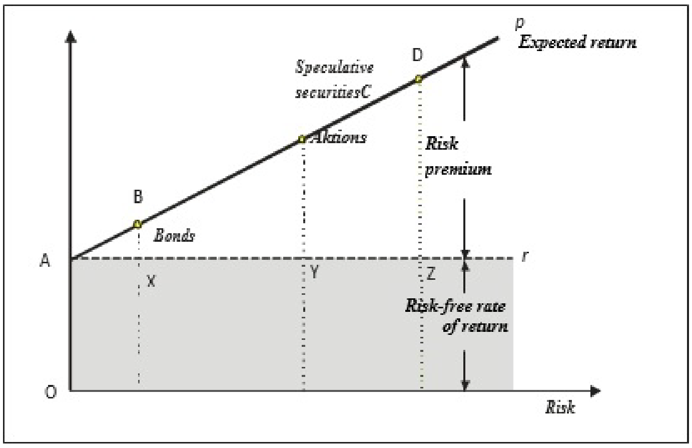
In practice, such an extensive calculation of BV (future value) is not necessary because special financial tables with interest factors (BVIF) have been developed for different combinations of i and n (Future value from din. 1). The calculation of BV is thereby greatly simplified - it is enough to find the appropriate interest factor for the given i and n and multiply it by the investment amount (interest factor multiplier), i.e. BVIFi,n serves as a multiplier.

$$\mathrm{BV} = SV \cdot BVIF_{i,n}$$

The present value of any amount is determined by the model

$$SV = BV \cdot \mathrm{SVDF}_{i,n}$$

When managing the company's finances, investors must take into account the amount of future expected returns as well as the degree of risk to realize the expected benefits. The relationship between risk and return is graphically presented.



Graph No. 1. Interdependence of risk and return
Source: Stančić, 2006.

The future value of the invested sum of capital increases with the increase in the interest rate that is, with time. While the investment required to obtain a future amount decreases if the interest rate or the time necessary to do so increases. For the company to be liquid, the working capital must be greater than the current liabilities, that is, by turning the working capital into cash, the current debts will be paid off. When a company does not have enough working capital, it decides to borrow money with a longer repayment period, to use that money and earn profits from which it will return the borrowed money.

Relationships between assets and liabilities, established by investment and financing decisions, change relatively slowly, exposing the company to the risk that uncertain future revenues will be insufficient to cover fixed financial expenses based on the source of financing. Potential permanent tensions in the company's financial status suggest caution in defining the relationship between the company's assets and liabilities. After that, changing the established relationship between assets and liabilities is possible only through increasing the earning capacity of the assets or through the payment, prolongation, or conversion of liabilities that are due.

CONCLUSION

To start an economic activity, the company can provide the necessary capital from its own (internal) sources or borrow. Any inflow of money into the company outside of regular commodity flows, such as loans, implies the obligation to return the borrowed capital and service its price, interest. If there is a discrepancy, if the coverage of the thus formed obligations towards the sources exceeds the income from current inflows, the company faces a discrepancy that may lead to the interruption of the business activity of the company.

The necessity of maintaining financial balance, as a condition for the long-term existence of the company, imposes the obligation of continuous control and direction of cash flows in the company, that is, management of the company's finances. The analysis of the company's financial position should determine the current position of the company, in order to define measures for possible improvement of the company's financial position based on the results of the analysis. The action of financial management is defined by the primary goal, to achieve the defined goals in the best possible way, through obtaining the optimal volume of favorable sources for financing and achieving growth, i.e. the company's business goals.

In the modern business concept, constant monitoring of global changes in the environment is required and, based on this, modification of measurement methods and instruments for optimal operation of the financial function in the company. This means, on the one hand, the optimal adaptation of processes and activities to the resulting changes to increase the quality of work, which implies achieving significant results, and on the other hand, recognizing risks in business and drawing attention to inefficient and risky processes. Modern management increasingly recognizes the importance and role of the financial function in achieving the desired results in business, which are set by the owners of the capital.

The business of corporations in modern conditions is becoming very complex, which makes it less predictable and much more difficult to manage changes and risks. Companies should systematically plan their operations, especially the financial part, and in that context, precisely determine certain systems and standards of active protective action, with which they will be able to protect themselves from risks and similar phenomena and processes. The biggest challenges come from unplanned and unexpected changes in the financial segment of corporations, and in that context, it is a fully justified conclusion that one of the essential functions of every company is the valid, systemically, and planned management of financial changes.

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