

# THE FINANCIAL MANAGEMENT'S ROLE IN MODERN ORGANIZATIONS. INTERFERENCES AND DIFFERENCES BETWEEN THE MANAGEMENT OF THE ACCOUNTING ACTIVITY AND THE FINANCIAL MANAGEMENT

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## **Abstract:**

*The company's leading financial mechanisms represent one of the managers' basic instruments. The financial part is found in all elements of the managerial activity, namely in all the functions of the managing process, in all elements of the managing system, in the entire structuring and practical materialization of the company's functions. Starting from these reasons, the paper captures the importance of the financial management in modern organizations. Moreover, we wanted to underline the fact that the financial management should not be mistaken with the management of the accounting activity, therefore outlining a series of differences, but also interferences, between the two systems.*

**Key words:** *financial, management, activity, accounting*

**JEL classification:** *G32*

## **1. Introduction**

The financial management should be regarded as a component of the company's general management. From this perspective, *the financial management can be defined as an under-system of the company's general management, having as purpose insuring the necessary financial resources, their profitable assignment and usage, improving the value and the safety of its patrimony, by fulfilling an active role, starting with the financial resources meant for the establishment of the company's strategic and tactical objectives and for the control and evolution of their fulfillment.*

Beginning with this definition, it can be stated that the financial management has at least the following tasks:

- to evaluate the effort, from the financial point of view, of all the actions that are about to be made in a given administration period;
- to provide, at the right moment, in the structure and the quality conditions claimed by necessities, the capital, at the lowest possible cost;
- to follow how the capital is used;
- to influence the decision factors in each performance centre in order to insure an efficient usage of all funds attracted in the circuit;
- to insure and maintain the financial balance according to the company's needs;
- to try to obtain the anticipated financial result and to distribute it on destinations.

## 2. The importance of the financial management in modern organizations

If we were to take into consideration certain financial objectives, we might come up with ideas such as: survival; avoiding the financial crises or bankruptcy; overcoming competition; maximizing sales or market rate; minimizing costs; maximizing profits; maintaining an earnings' sustained growth.

Each of these possibilities shows problems that have to be solved by the financial management. If we take each mentioned idea, we might say that, at first sight, the company does not need a financial manager. For example, the sales' increase can be achieved by increasing the loan period offered to the clients. To minimize costs, the company can reduce the research volume of the research-development activity. Bankruptcy can be avoided very easily: we do not take loans or we do not take risks. But are these solutions really the best ones?

We do not borrow money, so we will not have debts and consequently the possibility that the company may go bankrupt because of the impossibility to return the funds does not exist anymore. Then, how will the company be able to finance its investments? Internal sources will never be sufficient enough, especially if the company decides to extend the loan period offered to clients. Therefore, the investment possibilities will diminish and the company will have to run its activity under inadequate conditions at least from the technical and technological point of view. The consequences will first be reflected upon the price and the products' quality and then upon the market rate and finally it might lead to bankruptcy.

As a conclusion, *does the company actually need a financial manager?* The answer is only one: obviously yes. Since most managerial decisions are measured in financial terms, the financial management plays a key part inside the company. The size and the importance of the financial management depend on the company's size. Inside small and medium-sized companies, the financial management's obligations are generally carried out by the accounting department. Once the company's size takes proportions, the importance of the financial management reflects in the establishment of certain distinct departments, directly subordinated to the company's president or the executive manager's by appointing a vice president of the finances, called financial manager.

Also, the financial management offers solutions for these major decisions of the company: the investment decision, the financing decision, and the dividend decision. Assuming that the managers' objective is to maximize the company's value, the financial management has to find an optimal combination between the three major decisions. For example, the decision of investing in new assets supposes finding new financing sources. On the other hand, taking a financing decision influences, and is influenced by, the dividend decision because the retained incomes as internal financing sources would in fact belong to share-holders as dividends. The financial management's task is to analyze the effects of each decision and to find an optimal element to contribute to reaching the company's objective.

The financial management belongs to the company's decisional and control under-system, which processes and offers information both from the inside, as well as from the outside. Its basic concern is represented by the under-system's financial funds management, the success of this activity being vital for the company's survival. The information received by the financial management refers to:

- the funds' investment cost on the capital markets;
- the current rates of exchange;
- the short-term interest rate, employed on the monetary markets;
- the information about the new investment opportunities available to the company;

- the innovation in the financial field and the existence of new financial instruments.

Regarding the decisional system, the financial management will give information about:

- the interest rates which the company is willing to take loans at;
- the future cash flow needs;
- the recommendations of long-term debt increase, of shares' issue or a combination between these two;
- recommendations about taking short-term loans or about self-financing;
- the availability of risk management techniques;
- the economic units' productions and the impact on the existing and planned projects.

The financial dimension of a strategy is the one that better answers to the objectives of a company's shareholders: the company's market value maximization and the share's value maximization. It does not only represent the "arch-reflex" of the long-term decision but more likely the decisive factor in promoting such a decision.

Generally speaking, the basic purpose of the financial the basic purpose of the financial management's actions has to be company's survival and implicitly its situation's consolidation, demonstrated by getting some worthy market performances. For this reason, its role is to build a frame where the necessary connections between three fundamental variables are about to be established, namely: the company's objectives, the company's market value, the means and instruments used for measuring the company's financial and general performances.

### **3. Interferences and differences between the management of the accounting activity and the company's of the future financial management**

The finances represent the means and methods through funds are obtained, controlled, allotted and used. Accountancy is defined by the American Association of Accountancy as it follows: "*the identification, evaluation and communication process of the economic information to allow the accomplishment of certain judgments and decisions by the users of that information*".

The accounting activity has radically changed the content given by accountancy as a technique. Its purpose established centuries ago was to keep an evidence of the operations, of the incomes and expenses, to make the closing documents for an administration period. Nowadays, its basic purpose is to gather and analyze the information, contributing to the achievement of a competitive management, capable of capturing the future evolution of the economic activity. The risks faced by the company under the terms of a competitive economy make the information generated by qualitative accounting activity absolutely indispensable. Therefore, the accounting activity favours the effective and dynamic information process over the exploitation, financing and investment cycles developed inside the enterprise. Through the delivered data and information, it contributes to the increase of the economic efficiency, being able to determine the performed and employed expenses, the activity's due costs and their level inside the obtained incomes. Moreover, based on the accounting information managers can formulate the company's future strategy. However, it must be mentioned that these information can not be taken as such from the financial statements. They have to be thoroughly analyzed, from the point of view of the indicators that might be built, through the analysis of the external and internal environment, actually making an analysis of the strategic resources of the company.

Therefore, we consider that the accounting activity becomes the support of the financial management's accomplishment in any economic entity. The purpose of the financial activity is to offer the enterprise the financial and technical resources necessary to its functioning and development. The financial activity's practice is never entirely delegated and it stays in a close accounting activity dependency, but it also depends on the general management.

Basically, the accountancy evaluates the financial transactions, while the finances manage the financial transactions and the company's basic financial position.

Frequently, it has been considered that making reference to the accounting information in the financial statements for the financial analysis and prediction makes the financial management to become an "appendage" of the accounting activity. The vision has seized to exist when the financial management got specialized, even occupying a privileged place in the company's administration.

The investments' opportunity, the surveillance of performance indicators, the budgetary balance in case of unpredicted events, are considered obligations of the financial activity and of the financial management because all financing plans, income and expenses budget, the treasury budget are its scope. But these obligations can not be accomplished but on the information provided by the financial statements elaborated inside the accounting activity.

Although the accounting activity and the financial one might be considered as different functions, they are closely related. In many situations, it is impossible for managers to establish certain tasks just for the financial department. For example, when a before-calculation of the price is required, which is considered an obligation of the financial activity, will also require information about the costs, generated by the managerial accountancy. The interference between the two activities is therefore inevitable.

There are however two basic *differences* between the financial management and the accounting activity:

- *The funds' recognition method.* The first objective of the accounting activity is to change and deliver information necessary to the measurement of the company's performances, declaring the financial status. Using some generally accepted and regulated standards and principles, the accountants prepare the financial statements that establish the profit or the incomes based only on the registered sales and expenses. On the other hand, the financial manager focuses on the entries and issues of cash flow. He keeps the company's solvency by analyzing and planning the cash flows necessary for paying the obligations and purchasing the assets needed by the company to reach its objectives. The financial manager uses the cash-flow method in order to acknowledge the incomes and expenses, being interested only in the cash-flow entries and issues.
- *The decisional process.* If the ones involved in the accounting activity focus on collecting the information and showing the financial statements, the financial manager evaluates the situations elaborated by the accounting activity, creates additional information and takes decisions based on following analyses. The purpose of the financial activity is to provide correct and easily-interpretable information about the company's past, present and future operations. The financial manager uses this information, either in their initial shape, or after certain processing and analyses, as important entries for the decisional process. Certainly, this does not mean that the personnel which contributes to the accounting activity's development does not take decisions or that the financial manager does not gather information, but it supposes that

the accounting and the financial management focus on certain different objectives.

Unfortunately, most of the managers only study the financial statements when they want to value the company's performance. For example, the accounting balance reflects the assets at their accounting value. He does not take into consideration their value on the market and does not offer any information about the success of the investments.

A series of researches demonstrated that the role of those with financial or legal training, from the management's superior and the inferior echelons as well, has become more and more important. Therefore, it is more and more important that the employees in the accounting, marketing, production, personnel and other departments to understand the financial field in order to be good professionals in their own departments. For example, accountants should understand the way in which information, delivered by them through the financial statements and other similar reports, is analyzed by investors. The accounting activity's function is to provide the quantitative financial information so that it can be used when taking economic decisions, while the financial management has as basic tasks to plan, to provide, to assign and to use the financial funds, so that the economic entity's value and efficiency to be maximal.

The organization should find a way to create and immediately re-combine high performance multi-disciplinary teams which would work in a natural way. In a world where borders between activity departments are weakening and competition comes from untraditional sources, the multi-disciplinary perspectives become essential.

#### **4. Conclusions**

Knowledge through financial management will not restrict only to numerical data. For a complete image of the cause and effect type of relations, it is *necessary to* combine the structured information – data – with the non-structured information – text.

Consequently, in a society of latest generation information technology knowledge, a Web environment at the level of the whole company allows the interaction, the distribution of results and achievement of the organization's personality.

The financial management offers the possibility to plan the "way" to achieve the proposed objectives, to cover a well-defined path and to take advantage of the new opportunities which come along. At the same time, it offers an image of the compatibility between the company's internal processes, the existing financial sources, their cost and way of appropriation, offering strategic recommendations to avoid unpleasant events that may occur.

The most decisive matter regarding the financial management is represented by the managing team's level of involvement into the necessary changes. Without a strong involvement, the financial management can not be implemented.

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