Understanding Financial Management

Name

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Introduction

Financial management is one of the most important functions in an organization. It involves choice on economic actions that are inevitable in any business-oriented undertaking (Pandey, 2015). Financial managers must make decisions on how company's funds get invested to expand portfolio and means of obtaining money from external sources. Providing such investment decisions, they concentrate on functions that maximize the value of the firm and the overall stock price. Therefore, monetary management requires managers to understand the duties that they are required to perform in an organization in order to focus on acquiring knowledge that will guide their operations.

The Role of Financial Managers

The monetary controllers must undertake various technical duties to accomplish their function. The responsibilities include preparing financial statements, daily reports, and projections. They are also mandated with monitoring fiscal operations in efforts to ensure that legal requirements are addressed. Supervision of employees in monetary reporting and heading budgeting department are another role of these leaders in an organization. However, they face a significant number of challenges in reducing operational costs. They mitigate the problem through a regular review of company's reports and evaluation strategies. To understand external environment, managers update themselves with current market trends to seek areas of mergers and acquisitions. On the same note, strategic management relies on financial management in making decisions that involve money transactions to avoid losses (Pandey, 2015). Thus, investment controllers cannot perform their duties well without analyzing the economic environment that they are operating in and the pattern in which funds flow.

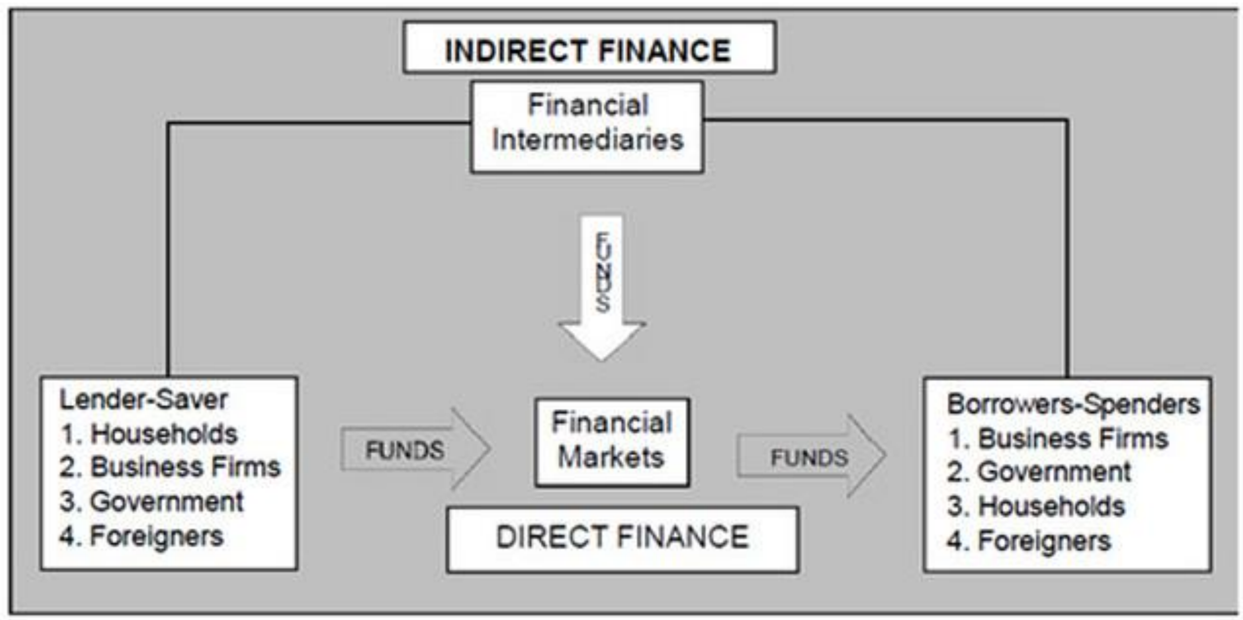
Financial Environment Analysis

To manage their roles properly, monetary investors must understand the cash flow environment that surrounds their business. Moreover, economic situation revolves around stock markets, fiscal institutions, and through private investors. It is worth noting that capital moves from servers to borrowers through direct transfers, investment banking house, and monetary intermediaries (Shubik, 2002). Specifically, financial market is an action of integrating individuals and organizations wanting to source funds with the suppliers. In such a quest, those who have money and who want to borrow can transact directly. Evidently, short-term transactions occur in cash markets, while long-term operations apply in capital markets. In fiscal commercializes, the business can be either private placement or public offering. The former involves the sale of a new portfolio directly to a buyer or a group of investors, while the latter includes the sale of bonds or bills to people by the government or private organizations (Shubik, 2002). Consequently, the understanding of financial environment enables managers to identify best investment decisions that are gainful and risk minimized.

Flow of Funds in the Financial System

It is important that monetary controllers understand the flow of funds in their business environment so that they can be able to make informed decisions on company's resources. Markedly, the commercial movement of funds involves the operating system of the financial market. It is important for fiscal managers to understand the system so that they can subject their organization into profitable investments. In this regard, it is worth realizing that the flow of money can be either indirect from lenders to borrowers through financial intermediaries or direct through monetary commercializes. Hence, an efficient fiscal system enables the servers to earn interest, investors to gain access to funds, and the economy to have a stable cost-effective integration.

The flow of funds is illustrated in the figure below:



Source: George, 2012.

Role of Financial Institutions in Enhancing Flow of Funds

It is inevitable to discuss the movement of funds in the economic system without giving value to the role of monetary institutions. Fiscal organizations are intermediaries that accept savings and deposits of individuals, corporations, and governments and convert them into loans to facilitate requirement of funds by borrowers. According to Shubik (2002), agencies that perform this role include commercial and investment banks, insurance companies, mutual fund, pension funds, and nonbank institutions such as credit societies and savings cooperatives. These facilities enable the flow of money by allowing its movement from savers who get treated as lenders to borrowers. They also enhance the flow of funds through issuing their liabilities to investors and using money to buy fiscal instruments. In such a way, financial mediators gain interest, create a broaden portfolio with diminished hazards, and lower transaction prises to stakeholders.

Financial Markets

It is a platform that brings together lenders of funds and borrowers to transact directly. In a commercial market, lenders are those who have surplus finances, while borrowers are the spenders. As explained by Pandey (2015), the stock market has enabled the growth of industries and emergence of new sectors in the global economy due to its diversification and inclusiveness. Thus, it is important for investors in an organization to select the different types of monetary commercializes so that they analyze their activities.

Types of Financial Markets

Fiscal markets are classified into various forms due to the variability of the method of transaction involved in them. According to George (2012), the first class of monetary commercializes is primary and secondary markets. The former is where securities are sold for the first time, and the issuers transact directly. Conversely, the latter entails the sale of old securities, and the issuers are not in the transaction. Another class of pecuniary market is the physical asset and fiscal asset commercialize. The aforementioned terms involve the sale of tangible products such as maize, machines, real estate, and automobile accessories. The latter gives value to stocks, share bonds, loans, and notes. Moreover, spot and the future market give another form of financial transactions (George, 2012). In spot commercialize, business occurs at the time of delivery, while future market involves parties agreeing to transact in future. Another valid classification of the pecuniary commercialize is the money and capital market group. The former entails the sale of short-term securities that take less than one year to mature. In this setup, the business is termed as highly liquid and with minimized risk. Examples of securities in this form of transaction include commercial paper, bank certificates of deposits, and government treasury bills. On the contrary, capital markets enable the sale of long-term securities that take more than one year to mature. The purpose of establishing assets-selling platform is to source for long-term funds to finance large capital projects. Notably, instruments in the monetary markets include stock, mortgages, and pension funds. These selling platforms also differentiate between public and private markets. Therefore, open commercializes involve the sale of securities such as the stock to the interested investors, while private markets entail the trading of shares and other assets to a specific investor or individual.

Conclusion

Evidently, financial management is a key driver towards the success of any organization. It is also clear that fiscal controllers need to understand their responsibilities to perform their roles efficiently. The flow of funds is another technique that leaders must comprehend to make investment decisions that will not risk the organization portfolio. On the same note, the pecuniary commercialize structure enables the flow of funds, and managers require comprehensive knowledge of its operations. Consequently, monetary controllers demand in-depth training and exposure that will enable them to understand their mandates and guide them in making investment decisions.

References

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