

FINANCIAL MANAGEMENT

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Abstract: This article provides detailed and thorough information about financial management. It gives definition to the term “Financial management” and exposes its history, importance and role in the development of particular organization and society.

Keywords: Finance, financial management, science, discipline, company, capital market, concept.

Financial management as a science is based on fundamental concepts developed within the framework of modern theory of finance and serving as a methodological basis for understanding the essence of trends in financial markets, the logic of financial decision making, the validity of the use of certain methods of quantitative analysis. The concept is a certain way of understanding, interpreting any phenomena, expressing a key idea for their illumination. The fundamental conceptions of financial management include the concept of cash flow, the time value of monetary resources, the compromise between risk and profitability; operational and financial risks, the cost of capital; the efficiency of the capital market; asymmetry of information; agency relations, alternative costs, the temporary unlimited functioning of an economic entity, property and legal isolation of the business entity.¹

It is important to note that some of the listed basic concepts are of a theoretical nature. Nevertheless, since they all play an extremely important role in terms of consciously building an effective financial management system of the company. By historical standards, financial management is a very young science.² Its isolation into an independent systematized area of knowledge devoted to the logic, techniques and methods of financial management of an economic entity occurred relatively recently, but it did not happen suddenly, not from scratch, but was prepared by the development of both financial science as a whole and a number of related disciplines directly related to business management. Let's make a brief digression into the history of the formation of financial science in general and financial management in particular.

By the middle of the XX century, the neoclassical theory of finance was already well represented by monographic developments. At the same time, certain specificity was clearly traced: a significant part of the scientific literature on the theory of finance in those years focused more on the problems of the capital market than on the management of financial resources of the company. Of course, knowledge of the theoretical foundations of financial management is necessary, but the applied aspect is no less important. It was the latter that served the reason for the formation in the 1960s of the applied discipline "financial management" as a science devoted to the methodology and technique of financial management of the company. This happened by naturally supplementing the basic sections of the theory of finance with analytical sections of accounting (analysis of the financial condition of the company, analysis and management of accounts receivable, etc.) and some conceptual apparatus of the general theory of management. The first monographs on the new discipline that could be used as educational manuals appeared in the leading English-speaking countries in the early 60s. It is possible to mention the famous work of J. Weston and T. Copeland [Weston, Copeland], the first edition of which was published in 1962. Now we can say that financial management has finally formed not only as an independent scientific direction and practical activity, but also as an academic discipline. A significant contribution to the popularization of financial management was made by representatives of the Anglo-American school of T. Copeland, J. Weston, P. Brealey (Richard A. Brealey), C. Myers (Stewart C. Myers), C. Ross (Stephen A. Ross), Y. Brigham (Eugene F. Brigham) and others.

Any enterprise, on the one hand, is a complex system consisting of many subsystems (one of them is just the system financial management, or financial management), and on the other hand, can be considered as an integral element of a higher-order system. Unlike mechanical systems, which are, as a rule, rigidly

¹ Лукасевич И.Я. Финансовый менеджмент: учебник / И.Я. Лукасевич. – М.: Эксмо, 2009. – 768 с.

² <https://www.businessmanagementideas.com/essays/financial-management-essays/essay-on-financial-management>

deterministic, an enterprise as a socio-economic system has many typical and spontaneous, often non-formalized aspects of activity, the logic of which is explained within the framework of the general theory of management. The coordination of the company's activities, which ensures the purposefulness and rhythm of its work, is carried out by forming a certain management system in it. Management, understood in a broad sense.³In other words, it is a process of purposeful, systematic and continuous impact of the control subsystem on the managed (otherwise: the subject of management on the object of management) with the help of so-called general management functions that form a closed and infinitely repeating management cycle. The isolation, interrelation and interaction of these functions can be represented in various ways. First of all, it is worth noting three circumstances. First, the word "general" means that these functions are invariant with respect to the type of socially-the economic system, the scale of its actions, industry specifics, etc.; in other words, they are implemented in any management system. Secondly, the set of general functions may vary slightly depending on the preferences of the authors of monographs and manuals. So, in the system of general functions, the accounting function is often isolated. In fact, such ambiguity is not critical. Thirdly, one should not understand the sequence of separate functions, their inevitable changeability during the implementation of the management process. In practice, these functions are usually intertwined, since any socially economic system is a kind of analogue of a living organism, but not an automatic operating according to a predetermined scheme.

To conclude, financial management is the operational and financing activity of a business that is responsible for obtaining and utilizing the funds necessary for effective operations.⁴Thus, Financial Management is concerned with the effective funds management in the business process and plays an unprecedented role in the world of business in every respect.

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³ Мелкумов Я.С. Организация и финансирование инвестиций: Учеб. пособие. / Я.С. Мелкумов - М.: ИНФРА-М, 2009. - 248 с.

⁴ <https://www.ipl.org/essay/Essay-On-Importance-Of-Financial-Management>