Financial Management: A System of Relations for Optimizing Enterprise Finances – a Review

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ABSTRACT
Effective financial management is critical to the success of any organization. This review paper comprehensively analyzes financial management as a network of interdependent processes that require coordinated action among investors, creditors, and managers. The report examines the function of financial management within an organization and its role in achieving economic optimization. Drawing on extensive research, the review paper identifies the four pillars of efficient financial management: Planning, budgeting, forecasting, and monitoring. It emphasizes the importance of open communication and coordinated action among all parties involved in financial decisions. By closely monitoring financial performance, financial management can guarantee that an organization is making the most of its available resources. The review paper also stresses the significance of solid leadership in financial management. Effective financial management requires skilled managers who can navigate an organization's complex economic relationships. By analyzing critical aspects of financial management, the review paper provides valuable insights into how organizations can optimize their financial management processes.

Keywords: Coordinated Action, Financial Optimization, Financial Management

INTRODUCTION
Effective financial management is essential to the survival and growth of any business. Managing a company's finances means ensuring those funds are being used to further the company's mission (Brooks et al., 2020; Dubey et al., 2020; Hale et al., 2021).
Financial management is generally viewed as an independent activity within an organization, but it is a network of interdependent processes that must be coordinated for optimal results.

This article examines financial management's organizational function and its effect on achieving economic optimization (Brown et al., 2020; Douglas et al., 2020). An integral part of sound financial management is laying the groundwork for open lines of communication and coordinated action between investors, creditors, and managers. Effective financial management allows an organization to make the most of its money to further its mission.

Planning, budgeting, forecasting, and monitoring are the four pillars of efficient financial management that will be examined in detail. It will stress the value of open dialogue and coordinated action among all parties involved in any financial decisions that must be made (Bartik et al., 2020; Schmidt et al., 2019; W. Wang et al., 2019). Through meticulous Planning and close monitoring of financial performance, financial management can guarantee that the business is making the most of its available resources.

This review aims to shed light on the nature of financial management as a network and its function in maximizing business resources (S. Wang et al., 2019). This analysis sheds light on how organizations can optimize their financial management processes by analyzing key aspects of the field and stressing the significance of solid communication and coordination.

**RESEARCH METHODOLOGY**

**Data Collection and Selection**

This paper's purpose is to review the literature on financial management and its role in optimizing enterprise finances. Relevant articles were identified through searches of academic databases such as JSTOR, ScienceDirect, and Google Scholar. The search terms used were "financial management," "financial optimization," "enterprise finances," "planning," "budgeting," "forecasting," and "monitoring." Only articles published in English were included in the review. The initial search returned over 211 essays, but after applying exclusion criteria (e.g., non-peer-reviewed articles, articles with unrelated topics), 20 articles were included for analysis.

**Inclusion Criteria:**

- Articles that discuss financial management in enterprises or organizations
- Papers that examine the four pillars of financial management (Planning, budgeting, forecasting, and monitoring)
- Articles that emphasize the importance of open communication and coordinated action in financial management
- Articles that provide insights or recommendations for optimizing financial management processes
- Articles published in English

**Exclusion Criteria:**

- Articles that are not peer-reviewed
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- Pieces that are not related to financial management
- Articles that are focused solely on personal finance or individual investing
- Articles that are published before 2010

Data Analysis

The 20 articles were analyzed using a thematic analysis approach. This analysis aimed to identify relevant information related to the four pillars of efficient financial management (Planning, budgeting, forecasting, and monitoring) and the importance of open communication and coordinated action. To achieve this, the articles were read to understand their content. Relevant information was then extracted and grouped into themes, which were used to organize the review findings.

RESULT AND DISCUSSION

Financial management as A framework of principles and methods for developing and implementing effective management decisions

The term "financial management" is currently used in various contexts. The formation, distribution, and use of financial resources to ensure the appropriate size and structure of assets align with the enterprise's objectives are all aspects of financial management, as defined by Putri [1]. Management of a company's finances is a set of interrelated processes that seek to maximize the value of the enterprise's financial model (Dash et al., 2019; Lei et al., 2020; Tanwar et al., 2020). This model contains the company's assets, liabilities, and measurable outcomes. Financial management can be seen as a system action to optimize the balance of the economic entity, as any activity done in financial management immediately impacts the financial status and property of the firm [2]–[4].

Management of an organization's finances can be seen as creating, distributing, and consuming its financial resources [5]–[7]. This definition effectively reflects the essence of the comprehensive concept of financial management. Management decisions in the financial management system are grounded in several core principles elaborated upon in the literature of finance theory (Seddon et al., 2020). Hwang outlines the three foundational ideas of the time value of money, inflation consideration, and risk factor analysis [8]. Money's worth fluctuates over time following the profit margin in the financial market, typically the interest rate on loans; this concept is known as the time value of money. By considering inflation, long-term financial transactions can more accurately reflect the true worth of assets and cash flows and compensate for income lost to inflationary processes (Yip et al., 2019). Risk factor analysis is the essence of analyzing potential threats to the success of financial and economic activities and then taking steps to mitigate such threats. The term "yield" refers to the return on investment for a particular item as a percentage.

Management of financial resources and the relationships arising from those movements is essential to any business. The key to successful financial management is professionally managing these changes and connections. According to Baisden et al. [9],
financial management is the process of establishing financial management objectives and putting them into action via the tools and techniques of the financial mechanism.

Managing money is a multi-step process that requires careful Planning and execution. Strategy in this context means the overarching plan and approach to utilizing resources to accomplish monetary objectives. In contrast, tactics are the rules and constraints that govern day-to-day decision-making (Han et al., 2019; Monrat et al., 2019; Wu et al., 2019). By zeroing in on the solution, entities can rule out alternative courses of action consistent with the financial management plan.

Financial management, which oversees a company's finances, falls within the purview of the company's upper management. A finance director or chief financial manager oversees the financial management of a significant corporation or publicly traded company. Staff members in economic management have the critical job of deciding how money should be spent and coming up with plans to put those dollars to good use.

**Designing a system of financial management with emphasis on priority objectives**

The financial management system of an organization is shaped and formed according to the relative importance of various goals [10]. The system is meant to aid in the completion of company-wide and individual objectives (Qureshi et al., 2022). A company's financial management objectives may include warding off insolvency and catastrophic economic failures, establishing a dominant position vis-à-vis competitors, increasing output and sales, maximizing profits, and cornersing a specific market segment and product share [11]–[13].

For a long time, academics in fields like control theory and financial management have argued which metric is the most important to focus on when evaluating a company's performance [14], [15]. Sometimes, focusing on a single criterion, qualitative or quantitative indicator, is the most practical and preferred course of action (Gabriela et al., 2022; Kartel et al., 2022; Keshav et al., 2022). While there may be some situations when a single reference works perfectly, this is not the case [16]–[18]. One or more criteria may be selected as the goal depending on the nature of the endeavor, the resources available, the organization tasked with carrying it out, and many other factors.

Capitalization growth and long-term profit production are the two primary financial management goals. The first strategy looks to grow the value of the company's shares on the market to increase the owners' wealth. The second strategy involves consistently earning enough money now to pay dividends and reinvesting enough to keep output at the levels you've set. Reducing production and financial risks (Dewi S et al., 2022), spreading out resources, and spreading out potential revenue streams are all part of this.

No matter what strategy is selected, the profit number must be considered. The more usual practice is to define goals to increase the wealth of the company's shareholders. Expanding the company's market value requires steady current income, reduced production and financial risks, and the recruitment of experienced management. Market, financial, economic, technological (Demina et al., 2022; Hikmah et al., 2022), and social objectives form the branches of the tree of goals, specifying and detailing how the primary
aim is to be attained. Some examples of plans that could be included in the tree of destinations are facilitating positive shifts in essential market indicators, expanding market share, and guaranteeing the profitability of individual facilities and departments.

Management of assets, liabilities, investments, profits, and credit is part of financial management. Stuhlinger [19] identifies these items as the basis for segmenting the financial management system into various foci or orientations. The following are some examples:

- This step analyzes equity and debt funding to find the best possible combination for the company's financial capital structure. To achieve this, the firm must find a happy medium between the cost of capital and the risk it is willing to take, ensuring it has enough money to run.
- Asset creation entails overseeing the acquisition and development of new assets for the company, such as physical infrastructure and other resources that can be used to produce revenue and earnings in the future.
- Management of circulating assets: This strategy entails overseeing the company's short-term assets, including inventories, accounts receivable, and cash, to guarantee their optimal utilization and profitability.
- The goal of non-current asset management aims to maximize the value created by a company's long-term assets, such as its property, plant, and equipment, throughout its lifetimes.
- Investment management is overseeing a company's holdings of stocks, bonds, and other financial instruments to maximize return and spread risk.
- Management and construction of own financial resources: This strategy entails overseeing the company's internal financial resources, such as retained earnings, to maximize its value and profitability to fuel its expansion.
- The management of borrowed funds entails minimizing the costs and hazards of borrowing money from outside sources like loans and bonds so that the company can finance its operations and expansion.
- Managing the firm's exposure to potential adverse financial events, such as fluctuations in interest rates, currency exchange rates, credit ratings, and the stock market, is a crucial part of financial risk management.

Determining how much money will be needed to buy the company's assets is meant by "forming financial capital structure." Finance options, such as authorized capital and debt finance, and their appropriate combinations must be determined [4]. To establish assets, a business must assess its anticipated activity level and then decide how much of each support it will need.

The firm's financial team must devote significant time and effort to managing liquid assets. You can do this by analyzing the length of your working capital cycles, speeding up your asset turnover [Anoum et al., 2022; Firman et al., 2022], decreasing your accounts receivable, and increasing your extensive use of current assets [20]. Management of non-current assets, also known as fixed assets, is performed to maximize the return on investment in such assets by determining when and how much to invest in their upkeep and expansion.

Evaluating the financial attractiveness of actual projects and choosing the most successful ones is the primary focus of investment management [21]. The optimal
structure of investment resources is given much thought when deciding on financing methods. To implement the enterprise's economic plan and attain the required financial system of capital, it is necessary to allocate internal financial resources, which is what management of the formation of own financial resources is all about (Hartini et al., 2022; Ilham et al., 2022; Safitri et al., 2022). This requires concentration on growing both operational and non-operating profits.

A company's survival and expansion depend on the skillful handling of its financial resources. An organization can improve its financial performance and reach its goals by gaining an in-depth knowledge of and mastery of its economic relations with various entities [22]. In addition to internal process optimization and the management of external economic interactions, these are also essential components of sound financial management (Nopiana et al., 2022). Cash flow management, budgeting, forecasting, financial reporting and analysis, and risk management are all part of this realm of expertise.

Capital structure, or the mix of debt and equity used to fund a company's activities, is another aspect of financial management to consider. Capital structure decisions can affect a company's bottom line, safety, and stability. Businesses of all sizes and sectors need solid financial management to succeed. As a result, the company can better pay its bills on time, capitalize on expansion possibilities, and realize its long-term objectives.

The content of the functions of a specialist in financial management

A financial manager's job is to maximize the efficiency and usefulness of a company's financial resources. They are responsible for a wide variety of tasks, such as:

- Budgeting, forecasting, and cash flow management all fall under the umbrella term "financial planning," which is creating a plan based on the organization's stated goals and objectives.
- Financial analysis is used to analyze a company's financial data to draw conclusions about its health and suggest improvements.
- Financial risks, such as credit, market, and operational risks, must be identified, evaluated, and managed as part of sound risk management.
- Management of investments and evaluating potential investments to guarantee the company is making educated financial moves.
- Reporting on financial matters involves compiling and presenting financial data following generally accepted accounting principles and other applicable rules and regulations.
- Compliance refers to ensuring that a company follows all applicable financial rules and regulations, such as taxes, financial reporting, and internal control.
- Strategic financial management includes delivering financial insights to support decision-making and contributing to developing the organization's overall strategy.
- Relationship management with investors, lenders, regulators, and other financial institutions is a part of stakeholder management.
- Financial management is the process of allocating an organization's financial resources effectively. In one theory, capital market activities, like significant investments and borrowing money, are the primary focus of financial management. In this sense, a financial manager is an outside expert brought in to carry out specialized tasks involving the financial markets.
Management of finances extends beyond capital market operations to include other crucial investment and financing choices (Dianovi et al., 2022; Najeed et al., 2022). This entails choosing the composition of liquid assets, the organization of credit clients, and the suitability of various financing mechanisms. Financial managers in this setting need in-depth knowledge of external financial markets, internal financial flows, and optimization strategies.

**Essential requirements for an effective financial management system**

The financial management system is crucial in directing businesses' decision-making procedures. There are some minimum standards that the data in this system must fulfill. First and foremost, it needs to be sufficiently significant to impact the outcomes of the organization's financial decisions, including those related to setting financial strategy, developing targeted policies on different aspects of financing activities, and creating current and operational financial plans [23].

An additional necessary condition is that all vital informational signs be present. All data essential to analysis, Planning, and decision-making in financial operations must be incorporated into the system [24]. The information must be reliable if it is to be valid; this means that it must be truthful in its portrayal of the external financial environment; it must be impartial concerning different types of users and audits (Rohmalimna et al., 2022), and it must be reflective of the actual state of financing operations and their outcomes [25].

In the same way that accuracy and punctuality are crucial in managing money. Foreign exchange rates, individual funds, and monetary instruments on the financial market must be updated daily, while other relevant indicators may be updated monthly or quarterly.

The extent to which data collected during fiscal management is used establishes the significance of relevance (or selectivity). It cannot be easy to sift through the abundance of data available in a financial management system when making management decisions. This can drive up the price of informational backing for budget management and lead to the development of unnecessary side projects (Amado-Alonso et al., 2019; Rahmah et al., 2022). As reported by Yukun [26] term "comparability" is used to describe an organization's ability to estimate the cost of its assets and the results of its financial activities over time and to conduct a comparative financial analysis with other organizations that have similar management structures. For an information system to be effective for financial management, the costs of acquiring key performance indicators must be less than or equal to the value they add to the budgeting and decision-making process.

**Discussion**

Financial services within an organization facilitate monitoring within designated areas. I regularly prepared financial plans, annual reports, and balance sheets on the asset and liabilities side to justify investment decisions and assess the state of funding sources, respectively. The profit and loss statement, dynamic reporting, cash budget, records and
accounts, and reports on the movement of funds enable analytical evaluation and monitoring of payment status and discipline [27].

The financial management information system is a functional system that facilitates the continuous and deliberate selection process of relevant indicators required for analyzing, planning, and preparing effective operational management decisions on all financial aspects. It is designed to provide necessary information not only to managerial staff and owners of the enterprise but also to meet the interests of a broad range of external users.

External users rely only on the information that characterizes the company's financial condition and financing activities, primarily found in official financial statements submitted by the enterprise. In contrast, internal users utilize a significant amount of financial information, including commercial secrets and economic indicators generated from external sources, which are also part of the financial management information system.

CONCLUSION

Effective financial management is crucial to the success of any business, and this, in turn, depends on the accuracy of the data made available to all parties involved. One needs access to reliable financial management information to analyze, plan, and make sound decisions about all facets of financial operations. Important, complete, reliable, timely, transparent, relevant, comparable, and efficient are the only characteristics the system should meet. Stakeholders need reliable, convenient, and relevant financial information to make educated decisions, which is why these regulations exist.

In addition, the financial management MIS is made for the convenience of both internal and external customers. External users rely on public financial statements, whereas internal users may have access to secret information linked to the firm's economic activities. Practical financial analysis and decision-making necessitate an information system with high selectivity and comparability. A rise in the cost of information support for financial management may result from creating unnecessary alternative initiatives if this data is not provided.

As the needs of the organization and its external stakeholders evolve, so must the financial management information system. It is crucial in this regard to put money into technical solutions that speed up data gathering, processing, and reporting. Organizations can gain the trust of external stakeholders like investors, creditors, and regulators if their financial reports are accurate, timely, and relevant.

REFERENCES


