F I N A N C I A L   M A N A G E M E N T

Historically, businesses have been founded by inventors, salespeople, and technically-oriented individuals who have superior skills in their field, but little expertise in financial management. Though these businesses may be successful, owners often lack answers to several important questions: Is the profit I get from my business as good as that which I could derive from investing in other things? Am I being compensated for the risk of being in business, and for the time and skills I am applying?

Why Do I Need Financial Management?

With sound financial management, every entrepreneur can answer these questions. Financial management helps you:

- Obtain the financial statements you need to measure company success, meet government requirements, and gather information to use in making management decisions.
- Perform analyses to find profitable directions and eliminate unprofitable ones.
- Handle company finances to maximize profits and maintain liquidity and financial stability, with or without increased sales.
- Protect company assets.
- Plan financially to achieve company and personal goals, including non-financial company goals such as having the best place to work or offering the best quality products, and owner goals such security, retirement, or leisure activities .
- Prepare financially for unknown developments such as new technology, new or improved competition, changes in customer needs, shifts in the economy, or changes in legislation. This also includes planning for the continued life of the company.

Sound financial management does not eliminate the need for attention to sales, production, and personnel, but enables each of these functions to succeed, and enables that success to be measured. *Remember that everything you do in business has a direct or indirect financial implication.*

What Does A Financial Manager Do?

The list of responsibilities is long and includes record keeping, preparing budgets and forecasts, cost accounting, exercising internal controls, preparing government reports, obtaining and monitoring insurance, and (usually) data processing. Just as important are analyzing data and determining how the company is performing, making recommendations to management about whether to expand or reduce, and, in small closely held firms, coordinating the personal financial and tax goals of the owner with those of the business.

Who Will Carry Out Financial Management Functions?

The bookkeeper records normal business transactions in accordance with the instructions established by the accountant (who may be the same person). The accountant may help to select and train the bookkeeper, and provide technical supervision. The accountant reports to financial manager or, in a small business, may actually be the financial manager. The financial manager's role may also be carried out by the owner or even an outside accountant depending on the size of the business, its financial complexity, and the capabilities of the owner. The financial manager is concerned with planning, policies, controls, and procedures. In summary, one person with proper training and/or experience may do all these tasks.

Company Size versus Competence

One of the greatest problems in small business is that the business outgrows the capabilities of the original bookkeeper and accountant. The people who can handle the financial functions for a $100,000 firm often fail to perform effectively in a $1,000,000 firm. If this happens, don't hesitate to bring in someone who is better equipped to handle the heavier responsibilities. The life of the company may depend on it.

Know the Business!

The most effective financial managers and accountants understand not only your business, but also the industry in which you operate. They can't effectively analyze your historical records or assist in current management decisions and future projections unless they know your operations, your customers, your products and services, and your key people. Be wary of anyone who tells you that they can provide financial services without being thoroughly familiar with your business. To keep their knowledge current, it is essential for financial managers to attend sales meetings, trade shows, and other industry and company functions.

Certified Statements

At some point you may need certified financial statements. Creditors, particularly banks, often require them. Certified financial statements help to ensure the accuracy of the information upon which management decisions are made and are usually required if you sell the business.

Since only a Certified Public Accountant (CPA) not employed by your business may prepare these statements, this means that you must find an outside CPA before the beginning of your fiscal year so that this firm or individual can verify accounts both as of the beginning of the year and at the end.

Certified statements require verification of all or portions of your accounts. For example, a percentage of your customers will be asked to verify the amounts they owe you. Some of your suppliers may be asked to verify the amounts you owe them. Your loans and bank accounts will be verified. Inventory and other significant company assets are usually checked. Once certified statements have been prepared, the cost for preparing such statements in subsequent years is usually less if you stay with the same accounting firm. There are various types of certifications, be sure you find out about each one and which is most cost effective.

The information in this handout was taken from the Eastman Kodak Company Credit Department publication, *Selecting & Directing the Financial Manager.*