

Role of a financial manager

In a large sized business enterprise, the chief financial officer is known as financial manager. He is directly accountable to the Managing Director and has equal status with any other departmental head or he can be treated as a member of top management. In the USA he is known as the vice-president of finance. He occupies a key position in the management of business for the last five decades. He is involved in most important decisions pertaining to efficient allocation of company's fund. His actions have far reaching influence on the size, profitability and growth of the firm.

It must be remembered, however, that the role of financial manager was not so important before few years. He was considered to be quite an unimportant person. His only function was to raise funds for business and that too on certain occasions only. The popularity of traditional approach was responsible for this insignificant position of the financial manager. In this context, Shri I. M. Pandey has rightly remarked, "the traditional approach dominated the scope of financial management and limited the role of the financial manager in the initial stages. According to this approach, the scope of financial management and the role of the financial manager are considered to confine to the raising of funds. And it is during the major events, such as promotion, reorganization, expansion, etc. in the life of the firm that the financial manager is called upon to raise funds. In his day-to-day activities, his only significant duty is to see that the firm has enough cash to meet its obligations".

Since last five decades, the role of financial manager has changed. The function of financial manager is not confined to raising of funds only, but efficient allocation of funds has also been included among his functions. As one of the members of top management, he has to take decisions on investment, distribution of income and procurement of funds. In his new role, he has to seek prudent answer for the three important questions stated below:

- (1) How large should an enterprise be and how fast should it grow ?
- (2) In what form should it hold its assets ?
- (3) What should be the composition of its liabilities ?

In view of the significance of these questions, the financial manager holds an important place in business unit and his role has changed to a remarkable extent.

The financial manager has to perform following functions to give justice to his new role:

- (1) He has to raise funds for the business, but not so much as to be expensive.
- (2) He has to raise funds in such a manner that cost of raising funds are minimised.
- (3) He has to achieve and maintain enough liquidity and at the same time to achieve optimum level of profitability.
- (4) He has to allocate available funds prudently.
- (5) He has to analyse, plan and control the funds of the business.
- (6) The working capital has to be managed in such a manner that its components such as cash, inventories and receivables are effectively managed.
- (7) He has to analyse the effects of external forces on the financial position of the business and do the needful in this respect.
- (8) There should be a proper balance between retained profits and dividend distribution, so that, on the one hand, the business can have enough resources for future growth and, on the other hand, the shareholders also feel satisfied.
- (9) It is also the duty of the financial manager to keep top management well informed of the important events pertaining to finance.

Among the assistants of the financial manager, there are two important designations: treasurer and controller. The main functions of the treasurer are with regard to cash credit, investment etc while those of the controller are with regard to accounts, budgets, reports, etc

The details of the functions of the treasurer and controller are given by Prof. Pandey as under:

Treasurer's Functions:

- (1) Provision of finance: To prepare and implement the programs for the provision of finance required by the business including negotiation for its procurement and maintenance of necessary arrangements.
- (2) Relations with Investors: To establish and develop an adequate market for the company's securities and to maintain adequate contact with its investors.
- (3) Short-term Financing: To maintain adequate sources for the company's short-term funds from the money market.
- (4) Banking and Custody: To maintain arrangements with banks, to receive, keep under custody and disburse the company's moneys and to be responsible for the financial aspects of transactions relating to fixed assets.
- (5) Credit and Collection: To direct the granting of credit and the collection of accounts to the company.
- (6) Investments: To invest company funds as required and to establish and coordinate policies for investment in pensions and other trusts.
- (7) Insurance: To provide insurance coverage as required.

Controller's Functions:

- (1) Planning and Control: To frame, co-ordinate and administer, a plan for the control of operations. This plan includes profit planning to the extent required, programs for capital investments and financing, sales forecasts, expense budgets etc.
- (2) Reporting and Interpreting: To compare actual performance with the standards of operations, to interpret the results of operations and to inform all levels of management, to discuss with all levels of management the financial implications of their actions.
- (3) Tax Administration: To frame and execute tax policy and procedures.
- (4) Government Reporting: To supervise and coordinate the preparation of reports to be submitted to the government.
- (5) Protection of Assets: To ensure protection of the firm's assets through internal control, internal auditing and through providing insurance coverage.
- (6) Economic Appraisal: To appraise the economic and social forces and government policies and to examine their effects on business.