

Finance Management in Functional Management System

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Abstract— The research's pertinence results mostly from the fact that under today's circumstances of organizations' operation we more and more often face challenges in coordinating executives' actions due to rapid change in internal and external environment. It demands a methodological toolbox to implement executive decisions in functional management, but today its methodology basis is not fully developed. The goal of the research is to define the place of financial management in the system of functional management, to discover existing connecting links and their impact on modern businesses' activity. The article shows the results of the conceptual framework analysis in functional management; it presents the authors' view of such terms as "functional management" and "functional management system" as well as classification and interconnectedness of management functions and a business's functions. Subsystems of the main functional management system were assessed. Subjects and objects of management were identified. Recommendations for executive decisions implementation in functional management were formulated to achieve a high degree of coherence in putting into practice specific projects and plans. All the examined functional management subsystems are connected. The central focus has been made on finance management that is subordinate to the other systems and in its turn impacts their development as it fulfils its function of generating financial resources and of their investment into production. The study used some elements of the comprehensive approach and systemic, structural and processing analysis as well as comparative analysis, scientific search and classification approaches.

Keywords— *functional management, production management, marketing management, finance management, planning, budgeting, financial responsibility centres.*

1. INTRODUCTION

Today modern businesses (firms, organizations) operate in a rapidly changing internal and external environment. That leads to the logical necessity of coordinating their activity that demands to make relevant decisions. At the same time, it is essential to arrive at and make executive decisions by utilizing the specific functional management toolbox. It is worth noting that the term "functional management" is a relatively new one in Russian publications on economics and there is still a discussion on the definition of its subject matter and its components. Finance management has an influential role in the functional management system which proves the pertinence of the questions examined in the present article.

2. PERTINENCE AND SCIENTIFIC MERIT

The issues addressed in the article are particularly crucial given an arising logical necessity of solving problems of executives' activities coordination that fulfil a company's specific functions in the current management system. Management issues have been studied for many years by such scientists as A. G. Aganbegyan, G.I. Marchuk, Y.V. Yakovets, L. I. Abalkin, O.S.Vikhansky, A.I. Naumov, V.V. Busyrev, V.G. Anisimov, A.N.Acaul, V.A. Tusov, L.M.Chistov, A.A. Sbritsky, G.M. Kurosheva, O.K. Slinkova, R.A. Skachkov [1-9], etc. In this regard, Russia has much positive experience in management. Nevertheless, the peculiarities of functional management as a business activity management system aimed at coordinating the performance of particular jobs have not been thoroughly examined. Specific issues related to functional management are studied by K. Ryatov, L.F. Zakharova, M.A. Chernysheva [10-12], but this is not enough to fully comprehend the essence of functional management as well as to form a comprehensive system.

The term "functional management" is used to describe a commercial organization's (a business's) activities in connection with its functions. A business's functions must be closely linked with the functions of management. The coordination of these functions forms the basis of functional management. In the authors' view, functional management is a system of managing certain activities of an organization that are related to its functions: production, sales, and marketing, finance and investment, human resources, logistics.

These are the primary functions. Publications describe other functions as well [13-15], but as a rule, they are related to the functions cited above.

Insufficient research of the issues related to the subject matter and the conceptual framework of functional management, its system's elements and links between them provided the basis for the current study's aim: to analyse the basic terms, define subsystems and components in functional management, characterize them and identify correlations. Define finance management's role in the system and study various tools of financial management in a company.

3. FORMULATION OF OBJECTIVES

The following objectives were formulated and accomplished, to attain the stated goal:

- to study the conceptual framework in functional management;
- to identify the essence and peculiarities of functional management as a system of managing a company in the Russian market;
- to define the functional management system's elements given a company's functions;
- to clarify functional management's components, to identify the correlations between functional management subsystems and their functions;
- to test proposed functional management theories in currently operating companies.

4. THEORY

The conceptual framework for functional management has been examined, the authors have presented their interpretation of the terms "functional management" and "functional management system". Functional management system is a complex of subsystems managing a company's various activities: production, marketing, transport and logistics, human resources, finance; they are aimed at achieving a company's goals and objectives.

The analysis of publications in the field of economic science allowed us to summarize the theoretical aspects of a company's activity that are connected to its functions fulfilled in the current management system. This provided an opportunity to identify subsystems in the system of functional management per a company's functions as described here (figure 1).

Functional management				
Production management	Marketing management	Logistics management	Human resources management	Finance management

Figure 1. Functional management system elements

The production function is fulfilled within the subsystem "Production management" that deals with production, its management, logistics support, operational administration, etc.

Marketing or sales function is fulfilled through marketing management or company management based on the principles of marketing. The object of management is a marketing complex that includes merchandise, contract, communications, and distribution policies.

Logistics management provides for forming materials and services flows of a company. Its object is represented by any goods and information flows, any processes related to the transportation of commodities, materials, unfinished goods and merchandise.

Human resources management is an activity aimed at managing people to achieve a company's goals. This is an executive function that includes headhunting activities, development, learning, rotation, creating and managing a working environment, labour expenses, etc.

Finance management is a system aimed at managing a company's (an enterprise's) financial activities. Financial

resources, investments in current and non-current assets, gainings, expenses, profits are the object of financial management.

As it has already been mentioned, functional management is based on the close relationship between a company's and its management's functions. The functions are here defined as a specific kind of management activities. These functions were formed in the process of management activities division.

Management functions classification was first introduced by the famous scientist Henri Fayol in [16]. He studied the following functions: foresight, organization, management, coordination, and control.

Today the management theory usually identifies four general functions: planning, organization, control, and motivation.

Let us consider these functions in the context of functional management. Every subsystem in functional management consists of a subject and an object of management. The subject of management includes structural subdivisions and their employees that fulfill management functions, methods that help to perform these functions, information and technical assistance. The result of their activity helps to implement executive decisions in functional management to achieve a high level of coordination in specific projects and jobs.

The objects of management are divided into subsystems of functional management: manufacturing systems, marketing complexes, logistics systems, human resources, and finance. Chart 1 shows the connections between functional management (FM) components.

Chart 1. Functional management components

Subsystems FM	Management functions			
	Planning	Organization	Control	Motivation
Manufacturing management	PP	PO	PC	PM
Marketing human resources	PM	OF	CM	MM
Logistics human resources	PL	OL	LC	LM
Human Resources management	EP	LO	EC	LM
Finance management	FP	OF	FC	FM

Production planning (PP) is one of the primary functions aimed at fulfilling an organization's purposes. This action plan for employees that must give answers to the following questions: what to produce; how much to produce, when to produce, what technologies and resources to use.

Production organization (PO) is a system of measures intended to unite all the elements of a manufacturing process (all types of resources) in time and space to achieve the goals established in production planning. It is designed to rationally combine basic, subordinate and support processes. Production

organization is aimed at fostering a production structure of a company.

Control in production management (PC) is a process of watching over the manufacturing process intending to identify actual deviations from envisaged manufacturing results. Thus executive decisions in production management are put to the test, and their results are assessed.

Motivation (PM) plays a significant role in achieving envisaged production goals. Traditionally motivation is seen as a process of motivating employees for effective activities aimed at achieving goals established in a production plan. For these ends, an organization develops relevant motivators and stimuli.

The examined management functions are equally applicable to marketing management. Planning in marketing (PM) should be examined as a process of drafting a marketing plan that includes formulating the price of the output, planning the advertisement campaign and stimulating sales as well as other marketing complex components.

Organization function (OF) in marketing when fulfilled must expedite the marketing plan implementation. This is related to organizing activities of structural subdivisions that fulfill marketing functions. It is essential to provide them with the necessary resources, distribute and coordinate the employees' activities in time and space.

Control in marketing (CM) envisages making a comparison between tangible results achieved in marketing with the initial indicators. It also includes proposing adjustment measures to achieve marketing plan goals.

The motivation for effective marketing activities (MM) is one of the functions of marketing management. It deals with developing a set of motivators and stimuli that induce marketing staff's effective activity. This function is not the same as consumer motivation but is closely related to it. Effective marketing activity should induce consumers to decide to buy a product.

Planning in logistics subsystem (PL) has its peculiarities related to physical merchandise distribution planning as well as to material and information flows in a company. This said, planning must be connected to functional aspects of logistics: physical resources purchases, their warehousing, storage, and transportation; in-process distribution and processing, warehousing, storage and transportation of merchandise and its marketing.

Organization in logistics (OL) management aims at the division of work between the employees, its coordination as well as designing an organizational structure in the logistics system. As logistics has many functional aspects, there is a need for a high level of coordination in particular jobs.

In order to overcome drawbacks in the logistics system, the control function (LC) is used. It envisages a comparison between the actual results in every functional aspect and the planned indicators, identification of deviations and their analysis to show the reasons behind them.

A large number of the logistics system's agents and the complexity of their relations calls for a new employee motivation enhancement system (LM). Identification of

responsibility and motives for all the stakeholders by agreements, contracts, and deals that state the conditions of engagement must be the prerequisite for its creation. This must rely on ethical and financial stimulating methods.

Employee planning (EP) is a multi-aspect function that covers future needs for employees and their displacement; staff use and development; employee expenses planning. This said, such factors as production and organizational structure of a company, a production programme, the peculiarities of a manufacturing procedure, labour saving and automation levels.

Labour organization (LO) has an important role to play in human resources management as it is related to the creation of a working environment for the labour force. To organize employee labour is to accomplish the division and cooperation of labour, rationalize labour approaches, organize the labour environment and its service support.

Employee control (EC) is one of the most challenging functions in management as it covers a large number of activities. This leads us to the necessity of creating a control system that consists of different elements. For instance, the number of employees and staff turnover control, headhunting control, quantitative control of staff activities and their behavioural manifestations.

Labour motivation of employees (LM) is a crucial element in human resources management. It is designed to implement methods of financial and ethical motivation to induce employees to work effectively.

Finance management has a particular role to play in the functional management system. The object of finance management is a financial model of a company examined in [17]. In its basis, there are functions fulfilled by financial subdivisions' employees that are shown above in Chart 1.

Finance planning (FP) has a significant role to play in financial management and was examined in detail by the authors of the present article in [18].

Organization function (OF) in finance management envisages creating financial subdivisions in an organizational structure, assignment of tasks and activities and delegation of authority in finance management and coordination among a company's employees.

Financial control function (FC) aims at identifying deviations of real indicators from the ones envisaged in the financial plan as well as their adjustment.

The activities of all the employees who fulfill the functions of financial management must be motivated for achieving the goals envisaged in the plans. In this context motivation in finance management (FM) completes a circuit of a company's financial management process.

All the examined subsystems and components of functional management are connected. The last subsystem should be financial management that is influenced by the examined elements and in its turn impacts their development, as it fulfils its function of generating financial resources and of their investment into production.

Today we can study various instruments of finance management. However, in our opinion, budgeting is the most

important one when it comes to techniques of accounting, planning, control, and motivation. Presently budgeting is studied by various experts, including [19, 20, 21, 22].

Financial planning in the budgeting system starts with setting a basic budget that consists of several independent budget documents. Broadly speaking they can be divided into two parts: operational budget and financial budget. The operational budget includes budgets of the central business processes. As part of a financial budget, budgets of gains and expenses, balance sheet reports and cash flow budgets are drawn up. The main budget planning is shown in Figure 2.

	Sales Budget	Executive and commercial expenses budget	Operational budget
Commodities storage and GP budget	Production budget	Indirect expenses	
Direct commodities and materials expenses	Direct labour expenses budget		
	Sold merchandise prime cost		
	Gains and expenses budget		
	Balance sheet		Finance budget
	Cash flow budget		

Figure 2. Planning of the main budget of an organization

5. PRACTICAL VALUE

The practical value of the research's results is based on the fact that the authors' theories on forming functional management systems were tested in a number of companies in different industries.

Budgeting in companies was performed by stages as shown in Figure 3.

1. Preliminary stage
2. Planning. Budget Drafting
3. Budget Implementing Organization
4. Accounting. Budget Accountability
5. Budget analysis and control. Regulation

Figure 3. Budgeting stages

The tool of financial management has been put into practice in OOO "Bonitet". The company deals with "Forest management and services".

In drawing up a budget, it is essential to link the budgets to the centres of financial responsibility (CFR). The organization's financial structure was designed to this end. A

financial structure is represented by the composition and links of financial responsibility centres in the budgeting system. Centres are formed on the principle of financial information consolidation. It is proposed to identify in OOO "Bonitet" the centre of gains, expenses, profits, and investment. Every centre is represented either by one structural subdivision or by a number of them. The composition of CFR is determined by the organizational structure of OOO "Bonitet". Chart 2 shows the connection between CFR and structural subdivisions in OOO "Bonitet".

CHART2. The financial structure of OOO "Bonitet"

Structural items	CFR 1 Gains Centre	CFR 2 Expenses Centre	CFR 3 Profit Centre	CFR 4 Investment Centre
1. CEO	+	+	+	+
2. Production deputy	+	+	+	+
2.1. Upper warehouse		+		
2.2. Lower warehouse		+		
2.2.1. Lumber sawing area		+		
2.3. transport area		+		
3. Commercial Director	+	+	+	+
3.1. Accounting Department	+	+	+	+
3.2. Human Resources		+		
3.3. Supply Department		+		
3.4. Sales Department	+			

The formulation of an organization's financial structure should be preceded by the development of a Regulation on the financial structure that lists centres of financial responsibility, their types, the organizational composition of CFR and the structural chart.

The implementation of the budgeting system in OOO "Bonitet" faced some challenges. First of all, there was a gap between such management components as planning and accounting. In OOO "Bonitet" these functions were fulfilled by different structural subdivisions (a planning department and an accounting department). Each has a specific understanding of the work's goals. Therefore it is essential to unite budget planning and financial accounts under one system of budget management. The amount of paperwork increases as does the amount of work. What is more, the employees face a psychological barrier. However, these challenges are addressed in due course thanks to the executives' professionalism.

6. CONCLUSION

The conducted research allowed us to develop theoretical knowledge of forming a functional management system in

modern companies and to identify the place and role of financial management in it.

The practical merit of the results of this study results from the fact that the authors' recommendations will encourage justified executive decisions intended to improve the performance of economic entities.

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