Financial Management and Finance Person in Nigeria: The Role of Communication

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***Abstract*: "Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization." (Juneja, 2008). A good financial management is germane to the overall success of an entity. An entity can be a Sole Proprietor, a Partnership Business, a Firm, a Company, Government Establishment, Institution of Learning and even Religious Institutions. The importance of sound financial management cannot be over-emphasized in all these entities mentioned. The paper examines the meaning, objectives, importance and functions of financial managers in making an excellent communication skill to all the stakeholders of the entities enumerated above.**

***Keywords*: Financial Management, Finance Person, Role of Communication, Entity, Nigeria.**

I. INTRODUCTION

Daily experiences of life teach us that we need money to do so many things. For example, money is needed to buy food, clothing and for the provision of shelter. Also if we want to venture into any business, money is required. Therefore, money is a necessary factor for the survival of human being.

In his landmark essay on the nature of economics, Lionel Robbins (1935) defined economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternatives uses".

It is clear from the definition of Robbins (1935) that human wants are unlimited but the means to satisfy these wants are limited. One of the means of satisfying human wants is money. It means money is a scarce resource. It is because of the limited availability of money that one need to handle the funds at his disposal very well. This is the more reason why one needs a sound financial management in all aspects of his life.

What is then the meaning of financial management? Many scholars and writers all over the world have attempted to define what financial management is. This has resulted into the various definitions in the literature. For example, Deepika and Maya Rani (2014) defined financial management "as that activity of management which is concerned with the planning, procuring and controlling of firm's financial resources.

Joseph Massie (1979) also looked at the definition of financial management in term of operational activity. He says "Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operation". On the other hand "Financial management is defined as a body of business concerned with the efficient and effective use of either equity capital, borrowed cash or any other business funds as well as taking the right decision for profit maximization and value addition to entity" Kepler Petra (2011), In my own opinion, financial management is the acquisition, conservation, preservation and disbursement of funds in a way that is beneficial to the concerned entity.

At this juncture, it is necessary to define the word communication. According to Pauley (2010) "Communication is defined as the sharing of meaningful information between two or more people with the goal of the receiver understanding the sender's intended message".

In business, the effectiveness of a company's internal and external communication process is often very important to its overall success. As an example, if a company purchased brand new telephones, this can improve the company's communication process and it will allow the company to relay information much more efficiently than before.

1.1 Objectives of Financial Management

A robust financial management should be able to achieve the following objectives:

I. The first objective should be how to maximize profit. In economics, we learnt that it is always good to maximize profit and minimize cost. Profit maximization can also be achieved when the marginal cost is equal to marginal revenue.

II. The second important objective of financial management is how the firm or the company will survive. It therefore means that every manager at all levels in the company must ensure that they make a right decision. A right decision is an additional benefit to the organization while a wrong decision is a minus.

III. Thirdly, the maintenance of proper cash flow is another necessary objective. A good cash flow system is needed for the daily operations of the company. The good cash flow system will also allow the organization to procure raw materials, pay various bills and make money available to staff in form of salaries and wages.

IV. Furthermore, the maximization of wealth is another crucial objective of the financial management. The shareholders are the owners of the company. Therefore, their interest in form of wealth maximization should be taken care of. In the hierarchy of corporate goal, maximization of wealth is more advanced than profit maximization.

V. The minimization of capital cost is also an important objective. If the capital cost can be minimized, it will be a good financial strategy which can enhance the opportunity of the company to gain more profit.

1.2 Importance of Financial Management

Finance is one of the strong factors that is necessary in a business venture. Finance can be described as life blood of an organization. Therefore, every manager must ensure that there is adequate amount of finance for the day to day operation of their business. Hamza Kileo (2016) in his essay on importance of financial management highlighted some of the importance as;

- Financial planning
- Acquisition of funds
- Proper use of fund
- Financial decision
- Improve profitability
- Increase in value of firm
- Promotion of savings

i. Financial planning – Financial planning will help the managers to determine the financial requirement of their business. Thus, financial planning is an important aspect of business concern which encourages the promotion of an enterprise.

ii. Acquisition of funds – A good financial management will involve the acquisition of needed finance that is required for the business. The acquisition of needed funds is an important part of management of finance. This should also include possible source of finance at a minimum cost.

iii. Proper use of fund – A proper use and efficient allocation of funds will lead to improvement in the operational efficiency of the business concern. By using the fund properly, it can reduce the cost of capital and also increase the value of the firm.

iv. Financial Decision – With the help of financial management, it is possible to take sound financial decision. In a business concern, there is always a direct relationship or what can be called inter departmental relationship. This means any financial decision taken by the manager will affect the whole company.

v. Improve profitability – The profitability of a company depends on the effectiveness and proper utilization of fund by the business. In order to boast the profitability position, there is need for the company to have a strong financial control like budgetary control, ratio analysis and so on.

vi. Increase in the value of firm – In the area of increasing the wealth of the investors and the business as a whole, a good financial management has to be in place. We all know that the ultimate goal of a business is to maximize profit and ensure higher profitability. The two, that is, profit and profitability will lead to the building of the wealth of the investors.

vii. Promotion of savings – Company can save only when the business can earn higher profit and maximize the wealth of the company. An effective financial management will promote and encourage individual and corporate savings.

I also see the clarity of goal of the organization as another important factor in financial management. That means, the manager of the company should define the goal of the organization. The goal must be clearly stated or defined. There should be no ambiguity. The setting of the goal will help to judge whether the decision of the management is in the best interest of the shareholders or not.

1.3 The role of Communication in Financial Management

The importance of financial communication to a business and entity cannot be over-emphasized. This is because financial communication helps the employees to understand company policies and make informed decisions.

Secondly, there is a relationship between financial communication and employee productivity. That is, it is possible to measure productivity using traditional measurements and metrics such as dividing output by input or one can design a method of collecting and assessing information using data that points to specific financial issue in one's organization or industry.

Thirdly, in an essay on "The importance of financial communication in a Business" written by Devra Gartenstein (2019), the author mentioned a phrase which is tagged 'Financial communication and Open-Books'.

The word Open-Book management is the ultimate expression of financial communication in business. Openness in this sense means an approach to accounting that emphasizes transparency. It means all employees have access to financial reports and documents that reflect the company's financial situation. The strategy also involves training employees to read and understand financial statements so that they can make effective use of the information shared with them by the management.

The idea behind the strategy is that, if the employees of an organization know how to read a profit and loss statement, it means the organization is lucky because the employees will have a better understanding of why the company is cutting the costs in certain areas and why the management may need to take the business in a different direction. Thus, understanding a balance sheet can help them with getting them on board with strategies that can improve cash flow such as lean purchasing and lean inventory management.

It is convenient at this point to examine the financial management and finance persons in the various entities mentioned earlier as well as the role communication played in these establishments.

1.4 Sole Proprietorship

Sole proprietorship is the oldest and most common form of business ownership. The word 'Sole' means the business is owned by an individual who assumes all the risks that are related to the business and in return receives all the profits.

A sole trader is an entrepreneur who possesses all the entrepreneurial features. Sole proprietorship as an entity is relatively easy to start and also easy to wind up. At times, it is the cheapest form of business with no legal entity.

Other features of a sole proprietorship are (i) There is no separate entity as business and the owner are the same (ii) There is no profit sharing and profit and loss preparation and (iii) It is controlled by one man or the owner who has the managing power (iv) He bears the risk of the business alone in case of liquidation.

However, as simple as the operation of a sole proprietorship business may be, there is need for the proprietor to have a sound financial management and be able to communicate and explain his management of finance to his workers no matter how few the workers may be.

1.5 Partnership

Partnership business is the pooling of financial resources together by two or more individual with common business interest with the aim to make profit.

The Partnership Act 1890 defines "partnership as the relationship which subsists between persons carrying on a business in common with a view of profiting". The Act however limits the size of persons in partnership to a maximum of 20 persons.

In partnership business, there is ability to raise more capital than a sole trader also there is better decision making and continuity. However, the owners in partnership have unlimited liabilities. If there is disagreement between partners, it can lead to the dissolution of partnership also the withdrawal or death of a major partner can affect the continuity of the business.

In partnership, we have what is called the Deed of Partnership which is an agreement that guide the conduct of the business in order to achieve overall objective and prevent conflict of interest among partners. Another feature of partnership is that we can have Active partners, dormant partners, Sleeping partners and Nominal partners.

Partnership business as an entity requires a sound financial management and these financial matters should be passed to others partners by way of communication.

As an example, in the Deed of Partnership, there is an aspect that covers

(i) Capital/Resources to be contributed by each partner and
(ii) Profit/Loss sharing ratio,

These are financial issues that need to be communicated properly to each of the partners.

Furthermore, other staff members of the partnership business also need to be informed about the management of finance in the entity. It is possible for some of the partners to be inactive as such there is need for the active partners to communicate the management of finance to others who are not taking active parts.

Finally, the amount of salary or commission payable to each partner for the service rendered in the course of business is part of the financial management which should be properly communicated to all the partners.

1.6 Joint Stock Company

Joint Stock Company is another form of business entity. It is also known as corporation or limited company. Lord Justice Lindly viewed a company from a broader perspective as "an association of many persons who contribute money or money's worth to a common stock and employed in some trade or businesses who share the profit or loss arising there from".

A joint stock company is a legal entity which is separate from owners and managers. It is also an artificial legal person with a common seal and has a perpetual existence. The liabilities of the owners of a joint stock company are also limited.

In the formation of a joint stock company, registration of the company is very important. We also have three basic documents that is prepared and filed with the registrar during the formation of the company. The documents are

(i) Memorandum of Association (MOA)
(ii) Article of Association (AOA)
(iii) The prospectus

The Memorandum of Association is the principal documents in the formation of a company. The Articles of Association of a company contains the various rules and regulations for the day to day management of the company while the Prospectus is used by the company to invite the members of the public to subscribe to its shares.

In the joint stock company, more emphasis should be placed on the sound financial management. This is because of the people involved in the business. The owners of the company put down their money in terms of huge capital, sales of shares and issuance of debentures.

As a result of this, the managers of the business need to communicate effectively with the shareholders of the joint stock company. It is the duty of the management of a joint stock company to communicate the following information to the owners of the company and other users of the accounting information. The information include

(i) Notice of Annual General meeting

(ii) Presentation of financial statements which must show the statement of financial position at the end of the period also the statement of profit or loss and other comprehensive income for the period.
(iii) A statement of changes in equity for the period.
(iv) A statement of cash flow.
(v) Notes to these statements which consist of summary of significant accounting policies used by the entity.

Other matters that the Board of Directors need to communicate with the owners are the issue of shares, the bonus share declared, the extent of the corporate social responsibility carried out by the company and comparative information for the immediate preceding accounting period.

1.7 Government Establishment

Nigeria is called the Federal Republic of Nigeria with executive power exercised by the President. The structure of the federal system put the President as the head of state and head of government.

In Nigeria, there are three tiers of government. These are (i) Federal government (ii) State government and (iii) Local government. There are also 36 states which has the state governor as the Chief Executive of each of the states.

Nigeria also has 774 original local government areas (L.G.As). Each local government area is administered by a local government council which has the Chairman as the Chief Executive of the local government area. We still have other elected members who are referred to as Councilors.

Each government in all the three tiers of governments is expected to play specific functions and general function. Some of the functions of a modern government are (i) Foreign diplomacy (ii) Military defense (iii) Maintenance of domestic tranquility (iv) Administration of justice (v) Provision of public goods and services (vi) Promotion of economic growth and development (vii) Operation of social insurance and social welfare programmes (viii) Provision of security.

In Nigeria, apart from the Chief Executive of the various governments with other members of their cabinet, there is also the legislative arm of government and the judicial arm of government. The legislative arm consists of Senators and House of Representative members in the National Assembly and various members in the State House of Assembly and Councilors in the local government areas.

The Chief Justice of the Federation, Justices of the Supreme courts, the Justices of the various courts of Appeal, the High court Judges and Magistrates constitute the judicial arm of government.

In Nigeria, each of the arms of government is expected to have a good financial management and there are various organs of government that are also required to communicate the financial management that is being practiced by various governments to members of the public.

For instance, the Auditor General for local governments in Osun state is expected to audit the accounts of all the 30 local governments in the state. The Auditor General is mandated to form an opinion and write a report on the various accounts of the local government areas. The report will be examined by a committee of the Osun State House of Assembly. The committee is called Public Account Committee. After the examination of the reports, the committee has the mandate to communicate or publish the statement of the account to members of the public.

1.8 Institutions of Learning

The institutions of learning which can also be called an educational institution can be described as a place where people of different ages gain Knowledge and be better informed. These institutions can be preschools, childcare, primary schools, secondary schools and Tertiary Institutions.

One of the purposes of establishing educational institution is to provide a variety of learning environments and learning spaces. The educational institutions also help in socializing the people into useful members of society and further enhance transmission of our cultural values to the next generation.

At any level of these educational institutions, the requirement is to have a robust financial management on ground. Furthermore, as the need arises, the financial management that is on ground is expected to be communicated to other stakeholders of the institution. For example, most private universities in Nigeria have a way of passing financial information to the teaching and non-teaching staff and at the end of every semester, the parents usually receive financial communication from the institution of learning at the end of each academic session. There is a private university in Nigeria that wanted to increase the school fees paid by the parents. What the university did was to call the Parents and Teachers Association meetings and at the end of the meeting the new increase in fees was announced to all concerned parents.

1.9 Religious Institutions

Religious institutions can be described as an organized place where the manifestations of practices and beliefs take place. It is possible for religious beliefs and practices to be projected outward into the social and historical plan.

Some of the examples of religious institutions are religious charities, religious schools like universities and seminaries and religious homes and orphanages, the Churches, Temples, Mosques, Sects and Cults are types of religious organizations that can be found in Nigeria.

There are many functions of religious institutions. Few of the functions are mentioned below:

I. There is provision of social cohesion which in turn helps to maintain social solidarity through shared rituals and beliefs.

II. There is also the provision of social control which helps in maintaining religious based morals and norms.

III. A religious institution serve as a place where one can maintain conformity and control in the society.

It is an erroneous belief to think that religious institution does not have a working financial management in their various entities. The truth is that, most of these institutions do have a good accounting system and one of the duties of the religious leaders is to communicate the financial position of the institution to other members of the institution.

Let me just take a denomination as an example. The Nigerian Baptist can be found all over the country. The Baptists have their churches in cities, towns and villages in Nigeria. The whole Baptists in Nigeria are under the umbrella of Nigerian Baptist Convention. The Chief Executive of the convention is the President of the Convention. One of his duties is to convene the financial position of the institution during the annual meeting called the Annual Baptist Convention to the Baptist members in Nigeria. The President and the Vice President (Finance) are required to put in a sound financial management for the convention. It is the yearly practice that the President will communicate the financial balance sheet of the convention to other Baptist members.

1.10 Concluding Remarks

An entity's financial management plays a crucial role in the financial success of that organization. In the real sense, financial management is the act of planning, organizing, directing, controlling and coordinating the financial activities of a known entity.

The onerous now rest on the financial managers or finance person to take care of all the important financial functions of an entity. Financial managers also have the responsibility to assist the executives in making financial decisions that affect the establishment.

Financial manager is also saddled with the task of distributing the financial resources of a company. The finance person is in charge of the planning of budget and he always supports the management team by offering insights and financial advice that will allow the company to achieve its goals and objectives.

However, in order for the finance manager to perform all the enumerated functions effectively and efficiently, the manager need an excellent communication skill that will enable him to justify and give explanations on complex financial transactions.

Furthermore, financial managers should be good in written communication. This will help to handle data that is often generated in the accounting process. Apart from the written communication skills, financial experts also need verbal communication for the various presentations that can arise from time to time also interpersonal communication should be part of the method that a finance person should embrace.

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