



## Challenges facing Managers in bridging the gap between Operational Activities and Financial Management?

Ask yourself “How can I play an effective part in a multi-million dollar operations without being familiar with all Financial Statements and how they impact the rest of the Organisation?”

Although I started my career as an Accountant, ‘armed’ with a Degree in Accounting and Operational Research, it did not take me very long to find out that the world of Business Financial Management was significantly more complex than I was prepared for.

Over the years I have become more and more convinced that there were aspects of my Delivery credentials that needed re-evaluation and re-education.

I reviewed the words of one of the great Managers of our time, **Mr Jack Welch**, who said ‘*Management is all about managing in the short term, while developing the plans for the long term*’ and I confirmed that although I was managing satisfactorily in the short term, my long term understanding needed polishing.

In conducting a ‘personal skills audit’, I realised that my understanding of the business environment around me was particularly lacking in current techniques and specifically disciplines in Financial Management (like many other Managers would discover if they also did an honest ‘personal skills audit’)

Across the majority of organisations, the management functions cover the same major streams; Human Resources, Operations, Strategy, Marketing, IT and Financial Management. Is it therefore logical to assume that Management in each stream shown above should have a working knowledge of the other streams? I believe so, and realised very quickly, that despite my academic credentials, I was not particularly strong in Financial Management.

### ***But why is an Understanding of the fundamentals of Financial Management essential for all Business Stream Management ?***

In today’s competitive business world firms are under unprecedented pressure to deliver value to their shareholders and other key stakeholders. Senior executives in all parts of the organisation are finding that they need some degree of financial know how to cope with the responsibility placed on them as business managers and key decision-makers; monitoring and improving business performance, investing in capital projects, mergers and acquisitions: all require some degree of financial knowledge. The key financial skills are not as difficult to learn as many people believe and in the hands of an experienced senior executive they can provide a formidable competitive advantage.

Managers must look ahead (Budgeting) and behind (Cost Control) when considering this Financial Management, in order to maintain full control over your organisation’s finances. As a Manager, you must understand your Organisation's Strategy and that it is a plan / thought / view / intention on :-

- How to create the most value.
- How to Lower costs.

- How to differentiate products (design, quality, service).

....and when we recognise this, we see the part we all play as Managers in all aspects of the Organisation.

As soon as we drive down from the Strategic Level, we see more and more the need for a fuller understanding of Financial Management :-

The majority of managers have close involvement in the standard Organisational Control Systems such as Strategic Planning, Long Range Planning, Annual Operating Budgets, Statistical Reports, Performance Appraisals, Policies and Procedures and Cultural Controls.

To be successful a basic understanding of the 4 key financial statements in most organizations is essential;

- Understanding that the **Balance Sheet** is simply a statement of the organisation's financial position in terms of its assets, liabilities and shareholders' equity and nothing more sinister
- Understanding that **the Income Statement** simply reports how much revenue an organisation earned over a specific time period , usually a year but not always, and the costs and expenses associated with earning that revenue.
- Understanding that the **Cash Flow Statement** is critical as it helps ensure that the organisation has enough cash to pay its operating expenses, liabilities and to invest in assets; and
- Understanding how **Shareholder's Equity** can rise or fall depending on the value of the Capital Assets and the Earnings in the period

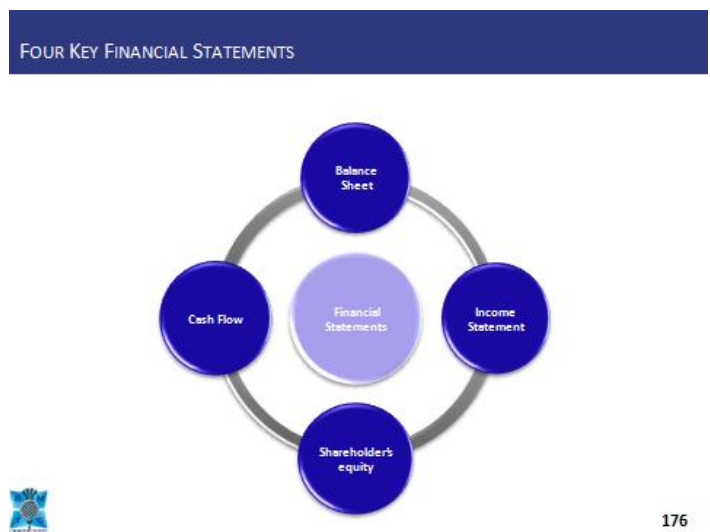


Figure 1: BMTG Finance For Non Financial Managers

Learning about these fundamentals and by continually refreshing my skills and understanding was the only way I was able to overcome the complexities of Financial Management in this dynamic and international business world.

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