

Financial Management of the Organization

1. Concept of Financial Management

Financial management is the function or activity responsible for:

- **Identifying financial needs** of the organization.
- **Providing appropriate financing** and resources.
- **Using funds efficiently** to acquire assets and achieve organizational goals.

Key responsibilities include:

- Ensuring **adequate liquidity** from internal or external sources.
- Allocating funds to different uses.
- Monitoring **cash flows**.
- Planning and controlling **investment, financing, and dividend decisions**.

Financial management has evolved from merely securing funds to a **strategic administrative function** that involves:

- Planning the acquisition and use of funds.
- Organizing financial activities.
- Motivating employees financially.
- Exercising financial control to optimize performance.

2. Functions of Financial Management

2.1 Financial Planning

- Identifies short-term and long-term financial needs based on organizational plans.
- Uses **budgeting and financial forecasts** to predict activity levels and financial outcomes.

Activities include:

- Studying resources and expenditures.
- Estimating fund requirements and usage.
- Determining fixed and current asset needs.
- Identifying internal and external financing sources.
- Selecting the optimal mix of funding (equity, debt, etc.).

Types of Financial Planning:

1. **Long-term planning:** Focuses on new investments, expansions, or mergers.
2. **Short-term planning:** Ensures sufficient funds for operations, raw materials, and production needs.

Financial forecasting is the main tool for financial planning. Key financial policies include: **dividend policy, working capital policy, and credit policy.**

2.2 Financial Organization

- Organizes financial activities to achieve objectives efficiently.
- Involves **defining responsibilities, delegating authority, and structuring the finance function.**

Variations by organizational size:

- **Small enterprises:** Owner handles most financial decisions; minor tasks delegated.
- **Medium enterprises:** Managed by a financial manager; greater independence.
- **Large enterprises:** Finance distributed among specialists (Deputy GM for Finance, CFO, Financial Controller, internal/external auditors).

2.3 Financial Control

- Ensures funds are used according to the plan.
- Compares actual performance with planned targets.
- Identifies deviations and corrects them in time.

Tools:

- **Budgetary control**
- **Financial ratios**
- **Internal and external audits**

3. Financial Decisions

3.1 Investment Decisions

- Balance expected returns against risks when allocating capital.
- Manage **current assets** and **working capital** optimally:
 - Too little → liquidity issues.
 - Too much → idle resources.

3.2 Financing Decisions

- Assess financial needs and decide **optimal financing mix**:
 - Equity (self-financing)
 - Long-term or medium-term debt
- Compare cost of debt vs. expected returns to determine suitability.

3.3 Dividend Decisions

- Determine portion of profit to distribute to shareholders.
- Impacts:
 - **Financing policy:** High dividends → lower internal funds.
 - **Growth rate:** Low retained earnings → slower growth.
 - **Shareholder relations:** Low dividends may upset shareholders and affect stock price