What is financial management?

Financial management refers to the strategic planning, organising, directing, and controlling of financial undertakings in an organisation or an institute. It also includes applying management principles to the financial assets of an organisation, while also playing an important part in fiscal management. Take a look at the objectives involved:

- Maintaining enough supply of funds for the organisation;
- Ensuring shareholders of the organisation to get good returns on their investment;
- Optimum and efficient utilization of funds;
- Creating real and safe investment opportunities to invest in.

Financial management is also made up of certain elements. These include:

- Financial planning: This is the process of calculating the amount of capital that is required by an organisation and then determining its allocation. A financial plan includes certain key objectives, which are:
    - Determining the amount of capital required;
    - Determining the capital organisation and structure;
    - Framing of the organisation's financial policies and regulations.
    - Financial control: This is one of the key activities in financial management. Its main role is to assess whether an organisation is meeting its objectives or not. Financial control answers the following questions:
        - Are the organisation's assets being used competently?
        - Are the organisation's assets secure?
        - Is the management acting in the best financial interests of the organisation and the key stakeholders?
        - Financial decision-making: This involves investment and financing with regards to the organisation. This department takes decisions about how the organisation should raise finance, whether they should sell new shares, or how the profit should be distributed.

The financial management department of any firm is handled by a financial manager. This department has numerous functions such as:

- **Calculating the capital required:** The financial manager has to calculate the amount of funds an organisation requires. This depends upon the policies of the firm with regards to expected expenses and profits. The amount required has to be estimated in such a way that the earning capability of the organisation increases.
- **Formation of capital structure:** Once the amount of capital the firm requires has been estimated, a capital structure needs to be formed. This involves debt equity analysis in the short-term and the long-term. This depends upon the amount of the capital the firm owns, and the amount that needs to be raised via external sources.

- **Investing the capital:** Every organisation or firm needs to invest money in order to raise more capital and gain regular returns. Hence, the financial manager needs to invest the organisation's funds in safe and profitable ventures.
- **Allocation of profits**: Once the organisation has earned a good amount of net profit, it is the financial manager's duty to efficiently allocate it. This could involve keeping a part of the net profit for contingency, innovation, or expansion purposes, while another part of the profit can be used to provide dividends to the shareholders.
- **Effective management of money:** This department is also responsible for effectively managing the firm's money. Money is required for various purposes in the firm such as payment of salaries and bills, maintaining stock, meeting liabilities, and the purchase of any materials or equipment.
- **Financial control:** Not only does the financial manager have to plan, organise, and obtain funds, but he also has to control and analyse the firm's finances in the short-term and the long-term. This can be done using financial tools such as financial forecasting, ratio analysis, risk management, and profit and cost control.

Why is Financial Management important?

This form of management is important for various reasons. Take a look at some of these reasons:

- Helps organisations in financial planning;
- Assists organisations in the planning and acquisition of funds;
- Helps organisations in effectively utilising and allocating the funds received or acquired;
- Assists organisations in making critical financial decisions;
- Helps in improving the profitability of organisations;
- Increases the overall value of the firms or organisations;
- Provides economic stability;
- Encourages employees to save money, which helps them in personal financial planning.