



Concepts of Financial Management for the Success of Organization: A Brief Study

Dr. Sk. J. Shareef

*Professor & HOD, Dept. of MBA, Sri Mittapalli College of Engineering, NH-16,
Tummalapalem, Guntur. shaikmehab@gmail.com*

M. NAGALAKSHMI

*Assoc. Professor, Dept. of MBA, Sri Mittapalli College of Engineering, NH-16, Thummalapalem,
Guntur.*

M. SARASWATHI

*Assoc. Professor, Dept. of MBA, Sri Mittapalli College of Engineering, NH-16, Thummalapalem,
Guntur.*

Abstract:

The primary objective of financial management is to maximize the wealth of equity shareholders. Though profit is the primary objective of any organization, financial management is more concerned with profit distribution to equity shareholders. Financial management is the process of planning, controlling, arranging, and directing the firm's financial resources. Any finance manager's challenge is to have in-depth understanding of the procurement, allocation, and management of the business's cash. Any organization's success is contingent upon its financial management being efficient. The researcher emphasized on the numerous management approaches used in finance in this study. The data is compiled from secondary sources of information and data. The document improves the quality of financial management knowledge and enables the reader to grasp the subject's fundamental concepts and procedures.

Keywords: Management, Financial aspects, Shareholders, Planning and Economical Challenges



Introduction

Finance is important to a business's survival. Historically, the fundamental purpose of any entrepreneur was to maximize profit and expand the business. However, in today's world, any organization's survival is highly dependent on the growth of its stakeholders. Satisfaction with each and every employee ensures the long-term success of the organization. As a result, financial management's relevance has increased in recent years. Finance managers receive extensive training and are armed with the most up-to-date procedures and methods for conducting the firm's financial activities. The numerous financial management techniques/methods employed in this study enable financial managers to make sound judgments regarding the prudent use of the firm's funds.

Objectives of the Study

The study has focused on the following objectives;

- Understand the goals and significance of financial management.
- Recognize the primary responsibilities of a financial manager.
- Research the various financial management approaches and strategies.

Research Methodology

The study is based on secondary sources of information and data. The article discusses the value of financial management, its objectives, and the numerous financial management approaches that are used to make company choices.

Need for Study

As previously said, an enterprise's success is contingent upon its effective use of funds. Banks and other financial organisations have developed a variety of plans to lend money to businesses. Apart from banks, a variety of other institutions such as angel investors and venture capitalist firms have sprung up to suit the needs of entrepreneurs. This has enabled businessmen to easily earn funds. Thus, rather than acquiring funds, managing this fund presents a challenge to all



finance managers. Thus, the study of financial management assists and educates finance managers in making sound decisions regarding fund generation, investment, earning a profit, and profit sharing with shareholders. As a result, this study is critical for any organization's long-term survival and development.

Concept of Financial Management

Planned budgeting and cash flow forecasting are just two examples of financial management. It entails operations such as the acquisition and deployment of venture capital. It entails applying general management ideas and procedures to the project's financial resources and determining the project's return on investment. A financial management strategy enables a business to keep a close eye on future cash flows and aids in the achievement of business objectives. Managerial finance is an interdisciplinary field that draws on managerial accounting and corporate finance perspectives and ideas. Financial Management is a discipline of economics that encompasses Managerial Finance, Corporate Finance, and Financial Management for Information Technology Services. Managerial Finance is a subfield of finance concerned with the managerial implications of financial strategies and processes. Corporate Finance is concerned with the financial decisions made by businesses and the analysis used to make those decisions. Financial Management for Information Technology Services is concerned with the financial management of information technology assets and resources. Financial management's primary aims are to develop wealth for the organisation, generate revenue, and earn a suitable return on investment.

“Objectives of Financial Management”

In general, financial management focuses on acquiring, allocating, and controlling a company's financial assets. The objectives may include the following:

1. To ensure that the firm can conduct business activities with an adequate supply of funds.
2. The analysis helps the financial management to forecast the firm's future value in terms of market capitalization, share price, and so on.



3. To assume responsibility for providing a higher rate of return to shareholders, particularly equity holders, and therefore to fulfill the concept of 'wealth maximization'.
4. Borrowed funds should be prudently reinvested in new projects, ensuring that the venture is a sound investment.
5. To plan an ideal capital structure – To ensure that the capital mix of equity and debt is equitable and balanced.
6. Financial management is critical since it assists in making decisions that maximize the firm's value.

Financial Management's Importance

Financial management is critical since it assists in making decisions that maximize the firm's worth. Financial management is critical to a business for the following reasons:

Financial management is oriented on the organization's objectives. Clarity of purpose is critical for every business. The purpose of the company's financial management is clearly expressed (maximization of the shareholders wealth). The ability to decide if the decisions you make are best for the shareholders comes from setting goals. It also coordinates the operations of all corporate functions toward achieving the goal and encourages cooperation among them through financial management.

Management of Financial Resources helps to maximize the effectiveness of available resources. Businesses utilize both fixed and current assets, which require significant investment. Acquiring and retaining assets that yield less than the required rate of return adds no value to the shareholders. Additionally, poor decisions surrounding the acquisition and disposition of fixed assets can jeopardize the firm's sustainability. Financial management strategies (such as capital budgeting) assist in determining which asset to purchase, when to purchase, and whether to replace an existing asset with a new one or not. Additionally, the firm requires current assets to operate. They consume a large portion of a business's resources. Excessive ownership of these



assets results in inefficient utilization, while insufficient holdings expose the business to greater risk. As a result, a firm's challenge is to maintain a proper balance of these assets and to finance them from appropriate sources. Financial management assists in determining the appropriate level of current assets to maintain in a business and how to finance them efficiently.

Financial Management assists in choosing Financing Sources. Long-term finances are mostly used by businesses to acquire permanent assets. Long term financing can take the form of equity shares, preference shares, bonds, or term loans, among others. The firm must determine the optimal mix of various sources and the appropriate amount of long-term funding; otherwise, the firm will incur additional costs and risk. Financial management (capital structure theories) directs the selection of these financing sources.

Financial Management is beneficial choosing Dividends. Dividends are paid to shareholders. The corporation is not required by law to pay dividends to its shareholders. However, the amount to pay out of earnings is critical. Financial management (dividend policies and theories) assists a business in determining how much to distribute as dividends and how much to retain in the business. Additionally, it proposes addressing questions such as when and how the dividend should be paid (cash or equity dividend). Financial management is critical for all managers who make decisions in the business. Proper financial management enables businesses to produce superior products at lower prices, pay higher wages to employees, and still provide a higher rate of return to investors.

“Functions of Financial Management”

Estimation of capital requirements: The finance manager is responsible for estimating the company's capital requirements. The cash requirements are determined by the future investments that will be made, such as the acquisition of a new asset, technology upgrades, and working capital requirements, among others. The review should be conducted with the goal of increasing the enterprise's earnings.



Debt-equity Analysis: Once an estimate is produced, the financial management must determine how to raise the necessary funds. Capital can be raised through either stock (own fund) or debt (borrowing), or a combination of the two. This is the capital-structure choice that determines the capital composition. Selection on the sources of funds: For additional funds to be procured, a company has many choices like-

- Loans to be obtained from banks and financial organizations
- Public deposits to be extracted in the form of bonds

The element chosen will be determined by the relative pros and demerits of each finance source and period.

Investment of funds: The finance manager must select how to invest cash in productive projects that generate a greater rate of return. Prior to making any investment, a thorough analysis of the project must be conducted. Prior to investing, it is necessary to assure consistent profits and a secure investment.

Distribution of surplus funds: The firm's net profits must be reviewed, and the financial manager must make distribution decisions. This can be accomplished in one of two ways:

- Dividend declaration - The payout rate is determined, and the dividend is given to shareholders in part or in full. This generates sufficient income for the projected stockholders. On occasion, if the company earns more profit than anticipated, additional returns such as bonuses are distributed to shareholders.
- Retained profits - If a business desires to expand its size or diversify its market, for example, which would involve a substantial capital investment, the business can retain its profits. The term "retained profit/income" refers to this.

Working Capital Management: The Finance manager is solely responsible for making sound cash management decisions. With good cash management, the company cycle runs smoothly. Cash is required for a variety of functions, including the payment of wages and salaries, the



payment of power and water bills, the payment of creditors, the payment of current liabilities, stock maintenance, and the acquisition of raw materials.

Control: The finance manager's responsibilities include not only planning, procuring, and utilizing funds, but also exercising financial control. Only with the assistance of the control function can the finance manager ascertain whether financial management has operated properly in order to accomplish business objectives. This can be accomplished through a variety of strategies, including ratio analysis, financial forecasting, and cost and profit control.

Financial Management Techniques

Three major decisions which every Finance manager has to take are;

Decision on whether or not to invest

Decision on the source of funding

The decision to pay a dividend was made.

Investment decision

Investment selection can also be referred to as capital budgeting. It's the process of figuring out how much money a company will need to get started. Investing begins with evaluating the worth of various initiatives by the finance manager. The process of deciding on capital expenditures is known as capital budgeting. These are expenditures for which the benefits are expected to accrue over a period of time greater than one year. Before committing funds to various projects, the finance manager must determine their profitability. The following are some of the primary traditional strategies for capital budgeting

1. Time needed to recoup initial investment
2. Method of Accounting for Return on Investment
3. Method of calculating net present worth
4. Method of Internal Rate of Return



5. a measure of profitability

“Financing Decision”

Capital structure is another term for financing decision. After determining the required capital for investment (Capital Budgeting), the next stage is to raise the necessary funds to make the investment. Now the finance manager's task is to develop a structure that accounts for all types of capital, including equity, debt, and preference. It is used interchangeably with financial leverage or financing mix. Capital structure is sometimes referred to as the degree of debt in a business's financing or capital. It is considered that altering a firm's capital structure might affect its value. There are four methods for calculating this, namely net income, net operational income, the classic method, and the M&M method.

Dividend Decision:

Once the firm produces profit, it is the financial manager's responsibility to distribute the surplus to the shareholders. As previously stated, the study of financial management is centered on shareholder wealth maximization. As a result, numerous models are produced under this notion. The following are some of the key divergent ideas of dividends in financial management:

1. “Walter’s model”
2. “Gordon’s model”
3. “Modigliani and Miller’s hypothesis”

Conclusion

Any corporate organization's success is supposed to be long-term. Each business entrepreneur organizes and conducts business activities in order to generate revenue. Profit is the tonic for a corporate organization's growth, sustainability, and successful operation. The finance manager is critical to the organization's performance. His significant responsibilities include fund raising, resource allocation, capital market trading, and profit planning. Selecting an effective financial



manager to lead the firm to success has become a problem for every corporation. The aforementioned financial management theories and practices assist organization managers in making sound financial resource management decisions. Thus, the study concentrated on financial management principles and methodologies and presented numerous ideas to assist financial managers in making sound judgments and effectively achieving organizational goals.

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