

# Objectives of Financial Management: Meaning, Importance & Types

The objectives of financial management are to manage the financial resources of an organization efficiently so that the organization maximizes profitability and ensures long-term sustainability. This is concerned with planning, organizing, and controlling the financial activities to meet the objectives of the organization. In this article, we will discuss the financial management practice, its goals, its importance, and the several types of practices of financial management that contribute towards business success.

## What is Financial Management?

Financial management refers to [planning](#), organizing, controlling, and monitoring financial resources in order to achieve organizational goals. This management is very vital as far as business decisions are concerned; it ensures the growth and sustainability of the organization because it has various functions, such as budgeting, investment decisions, and risk management.

This would mean that financial management aligns the available resources of a company with both short-term and long-term goals. For example, while ensuring liquidity is being planned for day-to-day operations in the short term, then investment and capital budgeting for growth is a significant focus of the long-term planning process.

## Objectives of Financial Management

The goals guide the process of [decision making](#) to make the best possible utilization and allocation of financial resources. These can be broadly classified into primary and secondary objectives.



## Primary Objectives of Financial Management

[Financial management](#) is very critical to a firm's achievement of profitability, growth, and sustainability. Areas that include profit maximization, wealth creation, liquidity management, and cost efficiency ensure a long-run basis of success and competitiveness.

1. **Profit Maximization:** Ensures that the enterprise generates enough surplus to sustain operating activities and be remunerated to stakeholders. Profit maximization aids re-investment, thus facilitating growth and stability for the firm.
2. **Wealth Maximization:** Wealth Maximization aims at maximizing the wealth of [shareholders](#) via higher returns on equity and enhancement in stock appreciation. It focuses for long-term results by focusing at sustainable financial gain.

3. **Maintaining Liquidity:** That is, to ensure that there is sufficient cash or liquid assets to meet all short-term obligations. Proper management of liquidity averts financial distress and keeps day-to-day activities smooth.
4. **Cost Efficiency:** Control and minimize the operational costs without compromising the quality. Cost efficiency helps businesses stay competitive and enhance overall profitability.

## Secondary Objectives of Financial Management

Every business needs the proper [management](#) of finances to enjoy stability, growth, and profitability in the long run. Its success can only be achieved and sustained if some key areas including financial stability, resource optimization, risk management, and expansion, are focused upon.

1. **Ensuring Financial Stability:** It ensures financial stability by avoiding over-leveraging or underutilization of capital. It keeps the firm away from long-term financial risk.
2. **Optimal Resource Utilization:** All finances are utilized properly without any sort of wastage. Proper use of resources elevates productivity levels and enhances profitability.
3. **Risk Management:** Detection, evaluation, and management of financial risks to protect assets. Good risk management ensures that the business remains secure against unintended losses.
4. **Growth and Expansion:** Supporting strategic decisions to expand operations and enter new markets. Sustained growth ensures long-term profitability and a stronger market presence.

## Importance of Financial Management

It is the financial management backbone for any organization to survive and sustain. They help businesses achieve their goals, make appropriate use of resources, and overcome changes in market conditions.

1. **Ensures Survival:** Corrective financial [planning](#) ensures that a business can cover its daily running expenses during an economic recession.
2. **Supports Decision Making:** Financial management also provides proper data and forecasts that can go into major investment decisions, cost decisions, and expansion decisions.
3. **Attracts Investors:** Good financial management gives the company credibility and helps in attracting investors.
4. **Supports Long-Term Goals:** It makes sure businesses do not focus on short-term gains but rather on sustainable growth.
5. **Manages Risks:** Analyzing financial risks allows a business to devise strategies that effectively reduce such risks.
6. **Compliance with Laws:** It ensures financial activities are within regulatory requirements, hence no penalties or lawsuits.

## Types of Financial Management

Two main types of financial management exist and, therefore are used to address various needs of organizations. Each type has been emphasized on specific aspects of how to manage an organization's financial resources correctly.

### Strategic Financial Management

Strategic financial management: It is a long-term plan for the attainment of goals by the company. It emphasizes wealth maximization among shareholders through deliberate investment, mergers and acquisitions, and restructuring of capital. This form of financial management is concerned with how the financial strategy will be aligned to the long-term vision of the company.

**Example:** Planning to acquire a competitor or entering a new market.

## Tactical Financial Management

Tactical financial management is managing the short-term finances of an organization, which impacts its operations. It includes managing the cash flow to keep the company liquid and at optimum levels of working capital. The short-term gains should not severely affect the long-term objectives in such a manner.

**Example:** Managing daily [cash flow](#) or negotiating better credit terms with suppliers.

## Objective of Financial Management FAQs

### 1. What are the objectives of financial management?

Among the at least four are profiting maximization, wealth maximization, liquidity maximization, and cost efficiency.

### 2. What are the functions of finance?

They are budgeting, investment decisions, financial control, and managing risks.

### 3. Why is financial management critical?

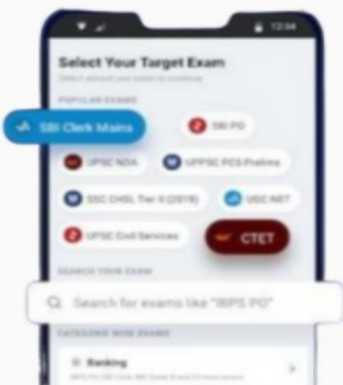
It has ensured proper utilization of available resources, assisted decision-making, managed risks, and enabled long-term growth.

### 4. What is the difference between financial accounting and management accounting?

Financial accounting records the transactions of a firm for outsiders, whereas management accounting helps in internal decision-making.

### 5. How does financial management contribute to business growth?

Financial management contributes to business growth by proper financial planning, optimum use of resources, and managing risk, enabling the organization to sustain its growth.



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