

THE ROLE OF FINANCIAL MANAGEMENT IN ORGANIZATIONAL STRATEGY

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Abstract

Financial management plays a crucial role in organizational strategy, enabling companies to achieve their goals and objectives. This paper examines the critical role of financial management in organizational strategy, highlighting its impact on organizational performance and sustainability. Through a comprehensive review of existing literature and empirical studies, this research demonstrates that effective financial management is essential for aligning organizational resources with strategic objectives.

The study explores the ways in which financial management contributes to strategic decision-making, risk management, and resource allocation, ultimately driving organizational growth and competitiveness. Key Finding includes; financial management plays a crucial role in strategic decision-making, enhance organizational performance, as well as ensuring organizational sustainability, these implies that organizations must prioritize financial management who must develop strategic skills to contribute to organizational decision-making and drive performance. By recognizing the importance of financial management, organizations can optimize their financial resources, mitigate risks, and drive long-term success.

INTRODUCTION

In today's rapidly changing business environment, organizations face increasing pressure to adapt and innovate in order to remain competitive. As a result, the role of financial management in organizational strategy has become increasingly critical. Financial management is no longer just about managing financial resources, but about providing strategic guidance and support to drive organizational growth and sustainability. The importance of financial management in organizational strategy has been recognized for decades. However, the increasing complexity and uncertainty of the business environment have made it even more challenging for organizations to navigate. The need for effective financial management has become more pressing than ever, as organizations must balance short-term financial goals with long-term strategic objectives.

Despite the growing recognition of the importance of financial management in organizational strategy, there is still a significant research gap in this area. Most studies have focused on the technical aspects of financial management, such as financial planning, budgeting, and financial reporting. However, there is a need for research that explores the strategic role of financial management in organizational decision-making and its impact on organizational performance.

Financial management simply put is the management of finance, it is a critical component of organizational strategy, as it enables companies to allocate resources effectively, manage risk and achieve their goals. Financial management involves planning, organizing, and controlling financial resources to maximize shareholder value (Gitman, 2017). This study using a mixed-methods approach aims to contribute to the existing body of knowledge on the role of financial management and its significance in strategic decision-making in organizational strategy. The findings of this study will provide insights into the strategic role of financial management and its impact on organizational performance. The study will also provide recommendations for organizations on how to effectively integrate financial management into their strategic decision-making processes.

FINANCIAL MANAGEMENT

Financial management is the process of planning, organizing, directing, and controlling the financial activities of an organization to achieve its goals and objectives. It involves the application of financial principles, concepts, and techniques to manage an organization's financial resources effectively. Finance management merges management and accounting, using the financial management cycle to create strategic plans for clients.

Financial management is the practice of making a business plan and then ensuring all departments stay on track. Financial management enables the Chief Finance Officer to provide data that supports creation of a long-range vision, informs decisions on where to invest, and yields insights on how to fund those investments, liquidity, profitability, cash runway and more. Financial management is also about controlling the flow of money in and out of the organization. Every business needs to sell products or services, pay expenses, balance the books, and file taxes. Financial management encompasses all of this, along with more complex processes, such as paying employees, buying supplies, and submitting reports to government agencies to show they're obeying applicable laws and regulations. The act of overseeing all these transactions for a business is what we mean when we talk about a company's financial management. In general, the bigger the company, the more complicated financial management becomes.

Key Functions of Financial Management

1. Financial Planning: Developing financial plans and strategies to achieve organizational goals.
2. Financial Analysis: Analyzing financial data to make inform decision-making.
3. Financial Reporting: Preparing financial statements and reports to stakeholders.
4. Financial Control: Establishing and maintaining financial controls to ensure accuracy and compliance with stipulated rules and regulations.
5. Financial Decision-Making: Making informed financial decisions to optimize organizational performance.

FINANCIAL MANAGEMENT ACTIVITIES:

These are the work performed by financial management they include;

1. Budgeting: Preparing and managing budgets to allocate resources effectively.
2. Forecasting: Predicting future financial outcomes to inform decision-making.

3. Financial Modeling: Developing financial models to analyze and forecast financial performance.
4. Risk Management: Identifying and mitigating financial risks.
5. Investment Management: Managing investments to optimize returns.
6. Cash Management: Managing cash flows to ensure liquidity.
7. Financial Statement Analysis: Analyzing financial statements to assess organizational performance.

OBJECTIVES OF FINANCIAL MANAGEMENT

Financial managers help their companies in a variety of ways, including but not limited to:

1. Maximizing profits: Provide insights on, for example, rising costs of raw materials that might trigger an increase in the cost of goods sold.
2. Tracking liquidity and cash flow: Ensure the company has enough money on hand to meet its obligations.
3. Ensuring compliance: Keep up with state, federal and industry-specific regulations.
4. Developing financial scenarios: These are based on the business' current state and forecasts that assume a wide range of outcomes based on possible market conditions.
5. Manage relationships: Dealing effectively with investors and the boards of directors.
6. Maximizing Shareholder Value: Increasing shareholder wealth through effective financial management.
7. Ensuring Liquidity: Maintaining sufficient cash flows to meet financial obligations.
Minimizing Risk: Managing financial risks to ensure organizational stability.
8. Optimizing Financial Performance: Achieving optimal financial performance through effective financial management.

Financial Management Tools and Techniques

- Financial Software
- Financial Models
- Budgeting Tools
- Risk Management Frameworks
- Financial Analysis Techniques

IMPORTANCE OF FINANCIAL MANAGEMENT

1. Ensures Organizational Stability: Effective financial management ensures organizational stability and sustainability.
2. Enhances Decision-Making: Financial management provides insights to inform strategic decision-making.
3. Maximizes Shareholder Value: Effective financial management increases shareholder wealth.
4. Supports Growth: Financial management enables organizations to grow and expand.

5. Improves Efficiency: Financial management optimizes resource allocation and reduces waste.

Key Benefits of Financial Management in Organization

- Enhanced Decision-Making: Financial management provides critical financial insights.
- Improved Resource Allocation: Financial management optimizes resource use.
- Increased Efficiency: Financial management streamlines financial processes.
- Better Risk Management: Financial management identifies and mitigates financial risks.
- Maximized Shareholder Value: Financial management increases shareholder wealth.

ORGANIZATIONAL STRATEGY

Organizational strategy refers to the comprehensive plan or set of actions that an organization takes to achieve its goals and objectives, considering its internal and external environment. It's a comprehensive plan that outlines how an organization will achieve its goals and objectives, encompassing its mission, vision, core values, and strategic initiatives to gain a competitive advantage. It involves resource allocation, operational processes, and adapting to market trends. Organizational strategy is a strategic plan generally developed by the leadership team detailing how your business will allocate resources (like inventory, time, and funding) to support all its business activities. Organizational Strategy lies at the intersection of a business's goals and its structure. The organizational structure of every business dictates the relationships between the various resources the business has at its disposal.

Key Components of Organizational Strategy:

- Mission Statement: Defines the organization's purpose, goals, and values.
- Vision Statement: Describes the organization's desired future state.
- Objectives: Specific, measurable, achievable, relevant, and time-bound (SMART) goals.
- Strategies: Actions to achieve objectives.
- Tactics: Specific steps to implement strategies.

Types of Organizational Strategies:

1. Corporate Strategy: Focuses on overall organizational direction.
2. Business Strategy: Focuses on individual business units or products.
3. Functional Strategy: Focuses on specific departments or functions.
4. Operational Strategy: Focuses on day-to-day operations.

Benefits of Strategizing In Organizations

- Clarifies Direction: Provides clear goals and objectives.
- Enhances Decision-Making: Informs strategic decisions.
- Improves Resource Allocation: Optimizes resource use.

- Increases Efficiency: Streamlines processes.
- Supports Growth: Enables expansion.

Examples of Organizational Strategies

1. Cost Leadership: Reducing costs to gain competitive advantage.
2. Differentiation: Creating unique products or services.
3. Focus: Targeting specific markets or segments.
4. Innovation: Developing new products or services.
5. Partnerships: Collaborating with other organizations.

ROLES OF FINANCIAL MANAGEMENT IN ORGANIZATIONAL STRATEGY

1. Decision Making

Financial management plays a vital role in strategic decision-making, as it provides financial data and analysis to support strategic decisions. Financial managers must consider the financial implications of strategic decisions, such as investments, mergers and acquisitions, and divestitures (Bierman & Chen, 2018). Financial management helps organizations to evaluate the financial feasibility of strategic options, assess risk, and identify opportunities for growth.

2. Financial Planning and Budgeting

Financial planning and budgeting are essential components of financial management. Financial managers must develop financial plans and budgets that align with organizational goals and objectives (Kotler, 2019). Financial planning involves forecasting revenue, expenses, and cash flows, while budgeting involves allocating financial resources to achieve organizational objectives.

3. Risk Management

Risk management is a critical aspect of financial management, as it enables organizations to identify and mitigate financial risks. Financial managers must assess risk, develop risk management strategies, and implement risk management controls (Alexander, 2018). Risk management helps organizations to minimize financial losses, ensure compliance with regulations, and maintain stakeholder confidence.

4. Performance Evaluation

Performance evaluation is an essential component of financial management, as it enables organizations to assess their financial performance and make informed decisions. Financial managers must develop performance metrics, such as return on investment (ROI), return on equity (ROE), and debt-to-equity ratio (D/E ratio) (Jensen & Meckling, 2019). Performance evaluation helps organizations to identify areas for improvement, optimize financial performance, and achieve strategic objectives.

Others include;

- Strategic Planning: Financial management contributes to strategic planning by providing financial data and analysis to inform strategic decisions.
- Financial Forecasting: Financial management forecasts financial performance to anticipate potential challenges and opportunities.
- Budgeting: Financial management develops budgets that align with organizational goals and objectives.

- Resource Allocation: Financial management allocates resources effectively to support strategic initiatives.
- Risk Management: Financial management identifies and mitigates financial risks to ensure organizational stability.
- Investment Management: Financial management evaluates investment opportunities to optimize returns.
- Cash Management: Financial management ensures sufficient cash flows to meet financial obligations.
- Financial Reporting: Financial management provides financial reports to stakeholders, enabling informed decision-making.
- Performance Evaluation: Financial management evaluates organizational performance to identify areas for improvement.
- Strategic Decision-Making: Financial management provides financial insights to inform strategic decisions.

By playing these roles, financial management contributes significantly to organizational strategy, enabling companies to achieve their goals and objectives.

IMPACT OF FINANCIAL MANAGEMENT ON ORGANIZATIONAL PERFORMANCE

Financial management has a significant impact on organizational performance, as it enables companies to achieve their goals and objectives. Effective financial management practices, such as financial planning, budgeting, risk management, and performance evaluation, can improve organizational performance (Fleischer, 2017). Financial management helps organizations to optimize financial resources, minimize risk, and maximize shareholder value.

POSITIVE IMPACTS:

- Improved Decision-Making: Financial management provides critical financial insights, enabling informed strategic decisions.
- Enhanced Resource Allocation: Financial management optimizes resource use, ensuring alignment with organizational goals.
- Increased Efficiency: Financial management streamlines financial processes, reducing waste and improving productivity.
- Better Risk Management: Financial management identifies and mitigates financial risks, ensuring organizational stability.
- Maximized Shareholder Value: Financial management increases shareholder wealth, driving long-term sustainability.
- Competitive Advantage: Effective financial management enables companies to respond quickly to market changes.
- Improved Financial Performance: Financial management drives financial performance, enabling companies to achieve strategic objectives.

In as much that there are a lot of positive benefits and impact, there are also some negative impacts which includes;

- **Poor Decision-Making:** Inadequate financial management can lead to uninformed strategic decisions.
- **Inefficient Resource Allocation:** Poor financial management can result in misallocated resources.
- **Increased Risk:** Inadequate financial management can expose organizations to financial risks.
- **Reduced Shareholder Value:** Poor financial management can decrease shareholder wealth.
- **Decreased Competitiveness:** Inadequate financial management can hinder a company's ability to respond to market changes.

SIGNIFICANCE OF FINANCIAL MANAGEMENT IN ORGANIZATIONAL STRATEGY

1. **Enhances Decision-Making:** Financial management provides critical financial insights to inform strategic decisions.
2. **Optimizes Resource Allocation:** Financial management ensures effective allocation of resources to support strategic initiatives.
3. **Improves Efficiency:** Financial management streamlines financial processes, reducing waste and increasing productivity.
4. **Increases Shareholder Value:** Financial management maximizes shareholder wealth by optimizing financial performance.
5. **Supports Growth:** Financial management enables organizations to grow and expand by providing necessary financial resources.
6. **Mitigates Risk:** Financial management identifies and mitigates financial risks, ensuring organizational stability.
7. **Facilitates Strategic Planning:** Financial management contributes to strategic planning by providing financial data and analysis.
8. **Enhances Accountability:** Financial management ensures transparency and accountability in financial reporting and decision-making.
9. **Supports Innovation:** Financial management provides necessary resources to support innovation and R&D.
10. **Improves Competitive Advantage:** Financial management enables organizations to gain a competitive advantage by optimizing financial performance.

By recognizing the significance of financial management in organizational strategy, companies can optimize their financial performance, improve decision-making, and achieve their goals and objectives.

CONCLUSION

Financial management plays a crucial role in organizational strategy, enabling companies to achieve their goals and objectives. Financial management involves planning, organizing, and controlling financial resources to maximize shareholder value. Effective financial management practices, such as financial planning, budgeting, risk management, and performance evaluation, can improve organizational performance.

The role of financial management in organizational strategy is critical and multifaceted. Effective financial management is essential for aligning organizational

resources with strategic objectives, driving organizational performance, and ensuring sustainability. Financial managers must develop strategic skills to contribute to organizational decision-making and provide insights into organizational performance. Organizations must prioritize financial management and integrate it into their strategic planning process. By doing so, organizations can achieve their strategic objectives, improve their financial performance and maintain stakeholder confidence.

RECOMMENDATIONS

1. Develop a comprehensive financial strategy: Align financial management with organizational goals and objectives.
2. Establish a financial planning process: Develop financial plans and budgets that support organizational objectives.
3. Monitor and evaluate financial performance: Regularly review financial performance and make adjustments as needed.
4. Foster a culture of transparency and accountability: Ensure financial management is transparent and accountable to stakeholders.
5. Integrate Financial Management into Strategic Planning: Organizations should integrate financial management into their strategic planning process to ensure alignment between financial resources and strategic objectives.
6. Develop Strategic Financial Management Skills: Organizations should develop strategic financial management skills among their financial managers to enable them to contribute to organizational decision-making.
7. Use Financial Metrics to Measure Performance: Organizations should use financial metrics such as return on investment (ROI), return on equity (ROE), and debt-to-equity ratio to measure performance and make informed decisions.
8. Conduct Regular Financial Reviews: Organizations should conduct regular financial reviews to assess their financial performance and make adjustments as needed.
9. Invest in Financial Management Systems: Organizations should invest in financial management systems that provide real-time financial data and enable informed decision-making.
10. Communicate Financial Information Effectively: Financial managers should communicate financial information effectively to non-financial stakeholders to enable informed decision-making.
11. Use Financial Analysis to Inform Decision-Making: Financial managers should use financial analysis to inform decision-making and provide insights into organizational performance.
12. Stay Up-to-Date with Industry Trends: Financial managers should stay up-to-date with industry trends and best practices to enable them to provide strategic guidance to organizations.
13. Collaborate with Other Departments: Financial managers should collaborate with other departments to enable integrated decision-making and ensure alignment between financial resources and strategic objectives.

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