

1. Introduction

The financial function developed rapidly after the 1950s due to several global and local factors such as:

- Rising competition among businesses.
- Increasing inflation rates.
- Fast technological progress.
- Greater government involvement in economic activities.

Originally, financial management focused on **legal aspects** of issuing securities, but by the 1980s, attention turned to **inflation, interest rates, technology, and computer-based financial analysis**.

2. What is Financial Management (F.M)?

Financial management means **managing and utilizing funds** efficiently to achieve business success and maximize return on investment (ROI).

It combines **economics, accounting, and finance** and involves:

- Choosing suitable assets.
- Deciding how to finance them.
- Ensuring effective use of funds.

Key features of financial decisions:

1. Infiltration in all aspects: Finance affects every activity inside the organization.
 2. Financial decisions are often binding and difficult to reverse.
 3. Fateful decisions : Some are critical and determine business survival (e.g., investment or debt).
 4. Results take time to appear and recognized, so careful analysis and forecasting are necessary.
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3. The Role of the Financial Manager

The **Chief Financial Officer (CFO)** leads financial operations, supported by:

- **Treasurer:** manages cash, investments, and relations with banks.
- **Controller:** prepares financial statements, budgets, and internal reports.

Main Responsibilities of the CFO:

1. Forecasting and Planning:

- Work with senior management to prepare financial plans for future goals.
- Decide what the company should look like in the coming years.

2. Managing the Structure of Assets:

- Choose how to acquire and use assets efficiently.
- Analyze profitability, company size, and growth needs.

3. Managing the Financing Structure:

- Decide on the best mix of internal and external funds.
- Aim to minimize financing cost while maintaining financial stability.

4. Coordination and Control:

- Ensure cooperation among departments.
- Link financial decisions with marketing, production, and other activities.

5. Dealing with Financial Markets:

- Oversee relationships with stock and bond markets.
- Manage how the company raises and invests funds.

6. Risk Management:

- Identify and reduce financial risks such as interest rate changes or currency fluctuations.
- Use insurance and hedging tools to protect the company.

4. Characteristics of Financial Decision Makers

A successful financial manager should have:

- **Broad-mindedness:** Ability to compare alternatives and choose the best option.
 - **Dissatisfaction:** Desire to improve and innovate.
 - **Sensitivity:** Awareness of environmental and economic changes.
 - **Opportunity Utilization:** Quick response to new chances.
 - **Innovation:** Use of new, creative decision methods.
 - **Challenge-Seeking:** Motivation to overcome difficulties.
 - **Future Vision:** Optimism and long-term thinking.
 - **Intellectual Generosity:** Listening to others' experiences and opinions.
 - **Evaluation Ability:** Constantly measuring and improving performance.
 - **Courage and Boldness:** Willingness to take calculated risks.
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5. Importance of Financial Management

Financial management is vital for **all sectors** — industry, business, tourism, etc.

Its importance includes:

1. **Financial Planning:** Helps estimate and manage financial needs early.
 2. **Protecting Funds:** Ensures proper use of money to reach business goals.
 3. **Fund Allocation:** Distributes resources effectively across departments.
 4. **Investment Opportunities:** Builds wealth and growth potential.
 5. **Financial Decision-Making:** Makes careful choices that affect the entire business.
 6. **Economic Growth and Stability:** Encourages wealth creation and long-term success.
 7. **Improved Standard of Living:** Better management leads to financial peace and comfort.
 8. **Company Valuation:** Enhances company worth through efficiency.
 9. **Tax Planning:** Reduces unnecessary tax expenses.
 10. **Capital Reserves:** Builds financial backup for future expansion.
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6. Objectives of Financial Management

The main goals that guide financial managers include:

1. **Assessing Capital Needs:** Estimating costs for assets, operations, and labor.
 2. **Determining Capital Structure:** Setting the ratio between debt and equity.
 3. **Creating Financial Policies:** Establishing rules for cash control and borrowing.
 4. **Resource Optimization:** Using funds effectively to boost profits.
 5. **Profit Maximization:** Achieving the balance where Marginal Cost equals Marginal Revenue.
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7. Functions of Financial Management

Financial management works through five main functions:

1. **Capital Adequacy Estimate:** Predicting how much capital the business needs.
2. **Assessing Capital Composition:** Analyzing the best mix of debt and equity.
3. **Choosing Funding Sources:** Selecting between internal funds, loans, or share issues.
4. **Cash Management:** Managing daily payments and maintaining liquidity.
5. **Financial Control:** Monitoring financial performance through forecasting and ratio analysis.

8. Competencies of Financial Manager

A professional CFO should possess these four key competencies:

1. **Business Competence:**

- Understanding market structure, competition, and strategy.
- Helping shape the company's strategic direction.

2. **Financial Competence:**

- Mastery of accounting, financial analysis, and investment tools.
- Experience dealing with banks, insurance firms, and financial markets.

3. **Change Competence:**

- Ability to lead change, persuade others, and innovate for better results.

4. **Personal Credibility:**

- Acting ethically, keeping promises, and building trust within and outside the company.