Contents

PROJECT NUMBER: 2020-EL01-KA204-078802

Co-funded by the Erasmus+ Programme of the European Union

4.3. Financial decision to ensure business sustainabity

Financial Management

Financial management is essentially the process of creating a business plan and then ensuring that all departments stay on track. Financial management procedures regulate how you conduct daily transactions, perform the monthly financial close, compare actual expenditure to budgeted spending, and guarantee you fulfill auditor and tax obligations on a tactical level. On a more strategic level, financial management feeds into critical financial planning, analysis, and visioning operations, in which finance leaders use data to assist line-of-business colleagues in planning future investments, identifying opportunities, and building resilient businesses.

Three pillars of improved financial governance are built on the foundation of sound financial management:

1. Identifying what has to happen financially in order for the organization to meet its short- and long-term objectives.
2. Decision-making, or assisting corporate executives in determining the best approach to carry out plans by giving up-to-date financial reports and data on essential KPIs for scenario planning, for example.
3. Controlling, or ensuring that each department contributes to the vision while staying within budget and on track with the strategy.

Financial managers assist their companies in a variety of ways based on those pillars, including but not limited to:

- Increasing profits by providing information about rising raw material costs, which could lead to an increase in the cost of products sold.
- Liquidity and cash flow are monitored to ensure that the company has sufficient funds to satisfy its obligations.
- Ensure that state, federal, and industry-specific regulations are followed.
- Creating financial scenarios based on the current status of the firm and forecasts that include a wide range of probable outcomes based on market conditions.
- Managing investors and board members successfully.

Financial management is divided into four categories:

Planning

The financial manager forecasts how much money the company will require to sustain positive cash flow, allocate funds for growth or the addition of new products or services, and deal with unforeseen events, and distributes this information with colleagues.

Capital expenses, workforce, and indirect and operational expenses can all be divided down into groups in planning.

Budgeting

The company's available cash are allocated by the financial manager to cover costs such as mortgages or rents, salaries, raw materials, and other responsibilities. In an ideal world, there will be enough money left over to save for emergencies and to fund new company ventures.

Also, a range of risks are assessed, and compensating controls are implemented by financial managers, including:

- Market risk has an impact on a company's investments, as well as its reporting and stock performance if it is a public company. Financial risk specific to the industry, such as a pandemic affecting restaurants, may also be reflected.
- Credit risk: The consequences of customers not paying their invoices on time, resulting in the business's inability to meet obligations, which can negatively influence creditworthiness and valuation, which determines the ability to borrow at favorable rates.
- Liquidity risk: Finance teams must monitor current cash flow, forecast future cash requirements, and be ready to release working capital as needed.
- Operational risk is a catch-all term that several financial departments are unfamiliar with. It could address topics such as disaster recovery and business continuity strategies and crisis management procedures .

Three Types of Financial Management.

- Capital budgeting is the process of determining what financial events must occur in order for a corporation to fulfill its short- and long-term objectives.
- Capital structure, which determines how to fund operations and/or expansion. Taking on debt may be the best option if interest rates are low.
- As previously stated, working capital management entails ensuring that there is enough cash on hand for day-to-day operations such as paying employees.[i]

Type of Investments

There are four primary categories of investments, each with its own set of qualities, risks, and rewards.

Growth investments

These are better suited to long-term investors who are willing and able to ride out market volatility.

Shares

Shares are a type of growth investment since they can help you increase the value of your original investment over time.

Property

Because the price of houses and other assets can rise significantly over a medium to long term timeframe, property is also called a growth investment.

Defensive investments

These are less risky than growth investments since they are more focused on delivering consistent income rather than growth. [ii]

Funding Opportunities - Fundraising

Fundraising is a challenging process. In fact, as part of the firm's growth strategy, it is a demanding and time-consuming job that a founder must undertake. During the course of a founder's fundraising journey, he or she will encounter a variety of investors, including:

- Investors who are skeptical of his or her capacity to deliver as a founder
- Investors interested in seeing the founder while considering investing in a competition
- Those who don't have the financial means to participate but want to demonstrate their involvement in the ecosystem, and so on (Espinal, 2015, adapted from http://seedcamp.com/).

Early on, the founder's ability to create personal relationships and express his or her aspirations as a coherent story is crucial to effective fundraising. It may be beneficial for a creator to cultivate a fundraising attitude centered on ***four key concepts:***

1. Fundraising is a process that requires time.

2. Entrepreneurs should be open to rejection.

3. Meetings are a unique experience; they are a kind of practice for entrepreneurs to constantly become better.

4. Entrepreneurs should learn how to improve their mistakes and stay connected with investors.

Source: Adapted from Espinal, (2015), p. 18

Useful articles:

1. Having a fundraising mindset, http://www.netocratic.com/the-fundraising-mindset-2790
2. The Mindset You NEED for Fundraising Success, https://www.classy.org/blog/the-mindset-you-need-for-fundraising-success/

Definition of the funding

The provision of financial resources to finance a need, a program, or a project, according to one proposed definition. In general, this phrase is used when a company meets its cash needs from its own internal reserves, whereas the term 'financing' is used when the requirement is met from outside or borrowed funds (according to business dictionary).

Why is funding so important for a business?

It is common knowledge that a business needs capital to run and remain viable. When we talk about funding, we're talking about money because that's all it takes to make all of the necessary procedures, such as product creation, production, and marketing, possible. To put it another way, money keeps administrative procedures running smoothly. Furthermore, funds assist businesses in progressing by fostering development and expansion. In general, money is critical for ensuring safety and long-term viability. Materials, office supplies, equipment, salaries, insurances, expenditures, future expansions or repairs, and accidents all necessitate money. It is important to note at this point that the funding approach chosen and pursued will be determined by the firm's wishes and demands (Duff, V., 2017; Francis, K.A., 2017).

Useful articles:

3. The importance of funding for business, http://smallbusiness.chron.com/importance-funding-business-59.html

Both timing and geography matters

Fundraising is a lengthy process that needs a significant amount of time and effort (Girardi, 2016). Fundraising, without adequate planning and scheduling, may be destructive to a business since it diverts a significant number of resources and time away from other business demands and administrative responsibilities. So, if this is the case, it makes logical that fundraising can provide time for cultivating quality and mutually beneficial relationships

(Girardi, 2016). The founders should take the time to build great relationships that will help with funding and lead to better communication and trust between parties. Furthermore, entrepreneurs begin a grueling series of meetings that could take days to months for subsequent rounds (Espinal, 2015, p.19). All of these procedures take time and, in most cases, rely on the founders' fundraising experience. When it comes to raising funds, **geography** is equally important. There are many well-constructed and excellent concepts throughout the world, as well as exceptional and capable founders, but the majority of venture capital, as well as angel capital, is still focused on a few core centers (Espinal, 2015, p.20). To put it another way, the founders may find it tough to relocate to these specific locations in order to raise financing. The notion is that entrepreneurs don't have to construct something important and new in another location because of the structured circumstance.

Preparation of the enterprise for fundraising

In general, a founder's ability to lay the proper basis from the start would be quite beneficial. Before embarking on this hard procedure known as "fundraising," entrepreneurs should mentally prepare themselves and their teammates. Entrepreneurs should first define their goals, timeframes, and budget, which are the resources they will most likely require, and then search for investors on specialist databases, reaching out to those who are more closely aligned with their needs and desires (Ferreira, 2017). Finally, they should go on to the next step, which involves pitching their business idea to those investors, preparing for rejections, and preparing for the next chance (Ferreira, 2017).

The four types of fundraising milestones

The table below shows four (4) different sorts of fundraising achievements (Espinal, 2015, p.26). Furthermore, these milestones are vital for an organization because they can identify all of the assets and noteworthy information that can be provided to potential investors during fundraising procedures. In other words, these milestones can illustrate in great detail what a company is capable of.

1. Human Resources
2. Product
3. Market
4. Funding

① When it comes to the first category, recruiting key employees has a significant impact on a company. For example, the involvement of a marketing specialist who will be responsible for the implementation of some new inventive ideas, a set of commercials, and the entire marketing procedure that must be put in place in order to bring money back into the company (Espinal, 2015, p.26). Another outstanding example is the spirit of collaboration. This means the entrepreneur must demonstrate that the team can work together and build excellent communication skills in order to secure investment. To function in a profitable and long-term manner, every organization should assemble a management team made up of a range of leaders, with duties matched to people's strengths (Robbins, S., 2017). CEO, CTO, COO, and maybe more are examples of expertise.
② In terms of the second milestone, most of the time, the founders must demonstrate that they can build something valuable for the general public. For example, showing that they are working on a prototype, which supports their business idea and makes it more believable to investors who may invest money in the founder's project or business idea, could be a benefit for founders (Espinal, 2015, p.27).
③ In terms of the market, it is vital to appraise it and have information on the first users and consumers. For example, founders must demonstrate that they can speak to a large

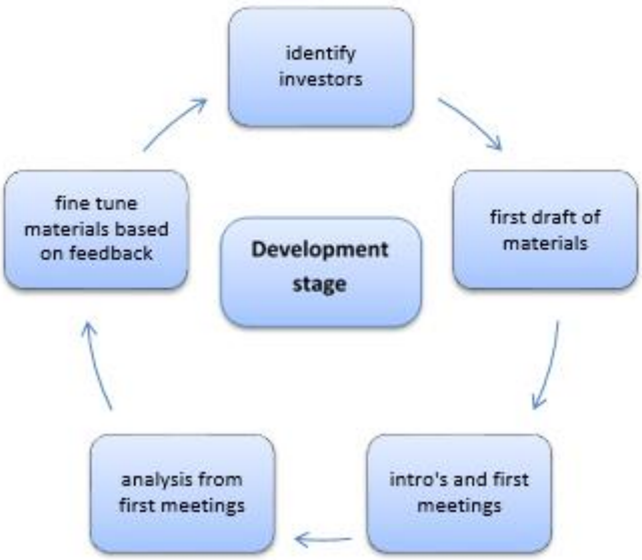
audience (100,000, 1 million, or even more) and that their product or service is helpful to them. A creator must also be able to demonstrate that there is a market, which leads to money (Espinal, 2015, p.27). To put it another way, it is critical to understand market volume because it will provide information on the number of customers who fall into the entrepreneurs' market category, the amount of time and money that consumers and users are willing to spend on similar goods and services, which product features customers prefer, and finally, market knowledge will provide inf (Earlydays, 2013) Furthermore, entrepreneurs must demonstrate that the prospective market is significant. Finally, market niches, competitive analysis, trends, and innovation should be documented. Earlydays, 2013; Espinal, 2015).
④ **Funding**; The founders must make certain that their planned fundraising approach incorporates all of the necessary factors to their advantage (Espinal, 2015).

Useful articles:

4. Identify Your Fundraising Milestones, https://gohighbrow.com/identify-your-fundraising-milestones/

Fundraising sources

Fundraising must be smart not only in terms of obtaining funds, but also in terms of optimizing a company's objective. Furthermore, there are numerous fundraising strategies available, but there is no one-size-fits-all solution that will work best for every specific country, culture, situation, or business. Iteration is a big part of the fundraising process.



The investment materials cycles

Assume that entrepreneurs have assessed their desired cash requirements, which are slightly more than what their local investors are willing to provide. Then the following questions are likely to arise in the minds of the entrepreneurs:

It's worth noting at this point that the following questions are rhetorical, prospective entrepreneur reflections (Espinal, 2015, p.37).

"Doesn't it immediately set me up for a "no" if I ask for the amount I genuinely need, but it's more than what investors are eager to provide?"
"Won't investors realize that I need more money than I'm asking for if I ask for a lower amount?"
Will it seem like I don't know what I'm doing if I ask for too little?" "

The readers will be able to read about some of the most essential fundraising sources from which they might request funds in the following part.

Friends & family

It could make sense that in markets where entrepreneurs are unlikely to be able to obtain the amount of money they want and need up front, defining their requested quantity in this way is one way of "hedging" the start of the debate about fundraising procedures. "Asking for finance from friends and family is apparent, but after that comes angels, or high-net-worth individuals who are prepared to invest in your firm in exchange for equity" (Espinal, 2015).

High-net-worth individuals

As previously said, there are those who are prepared to invest in a founder's startup, business, or firm in exchange for stock. Business investors come in a variety of shapes and sizes. Some are merely individuals investing their own money, while others are venture capitalists or business angels, who also refer to themselves as business associations, banks, individual investors, and crowdfunding sites like AngelList (Root, G., 2017).

Government funding

"A government grant is a cash gift made by the federal, state, or municipal government to a deserving grantee with no obligation of repayment" (Entrepreneur Staff). Technical or other financial help, such as a loan or loan guarantee, an interest rate subsidy, direct appropriation, or revenue sharing, is normally not included in government grants. "Grants from the government support company ideas and projects that provide public benefits while also encouraging the economy. Critical recovery activities, innovative research, and other services are supported by grants" (Investopedia definition).

Credit cards

Credit cards are the most convenient way to obtain funds, but they come with a hefty capital cost due to high credit card interest rates. The amount you can borrow is determined by your credit limit, which is likely to be lower than what you'd get from a bank or other sort of loan.

Crowdfunding sites

In recent years, online crowdfunding services have grown in popularity. They're typically utilized to assist firms in raising funds to launch a new product. Crowdfunding takes time, but it might be an excellent method to pre-sell your services and products and raise funds to develop them.

Bank loans

Obtaining a bank loan or line of credit can take longer than applying for a credit card. You present your case to the bank, and you must demonstrate that you have a track record of debt repayment. It will be necessary to have a business plan and a financial forecast.

Angel investors

Angel investors are high-net-worth individuals who invest in startups in exchange for a share of the company's stock. They expect to make a profit, and they usually have business experience that they can share with you to help your business expand. You'll need to show a strong business strategy and make a case for why they should invest.[iii]

Divided Decisions

The system by which management decides whether or not to declare dividends is referred to as dividend decisions. At the end of each reporting period, top management must select the portion of earnings that can be distributed as a dividend. The ultimate goal of a business is to maximize shareholder value. Dividend payment policies are extremely important since they serve as a link between the company and its shareholders in terms of profit sharing. It would be impossible for investors to assess management intentions without a well-defined dividend policy.

Objects of Dividend Decisions

Cash Requirement

When formulating a dividend policy, the financial manager must take into account the capital fund requirements. In capital-intensive periods, a large dividend distribution could put the corporation in financial difficulties.

Evaluation of Price Sensitivity

Companies that are chosen by investors for their dividend consistency must have a stricter dividend policy than others. It becomes critical for such companies to make sound dividend decisions in order to keep their stock prices stable.

Stage of Growth

The dividend decision should be made in accordance with the company's stage of development: infancy, growth, maturity, and decline. Each stage has its own set of circumstances, necessitating distinct dividend selections.

Types of Dividend Decision

Dividends and dividend decisions come in a variety of forms.

Stable Dividends

- Dividends are paid out in the same proportions every year, regardless of profitability.
- Shareholders are unaffected by the company's fluctuations and volatility.
- Only well-established businesses with consistent financial flows can afford to implement this policy.

Those who invest in these businesses have a low risk tolerance. They also aren't entitled to a share of the company's profits.

Constant Dividends

Dividends are defined as the percentage of profits and are paid on a regular basis. This approach is appropriate for startups as well as companies that are prone to volatility. These companies' investors are risk-takers. They prefer to ride the earnings wave with the company.

Alternate Dividend Decisions

A company's dividend may not necessarily be paid in cash. When it comes to non-cash options, a stock dividend is a substantial option for management. It's a useful tool that management can use to strike a balance between financial shortages and shareholder expectations. [iv]

Creating a Debt-Reduction Strategy

Steps of a payoff strategy

Set a business budget and stick to it

Identifying why the company plan failed or what went wrong can assist you in developing a new budget for your present financial situation. Debt ratio can be used to assess your present small business debt and assets and help you design a financial plan that works for you.

Find ways to increase revenue and income

Maximizing cash flow is a big aspect of paying down company debt. To begin, it's always a good idea to identify and pay off the accounts with the greatest debt, or the highest interest and fees. You'll require cash inflow to pay down your most important corporate debt. Finding new ways to create income and reduce your debt will help you get out of debt faster

Decrease company spending

Reduce inventory to increase cash flow until the company's debt is paid off. You can put whatever money you save in unnecessary expenses toward debt payments to ensure that your company owes others is paid quickly.

Try negotiating with vendors and lenders

To establish a more favorable deal, approach the vendors and suppliers with whom you have the finest working ties. They might be prepared to make a deal on a stronger sales agreement or provide credit to your business accounts.

Apply for a Debt Consolidation Loan

Consolidating your debt into one long-term arrangement is the goal of a small business debt consolidation loan.[v]

References

i Strutner, S. (2020, October 2). *Financial Management Explained: Scope, Objectives and Importance*. Oracle NetSuite. https://www.netsuite.com/portal/resource/articles/financial-management/financial-management.shtml

ii Commonwealth Bank. (2019, January 1). *Investing basics*. Www.Commsec.Com.Au. https://www.commsec.com.au/education/learn/investing-basics/what-are-the-different-types-of-investments.html#

iii *The best way to get capital to grow your business*. (2019, January 1). Https://Www.Nationwide.Com/. https://www.nationwide.com/lc/resources/small-business/articles/business-funding-options

iv *Dividend Decisions*. (2019, January 1). Https://Efinancemanagement.Com/. https://efinancemanagement.com/dividend-decisions

v QuickBooks Canada Team. (2019, January 1). *Top Tips for Paying Off Debt for Your Small Business*. Https://Quickbooks.Intuit.Com/. https://quickbooks.intuit.com/ca/resources/expenses/tips-for-paying-off-business-debt/