Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 3 Issue 2 (2023)

Understanding Financial Management Best Practices for Maximizing Profits And Reducing Risk

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Abstract
This research takes a look at the most recent developments in the field of financial management and provides recommendations on how to maximise gains while limiting losses. The best strategy for a firm to optimise profit or minimise loss is very context and resource dependent. Maintaining a portion of the market and keeping costs down are more important to profitability than either lowering prices or coming up with new products. Regardless of the company's present asset or cash situation, long-term losses will erode its assets and require it to hold less cash.
The papers' aims are to discuss the methods used by successful businesses to maximise profits and minimise risk through prudent financial management; to evaluate the differences in financial management strategies across industries; and to investigate the obstacles that may prevent some businesses from adopting these methods.
The research relies entirely on publicly available, secondary sources for all of its conclusions. Descriptive research methods were employed in this investigation. The researcher utilised inductive and deductive reasoning to assess the data and weed out irrelevant information. Established techniques of financial planning and budgeting help organisations set realistic goals, make the most of their resources, and maintain tabs on their progress, according to the data obtained for the study's primary purpose. The three pillars of good financial management are cost identification, cost control, and operational efficiency optimisation. Profit margins may be increased without impacting the quality of a company's products or services if proper cost management is used. Companies may benefit from adopting these guidelines in the areas of financial decision-making, risk avoidance, and profit maximisation.

Keywords: *Finance, Management, Planning, Budget, profit, losses*

1. Introduction

The success of a business depends on its financial resources being managed efficiently. The purpose of financial management is to plan for and control a business's financial resources. In 1890, it separated from economics to become its own discipline. There is significant interest in the field of financial management from both academics and practising managers. Academics are paying attention since the topic is still developing; there are still debatable points on which researchers cannot agree(Al Breiki, &Nobanee, 2015). Real-world managers are interested in this issue because, practically speaking, financial decisions are some of the most consequential that a business can make, and managers who have a firm understanding of the theory of financial management can make such decisions more wisely.

1.1 Background

Financial Management:

Budgeting, prudent resource allocation, and tight spending are all part of sound financial management. It comprises avoiding costly mistakes, limiting losses, and making the most of money(Al Ahbabi, &Nobanee, 2014).

To reach its full potential, a business must have its finances well managed. A company's capacity to take advantage of development opportunities, meet its obligations under contracts, and weather financial storms is directly related to how effectively its finances are handled.

The following financial management basics should be kept in mind by businesses:

-Establishing a solid financial plan: Every company requires a comprehensive financial strategy that lays out the steps necessary to achieve its short- and long-term goals.

There is a direct correlation between a company's success and its ability to maintain a healthy cash flow. If a company don't have enough money on hand, it is risk missing out on profitable opportunities and might possibly go out of business.

A corporation has to make good use of its capital, or the money it has available for growing and improving its operations(Weersink, & Fulton, 2016). Since poor management might eventually lead to the depletion of these resources, it's critical that they be put to good use.

All forms of financial risk must be reduced, including credit risk, interest rate risk, market risk, currency risk, and others. Businesses may only take precautions once they are aware of the dangers they face.

Improve Business Performance with Financial Management

There are a variety of ways in which a company's performance might be improved by careful financial management. Improving budgeting and forecasting is a simple first step. This may help a business better allocate its resources as it responds to changing market conditions.

One further way that good financial management may benefit a company's bottom line is by providing better data for decision making(Markonah, et al., 2017). This includes providing management with up-to-date, relevant information, as well as improved costing processes, data analysis, and reporting. Better financial management may ultimately increase productivity by decreasing costs. Possible solutions include enhancing cash flow management, decreasing wasteful spending, and negotiating better deals with suppliers.

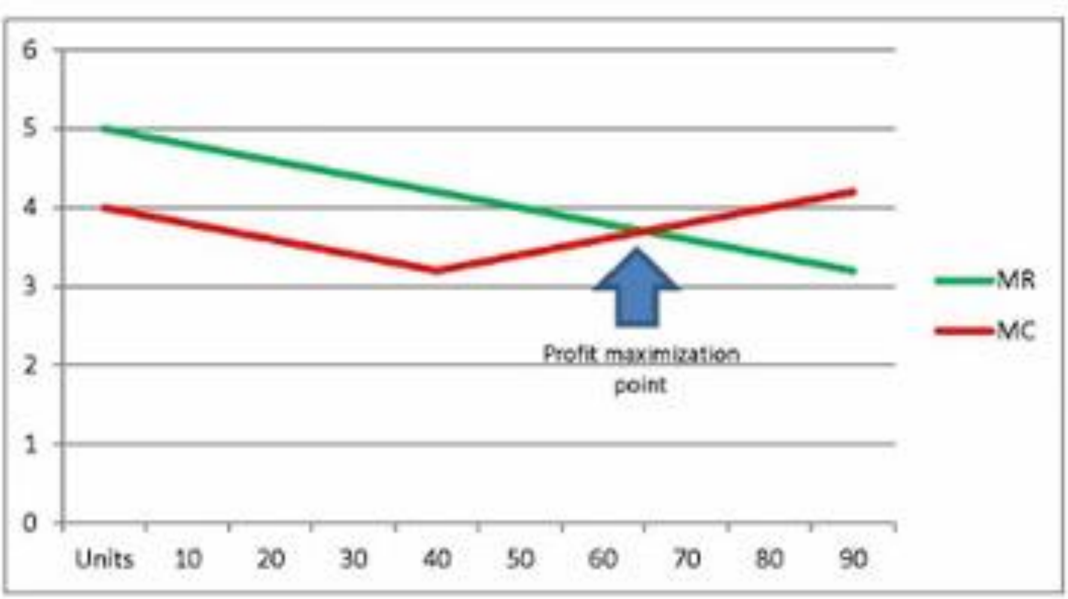

Figure 1 profit maximisation graphical presentation

2. Literature Reviews

The Importance of Financial Management

Financial health is crucial to the success of any business. Money management entails budgeting, allocating, and controlling resources to achieve organisational objectives(Le, 2015). Good financial management may have a substantial effect on a company's bottom line by freeing up cash for use in day-to-day operations, expansion, and cost savings.

Poor financial management, on the other hand, may lead to problems like bankruptcy. That's why it's so important for business owners to have a solid grounding in both the theory and practise of financial management. There are a number of ways in which a business's financial management might be improved upon. Some instances are as follows:

Working capital refers to the cash on hand that a business may use to cover its daily operations. Having a sufficient amount of operating cash on hand guarantees that one can cover any unexpected expenses that may arise.

Maintaining the smallest possible inventory Companies with large stockpiles waste resources that may be put to better use elsewhere. Reducing inventory on hand might boost earnings and release funds for other uses.

Third, decreasing costs is a great way to increase profits. Just a few examples include easier discussions with suppliers for new contracts, streamlined processes, and automated tasks(McKillop, et al., 2016).

The bottom line may also be improved by increasing sales as much as possible. This may be achieved in two ways: either by bringing in more new customers or by selling more to present clientele.

The Benefits of Financial Management

The health of an organisation is directly proportional to the quality of its financial management. By taking responsibility of financial condition, a company may improve the bottom line via well-informed decision-making. Below are a few scenarios where improved financial management has led to increased productivity in firms.

Improved cash flow is the first step towards better financial management. A company needs to be aware of where the companies money comes from and where it goes. A company can better manage its company's finances if it have a thorough understanding of the inflow and outflow of cash. If company can prevent overdraft and late penalties, this might be financially beneficial(Pinto, & Rastogi, 2012).

Expense reduction is the second benefit of well-managed finances. If a company have a firm grasp of the financial situation, it will be better equipped to take advantage of perks like early payment discounts and favourable terms with the suppliers.

A company's enhanced financial management will allow it to make more informed business decisions. By understanding the financial standing of the business, a company can weigh the pros and cons of potential decisions and make ones that are really in the company's best interest.

Added mental tranquilly it's easy to forget about the mental benefits of good financial management(Weersink, & Fulton, 2016). When a company no longer have to stress about money, it'll be able to focus on other aspects of running its business. There could be less stress and greater satisfaction in the workplace.

2.1 Research Gap

While there is a wealth of information available on sound financial management practises for maximising profits and minimising risk, little is understood about how technology might be utilised to enhance these strategies. Few research have explored how precisely technology may be utilised to enhance monetary management processes. In examining how technology-driven strategies may revolutionise the area of financial management and lead to improved decision-making, reduced risk, and increased profitability for businesses of all sizes, this research addresses a gap in the existing literature.

2.2 Research Question

i. How do financial management strategies vary from one sector to another?
ii. How can leading companies maximize earnings while minimizing risk via sound financial management?
iii. What are the potential challenges and barriers faced by organizations in implementing financial management best practices?

2.3 Importance of the Study

In light of the widespread belief that maximising profits for stockholders should be a company's top priority, this research is of the utmost importance. The article emphasises the significance of sound financial management, which is defined as the process by which an organisation obtains and efficiently uses its financial resources to achieve its financial goals. Good financial management is crucial to the success of any business. Planning, organising, monitoring, and controlling a company's finances are all part of this process. The goal of good financial management is to reduce or eliminate unnecessary expenses.

2.4 Research Objectives

i. To evaluate the variations in financial management strategies across different sectors and identify the key factors influencing these variations.
ii. To discuss the practices employed by leading companies to effectively maximize earnings and minimize risk through sound financial management.
iii. To explore the potential challenges and barriers faced by organizations in implementing financial management best practices

2.5 Scope and Limitation

This research aims to summarise some of the most effective approaches to maximising shareholder value, such as scientific management, enterprise value analysis, and shareholder value maximisation, and to provide a concise explanation for why businesses in various countries have adopted these new strategies in recent years. If shareholder profits are to be maximised, the research found that these methods must be emphasised.
Profit maximisation, earnings per share maximisation, solvency maximisation, and liquidity maximisation are all covered in this article.

3. Research Methodology

The methods used to gather the data for this study may be found in the research protocols. Methodological procedures allow for the creation of novel experiments and investigations. However, the research relied only on information that was previously publicly available (i.e., secondary data). In this investigation, the descriptive approach was applied. Descriptive studies examine the problem from every possible viewpoint, as opposed to explanatory studies which focus on the subject's fundamental principles. The researcher used inductive and deductive reasoning to examine the data and exclude any irrelevant information.

1.1 Research Method & Design

Researchers use a research design to ensure that all of their data is correctly accounted for. The research design of a study includes the methods used to gather data, analyse that data, and draw conclusions from it. Secondary sources such as newspapers, periodicals, academic papers, books, websites, etc. were used to compile this study's data, although their material is not directly comparable. Utilising an explanatory research strategy, this study of the conceptual components allows for the assessment and severity determination of many of the research topics. The researchers extrapolated data from many high-quality sources.

3.2 Research Approach

The researcher uses the illustrative approach to examine the current aims and issues, so laying the groundwork for a causal chain. The method adopted in this study was both explanatory and corrective. The study's authors supported their claims with analysis of qualitative data. This also requires a careful analysis of the assumptions made when settling on a set of methods for collecting data. The gathering and examination of data pertaining to the study's subject is an essential part of any research method. To answer research questions, qualitative methods use a more in-depth, descriptive approach.

4. Analysis of Study

i. How do financial management strategies vary from one sector to another?

Finance refers to the study of money and how to manage it. Investing and making budgetary judgements are only two examples of the many facets of money management. Finance management primarily entails three activities: financial planning, financial regulation, and financial decision-making. Capital has to be raised in order to launch and operate a business, hence "planning" has this meaning(Boisjoly, et al., 2018). Keeping things under control for businesses means making the most of what they have. Making wise financial choices, however, is the single most important part of managing money. Financial management encompasses every major business decision, from selecting investors to deciding where to invest in projects and products. All of these factors are essential to any business's growth and prosperity. A company's financial situation will always exist, even though the details are always changing.

Strategy is a broad concept that covers many different areas of study. Even the most seasoned strategists are continuously on the hunt for fresh methods of thinking about and learning about the profession. Managers and leaders spend most of their time thinking strategically about how to build strong organisations, provide value to customers, and prevail over the competition. Financial performance, decision quality, employee engagement, resistance to change, etc., are only some of the metrics that may benefit from the use of these theories, models, and management practises(Al Muhairi, &Nobanee, 2013). Risk and uncertainty are ever-present for businesses because of the interaction of several factors at the economic, technological, legal, political, social, and global levels. Strategic management helps an organisation construct a sequence of decisions and actions that leads to the formulation and implementation of strategies so that it may achieve its objectives within a given context.

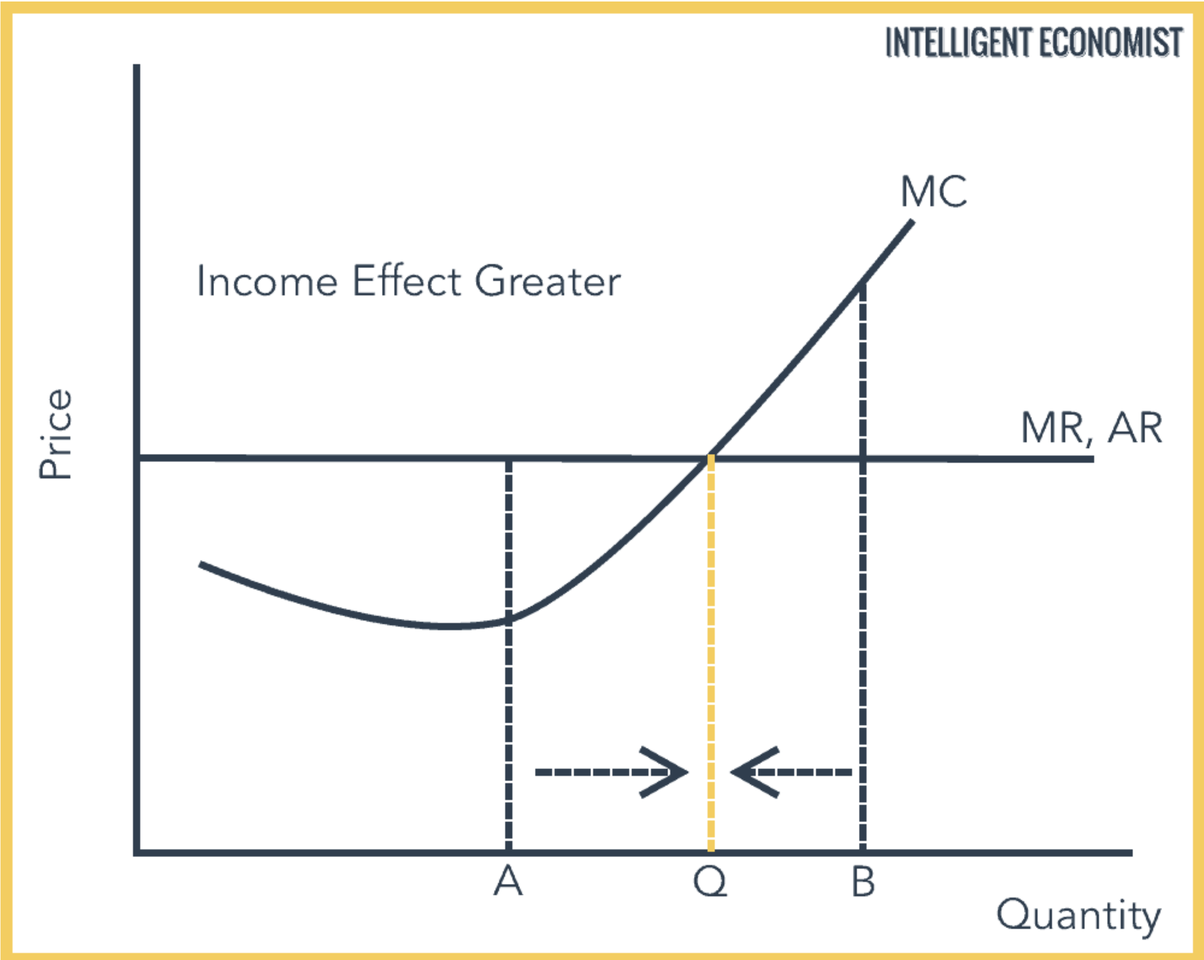

Figure 2 profit maximisation rule

Finance Management in Small Scale Businesses

Funding is a critical issue for every startup or small business. Finding a reliable source of funding will be a company's main priority until it has established itself. Sound financial management necessitates the use of financial decision making and planning in this scenario. Financial management is also crucial for businesses of this size(Shim, 2012). For smaller companies, the financial ramifications of every decision are more acute. Budgets are once again allocated after great deliberation, and used for everything from keeping the pay scale and employee incentives in place to introducing a new product and running marketing activities. There is less wiggle space for boosting operational funds, making accurate financial management even more important for small enterprises.

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Finance Management in Medium Scale Businesses

Organisations in the middle ground between small and large manage to achieve a desirable balance. The danger of not having enough money to complete the project has been mitigated because of the timely and thorough collection of such funds. Budgeting and financial management are still necessary, however(Shapiro, &Hanouna, 2015). For medium-sized businesses, financial planning is often performed once a year, every other year, or once a quarter. Both the entire amount of cash to be invested and the overall strategy of the organisation are decided upon early on. Medium-sized businesses may request an increase in capital to use for things like new product launches, streamlined operations, and staff incentives. However, expansion requires revenue forecasting and analysis.

Finance Management in Large Scale Businesses

When it comes to managing finances, large corporations need a different strategy than their smaller and medium-sized counterparts. These are large, successful businesses with bright futures. A financial disaster is thus less likely to occur. Budgets often shift just little from one year to the next. They are open to financial backing for new product launches, and they put a premium on using that backing for staff perks. The sheer scale of the organisation necessitates the use of comprehensive checklists in all aspects of financial planning and management. Financial management strategies like these are used by businesses across industries and niches. No of the management style used, sound fiscal management is essential(Brigham, & Houston, 2018).

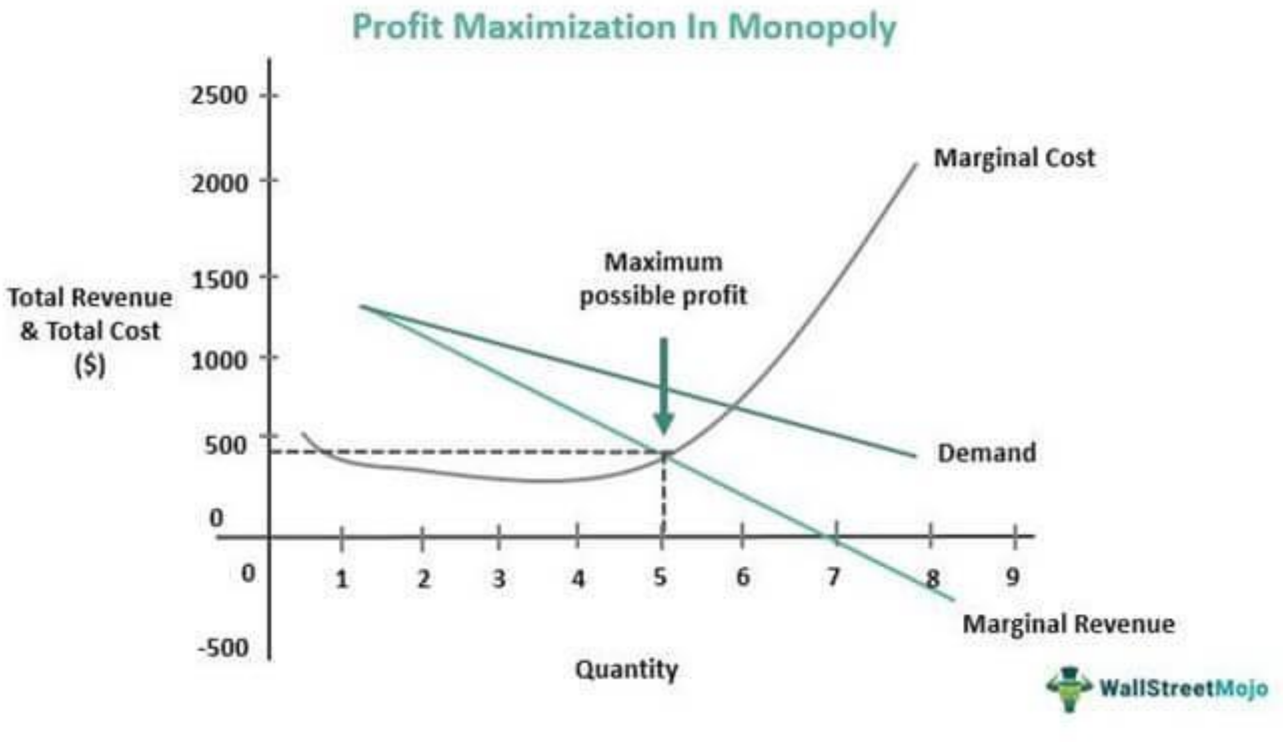

Figure 3 profit maximisation in monopoly

ii. How can leading companies maximize earnings while minimizing ris2k via sound financial management?

The term "maximising return" is often used in the business world. Profit maximisation entails making the most of available means. There are several ways to maximise profits, but the two most frequent are increasing revenues and minimising expenditures. Investment returns are very susceptible to a variety of factors. The level of risk is usually the most important consideration. Higher-risk investments have a higher chance of both profit and loss. Therefore, a company should carefully consider risk tolerance before making any financial commitments. How soon it thinks it can make money will determine the rate of return it expects. Short-term investments have a lesser return potential but reduced risk(Madura, 2015). If collecting the money quickly is more essential than maximising profit, accepting a lower rate of return might be beneficial. Lastly, the quantity of capital it have at its disposal will affect its rate of return.

Profits from investments tend to follow the supply of capital. Never risk more of the money than the company can afford to lose, however.

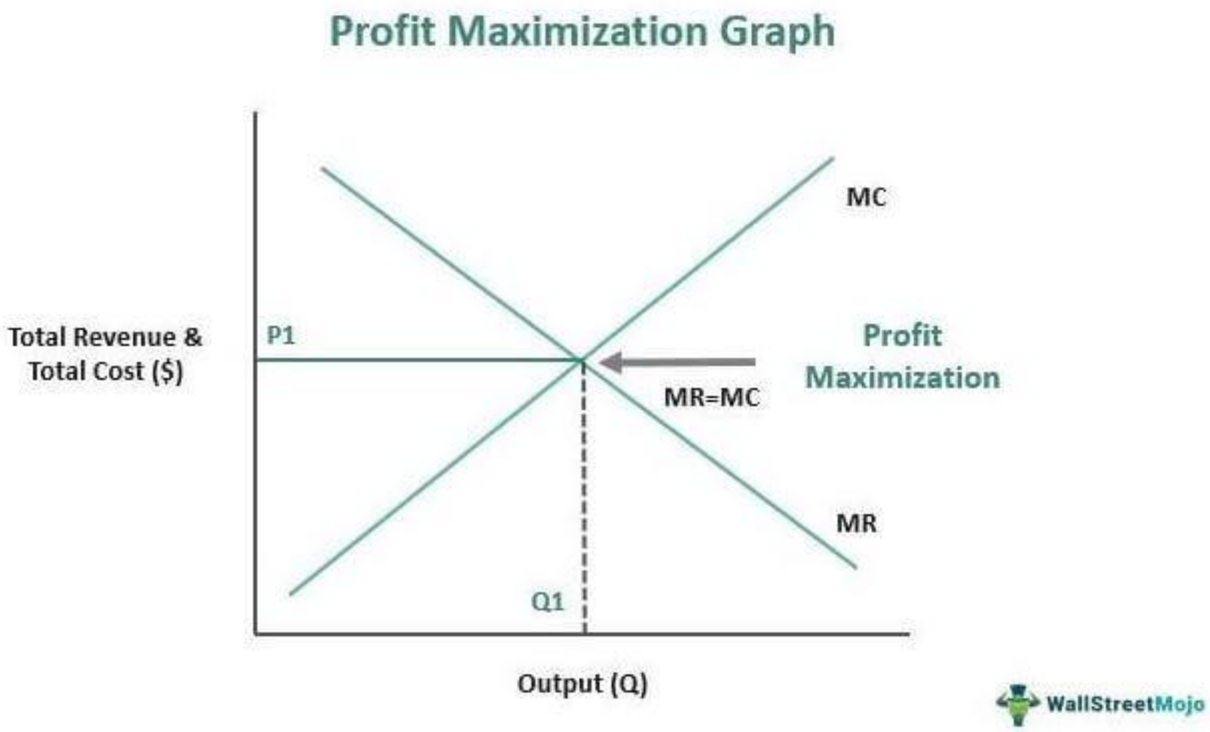

Figure 4 profit maximisation strategy

Making the most money possible is a basic tenet of business and investing. The trick is to calculate the possible returns and deduct the associated expenditures(Hasanaj, &Kuqi, 2015). Maximising the return on investment and accomplishing the financial goals are both possible if the company gives due consideration to all of the necessary factors.

There are several strategies one may use to maximise return on investment. But optimising return on investment is what really matters. Profit earned in relation to investment cost is one possible definition of return on investment (ROI). The business is doing well if it have more money coming in than going out. But if the business is losing money, it needs to reconsider its strategy. Another approach to look about ROI is as the ratio of the value generated to the value destroyed. That approach is what we call a "value-add" one. The company is doing OK if its contributions outweigh the losses. However, if the company is spending more than its taking in, it may want to reconsider its strategy.

The management of risk consists of three basic components:

Risks must be recognised before they can be mitigated. It is important to identify the threats that a company confronts. Methods like interviews, questionnaires, focus groups, and brainstorming sessions might help with this(Klapper, & Lusardi, 2016).

After threats have been uncovered, it is necessary to assess how likely and how devastating they may be. This will let companies prioritise which risks to fix first.

Control, the last stage of risk management, is doing something to mitigate the identified threats. This includes things like updated policies, new training programmes, and state-of-the-art technological systems.

Risk management is a common component of organisational strategy. Recognising and understanding the many manifestations of risk is crucial. Companies might potentially save money and increase their chances of success by taking the initiative. There is no simple solution to the question of how to reduce investing risk. Since each investor's financial situation is unique, the strategies that work for some may not be appropriate for others(Boisjoly, et al., 2017).

Figure 5 risk management process

Although every investor faces risk, there are certain general principles that might help mitigate that risk. You have the choice of investing in a variety of asset classes. the company may do this by spreading investments over several asset classes, such as stocks, bonds, and real estate. it should spread investments out rather than putting all eggs in one basket.

Long-term investing is another way to reduce vulnerability to financial setbacks. As a result, it increases the likelihood of surviving the short-term market volatility and realising its goals. No strategy can guarantee success 100% of the time. If the company follow these rules, though, it'll lessen the exposure and boost chances of success(Anton, &Nucu, 2015). One of the hazards of investing is the possible loss of one's original investment. No strategy can be guaranteed to succeed. Contrary to popular belief, diversification does neither protect against loss in declining markets or ensure a profit. Investing with an eye on the long term decreases short-term profits and raises the risk of missing out on market chances. Success in the future is not guaranteed, and real results may shift over time. Consult a qualified financial advisor immediately.

iv. What are the potential challenges and barriers faced by organizations in implementing financial management best practices?

Budgeting, forecasting, and monitoring expenditures, together with accounting, reporting, and protecting assets from theft, damage, and fraud, all fall within the purview of organisational finance management. Having strict internal audit standards, solid internal controls, and instilling crucial leadership characteristics and attributes among a company's financial keepers is essential. The following are some of the challenges and constraints in the area of financial management:

1. Spending restraint

Lack of planning leads to inefficient reporting on completed objectives and results. Objectives, major tasks, milestones, Key Performance Indicators (KPIs), and fiscal policies and processes may all be mapped out with forethought(Bulturbayevich, et al., 2014). Most groups struggle to allocate finances effectively, which hampers or halts their attempts to improve educational standards. Most businesses are terrible at managing their finances, which means that last-minute adjustments to the budget are often made without the necessary permissions. Any institution that wants to organise its finances and keep track of individual projects needs a budget. Inadequate financial regulations and practises lead the majority of corporate executives and bursars to fail audits. The appropriate authorities must approve any and all budget adjustments.

2. The Deficit in Organisational Expenditures

Today, negative cash flow is the norm for established companies. Expense discrepancies may result in interruptions or constraints on normal activities. The increasing abuse of funds and the inability to comply with financial norms and procedures have led to the organization's account deficit because of a lack of internal controls(Singla, & Mallik, 2016).

3. Poor management of the budget.

When it comes to prudent financial management, having a strong grasp on your finances is essential. Budgets aren't being reviewed at the end of each term since they aren't being assessed. As part of their financial management, businesses often compare actual results to predetermined budgets. When actual performance falls short of expectations, it might be good to investigate the causes of the gap and put in place solutions as soon as possible. Budget reviews are a continuous process that ensures the best use of resources and promotes sound financial management. This approach also makes it less difficult to monitor and evaluate the institution's financial standing and implement necessary adjustments.

4. Lack of accountability

Many companies' finance management departments are poorly run because top executives shirk their duty. The widespread abuse of power by administrators is evidence of this. Since bursars are often seen as the organization's accounting authorities, CEOs will often 'push' them to distribute cash or make other payments outside of established rules(Brigham, & Houston, 2016). This is because of the disorganised management and careless bookkeeping that plague the company. These activities demonstrate a lack of leadership that puts little stock on ethics or good judgement. A company's internal control system is a set of procedures and tools developed to improve operations and save costs. Leaders have a lot on their plates, and one of them is making sure the organisation sticks to its budget. A strong leader in any company maintains an open channel of contact with their subordinates and provides them with constructive feedback. These characteristics may be developed via appreciative leadership and engaging in exploratory activities with a defined purpose.

5. Results

The term "financial management" encompasses the activities of acquiring, allocating, accounting for, and assessing risks. A business that is good at money management may be able to get capital on more favourable terms. Sound financial management is predicated on minimising financing costs and ensuring a sufficient amount of operational cash. While it may be simpler for large, well-known businesses to raise funds, it doesn't mean they don't require help from savvy financiers. Sound financial management aids both efficient company governance and a suitable solution to the agency problem(Ouachani, et al., 2017). In order to make sound decisions, limit losses, maximise profits, and prepare for the company's future growth and success, sound financial management is essential. Farmers may protect their enterprises by maintaining detailed records, making detailed budgets, and setting clear financial goals. Adhering to good financial management practises may help farmers increase profits, reduce risk, and safeguard the future of their farms. Due to the inherent unpredictability in operating a firm, it is vital for managers to optimise earnings while limiting losses.

6. Conclusion

In conclusion, sound financial management is crucial to the prosperity of any business. You can keep your business running smoothly and successfully if you have a firm grasp of your cash flow and other crucial financial parameters. Budgeting, investing, borrowing, debt management, and other sound financial practises may have a significant impact on a company's bottom line and long-term success.

6.1 Future Scope

Future studies might investigate the financial management techniques that contribute to sustainable company practises in light of sustainability's growing significance. Effective risk management solutions within the framework of financial management may be explored via research, especially in light of the growth of cyber risks and digital disruptions.

Cybersecurity frameworks, risk assessment models' ability to recognise digital threats, and the monetary effect of cyber events are all possible topics for research.

6.2 Suggestions

- it is recommended to investigate recent developments and new approaches to financial analysis.
- it further recommended to Include research into real-time financial data visualisation tools, predictive modelling, and big data analytics as they pertain to the management of money.

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