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## Financial Strategy

### 1. Definition of Financial Strategy:

A strategy is about how organizations translate their long-term goals into the actions they undertake on a day-to-day basis. A financial strategy is therefore the link between the organization's long-term service objectives and its financial capacity.

A financial strategy will set out:

- **Where the organization is now:** the current financial position, including assets, liabilities, reserves and the main sources of income.
- **Where it would like to be:** how the finances will be developed over the period, including planned level of reserves, the balance of income from different sources and/or the development of new income streams.
- **How it plans to get there:** what actions will be taken to achieve the financial objectives.

### 2. Components of Financial Strategy:

- **Goal Setting:** Financial strategy begins with defining clear and measurable goals. These could include short-term objectives like debt repayment or saving for a vacation, as well as long-term goals such as retirement planning or wealth accumulation.
- **Risk Assessment and Management:** Understanding and managing risk is fundamental to financial strategy. This involves assessing both personal risk tolerance and external market risks, and implementing strategies to mitigate risk exposure through diversification, asset allocation, and insurance coverage.
- **Cash Flow Management:** Effective cash flow management is crucial for maintaining financial stability and liquidity. This includes budgeting, tracking income and expenses, optimizing spending, and establishing emergency funds to cover unexpected expenses.
- **Investment Strategy:** Developing an investment strategy tailored to individual goals, risk tolerance, and time horizon is essential. This may involve asset allocation across various investment classes, selecting appropriate investment vehicles, and regularly monitoring and adjusting the portfolio to optimize returns while managing risk.

### **3. Importance of Financial Strategy:**

A financial strategy sets out how an organization will finance the implementation of its long-term objectives. Without a financial strategy there is a risk that the long-term objectives may remain unfulfilled. A financial strategy helps organizations to consider the feasibility of different options in terms of affordability and financial sustainability.

As well as being essential to longer-term planning, a financial strategy also provides an effective framework for medium and short-term financial plans. Each planning horizon contributes in different ways to the effective financial management of an organization.

By implementing a strategic approach to investing and asset allocation, the firm can preserve and grow its wealth over time. Financial strategy helps optimize returns while managing risk, allowing the assets to generate income and appreciate in value.

Also, a well-designed financial strategy is adaptable to changing circumstances and goals. It allows for adjustments as your financial situation evolves, ensuring your plan remains relevant and effective over time.

### **4. Factors Considered in Financial Strategy:**

Factors that need to be considered include:

- The nature, level and balance of the organization's sources of income.
- The organization's exposure to volatile income streams.
- The organization's cost base, especially its overhead costs.
- The financial structure and staffing of the organization.
- The organization's financial management policies, systems and processes.
- The organization's relationships with key financial stakeholders.

### **5. Implementation and Execution of Financial Strategy:**

Once a financial strategy is developed, it needs to be implemented and executed effectively. This involves:

- Setting up the appropriate accounts and investment vehicles.
- Automating savings and investment contributions.
- Regularly reviewing and adjusting the strategy as needed based on changes in goals, circumstances, or market conditions.

### **6. Monitoring and Evaluation:**

Continuous monitoring and evaluation are essential to ensure the financial strategy remains aligned with goals and objectives. Regular reviews help identify potential issues, assess

performance against benchmarks, and make necessary adjustments to optimize outcomes and mitigate risks.

## **7. Conclusion:**

In conclusion, financial strategy is a dynamic process that involves careful planning, management, and optimization of financial resources to achieve desired outcomes. By understanding the key components and principles of financial strategy and implementing them effectively, individuals and organizations can enhance financial stability, achieve their goals, and build a secure financial future.