Evaluate the importance of financial management strategies in improving business performance.

Financial management strategies are highly important in improving business performance and ensuring financial objectives are met. These objectives are growth, efficiency, liquidity, profitability and return on capital. The importance of financial management strategies are evident in a comparative ratio analysis of the firm Qantas, Australia's largest domestic and international airline. Whereby over the period 2015 - 2016 Qantas' Debt to Equity, Net Profit, Return on Equity and Expense ratios all improved, whilst the Current Ratio deteriorated. Financial management strategies include working capital management, debt and equity financing, profitability management, minimisation of expenses and global financial management.

Liquidity is a short-term financial objective and it is the ability of a business to meet its short term financial obligations (it less than 12 months). The current ratio (current assets ÷ current liabilities) allows a business to assess liquidity. For 2015 Qantas had 68c of CA for every $1.00 of CL. in 2016 Qantas has 49c of CA for every $1.00 of CL. The current ratio is deteriorating which increases Qantas' financial risk as it is unable to repay its debts. Strategies such as working capital management help improve Qantas' position of liquidity. Qantas controls current assets such as cash,accounts receivables and inventories by writing a cash flow budget. This helps with the management of cash inflows and outflows if there are any predicted shortfalls or surpluses of cash, such as in peak times like Christmas and Easter, and therefore improve liquidity and business performance. Additionally, Qantas controls current liabilities such as payables by taking advantage of any discounts offered for early payment and by reviewing their suppliers of jet fuel. This further allows Qantas to achieve its financial objectives, and improve liquidity. Lastly, by leasing planes, buildings and plant equipment, Qantas is able to regulate cash flow and receive tax deductions. Qantas has also entered a sale and leaseback agreement for some of its aircraft. A sale and leaseback involves the sale and rehiring of an asset. This improves profitability in the long-term and liquidity in the short-term. Hence financial management strategies are highly important in improving business performance.

Solvency is a long-term financial objective of the business and refers to the business ability to meet its long term financial obligations (ie longer than 12 months). The debt to equity ratio (total liabilities ÷ total equity) allows a business to assess its solvency. In 2015 Qantas had $1.39 of debt for every $1.00 of equity. In 2016 Qantas had $1.36 of debt for every $1.00 of equity. Whilst the debt to equity ratio has improved slightly, the ratio still remains higher than 100% and Qantas is therefore considered highly geared, which increases financial risk. Management strategies relating to solvency involve the use of debt and equity financing. Equity financing relates to internal sources of finance. The advantage of using equity finance is that no interest payments need to be made. However dividends are not tax deductible and shareholders have voting rights. The additional source of finance is debt financing. Debt finance refers to any external sources of finance. This has the advantage of flexibility, alongside with no change in the ownership structure of Qantas. The potential disadvantage of this strategy is that interest repayments will need to be made and can involve greater risk. This can hinder future growth and solvency. Examples of equity financing in Qantas include the use of retained profits and shares sold on the ASX. Thus it is very important for financial strategies to be used in order to improve business performance.

Profitability refers to the businesses ability to generate earnings that exceed expenses in a given accounting time period. The net profit ratio (net profit ÷ sales) and return on equity (net profit ÷ total equity) allow a business to assess its profitability. In 2015 Qantas generated 6c of profit for every $1.00 of sales. In 2016 Qantas generated 9c of profit for every $1.00 in sales, demonstrating an improvement of Qantas net profit ratio. Also, in 2015 every $1.00 of owners equity generated 28c of net profit. For 2016, every $1.00 in owners equity generated 47c of net profit, which was also an improvement on the previous year. Financial management strategies such as cost and revenue controls in Qantas, help to improve profitability and thus business performance. This involves reducing fixed and variable costs (expenses incurred during the running of a business). For example, Qantas undertook a restructuring of management, an 18 month wage freeze on major unions, fleet reconstruction and entered strategic alliances with other airlines like Emirates. Alongside with managing variable costs such as fuel via the use of hedging, Qantas has cut costs by $557 million in 2016. Other management strategies such as revenue controls have allowed Qantas to improve business performance. This includes Qantas' partnerships with other airlines, targeting different markets like Japan and China and improved marketing strategies like the new international business class and self serve kiosks. These financial management strategies enable Qantas to maximise revenue, and therefore improve profitability and performance.

Efficiency is a financial objective of a business relating to its ability to achieve maximum output at the lowest possible level of input (achieving economies of scale). The expense ratio (total expenses ÷ sales) allows a business to assess its efficiency. In 2015, every $1.00 of sales generated 92c of expenses. In 2016, every $1.00 in sales generated 90c in expenses. The expense ratio for Qantas is improving, however remains at a very high level. Strategies such as minimising expenses can allow a business to improve efficiency. Qantas has been able to achieve expense minimisation by cutting commissions to travel agents, outsourcing more business functions and by encouraging more sales over the internet. This has enabled Qantas to increase efficiency by decentralising labour intensive processes. Additionally, this aids in maximising business profitability, as Qantas' availability of funds increased, allowing them to invest, for example in Wi-Fi. Conclusively, it can be said that management strategies such as expense minimisation improve business efficiency and overall business performance.

Global financial management in regards to exchange rates must be conducted in order to improve business performance. Exchange rates refer to the value of one country expressed in terms of the value of another currency, and can impact on business transactions. Qantas is exposed to risk from fluctuations in foreign exchange rates. Changes affect fuel supply contracts, operational expenditures like lease payments and interest repayments, and capital expenditure such as new planes purchased in foreign currency. Also, as Qantas generates revenue in other currencies, it is important to monitor appreciations and depreciations to maximise profit. Therefore it is important that business such as Qantas employ global financial management strategies, as they allow for business to manage fluctuations in the exchange rate, and as a result, control transactional and operation costs. This will improve business performance.

Hedging involves any business processes that minimise the risk associated with international trade.This can involve the use of hedging programmes and derivatives. Hedging helps improve business performance by minimising the cost of capital and by creating financial stability in the future. This can also improve a business's competitiveness. Qantas uses derivatives like forward cover and options to hedge future fuel purchases, interest payments and future capital expenditure. For example, in 2017 Qantas has hedged 90% of their fuel needs in the form of options. This gives Qantas the ability to protect its capital base and remain more cost-efficient in the case of any increase in fuel prices. This will result in improved business performance as Qantas can offer lower ticket prices than its competitors like Virgin.

Evidently, as demonstrated by a comparative ratio analysis of Qantas between 2015 - 2016, it can be seen that financial management strategies are highly important in improving business performance. The strategies involve working capital management, debt and equity financing, profitability management, expense minimisation and global financial management via exchange rates and hedging. These strategies enable business to achieve their financial objectives of profitability, efficiency, growth, return on capital and liquidity. Thus financial management strategies are highly important in improving business performance.