The Underlying Philosophy of Business Financial Planning and Wealth Management - A Conceptual Study

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Financial planning and wealth management are neither two alternatives nor substitutes for each other, though these concepts are often found to be used interchangeably in financial parlance. However, these two terms are inexorably important and undeniably interrelated for the successes of a business in the long run. Hence, these can be considered as emblematical of the 'two sides of a coin'. If the business is supposed to be the entity, then arguably, the financial planning and wealth creation processes are certainly the two sides representing the business's two inseparable and indispensable wings contingent of its management strategy. The present paper, therefore, aims at exploring the conceptual meaning and significance of both financial planning and wealth management, and, thereby links their structural and mutual dependency by evaluating the underlying relational philosophy between the two from a business perspective.

Key-words: *Business financial planning – Business wealth management – Insurance management – Resource mobilization – Economic value addition – Market value addition*

1. Introduction

Business financial planning and wealth management though conceptually different are often used interchangeably in financial context. The former is concerned with viable plans for outsourcing finance for a business from different available alternatives (internal and/or external) and investing the funds in productive avenues determined by the business planners for the right cause at the right time, and in the measure required, and,

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ultimately playing a vital role in the business's resource or wealth generation; and the latter focuses on the proper utilization of resources so generated, thereby ensuring the maximum productivity, without wastage of course, and preservingthe scarce ones, if any and adding further value to the existing resource base, as well. The objective of financial planning is to meet the business's financial goals – short-term, mid-term and long-term. Briefly, wealth management is all about managing and administering the business's wealth. Thus, interminably, business financial planning and wealth management are gaining a lot of traction and attention and making its footprint prominent in the fields of academics, research, commerce and trade, policy making and off course, professional career building, now a days and literature on the subject has been growing rapidly both nationally and internationally, as well because - 1. Researchers take keen interest in this area to explore the latest scientific and effective methods of business financial planning and wealth management. 2. Academicians have already accepted and introduced the research findings into their curriculum as a subject or field of study. 3. Policy makers are employing the distilled methods to frame new policies, norms and guidelines into their contexts. 4. Most significantly, practicing professionals (as financial planners and wealth managers) with their acumen and expertise are exploring additional avenues of earnings in this arena.

At this backdrop, the present paper is organized as follows :

- *Section 2* sketches the basic concept of business financial planning and its process;
- *Section 3* attempts to explore the meaning, importance and structure of a business wealth management system;
- *Section 4* reveals the structural philosophy underlying financial planning and wealth management procedures of a business, and finally,
- conclusions are drawn in *Section 5*.

2. Business Financial Planning, its concept and Process

This Section is further sub-divided into *(a)* Concept, and *(b)* Process of Financial Planning.

(a) Concept of business financial planning

Business financial planning is the systematic process that combines a number of steps towards achieving a business's financial targets or objectives. It is basically the foundation upon which the financial architecture of a business is structured. It is a realistic concept that starts with the estimation of the required amount of finance or capital for a particular task for a specific time period and guides the business in framing rational and specific policies to procure, allocate and utilize such funds. Business financial planning is goal-oriented and thus, matches an entity's financial goals to be achieved within a specific timeframe. While doing so, it assesses the present financial situation of the business, its financial goals and its risk preferences. It is basically an estimation plan of the business's affordability in achieving its strategic financial targets with respect to time. It is the very first step for generating wealth for a business both directly and indirectly as it applies logical reasoning process for financial decision making and rejuvenates cash inflows by administering business outflows, as well. Thus, financial planning is always accepted as the foundation of an organization's overall business management.

(b) Process involved in businessfinancial planning

It is evident from both on and off-line research literature that the financial planning process of a business combines seven basic steps each of which has its own importance and relevance. It is a contiguous and systematic flow of activities that projects the ultimate model of business planning process.

Exhibit 1presents a diagrammatic flowchart of the financial planning process of a business.

Exhibit 1:Business Financial Planning Process Flow Chart

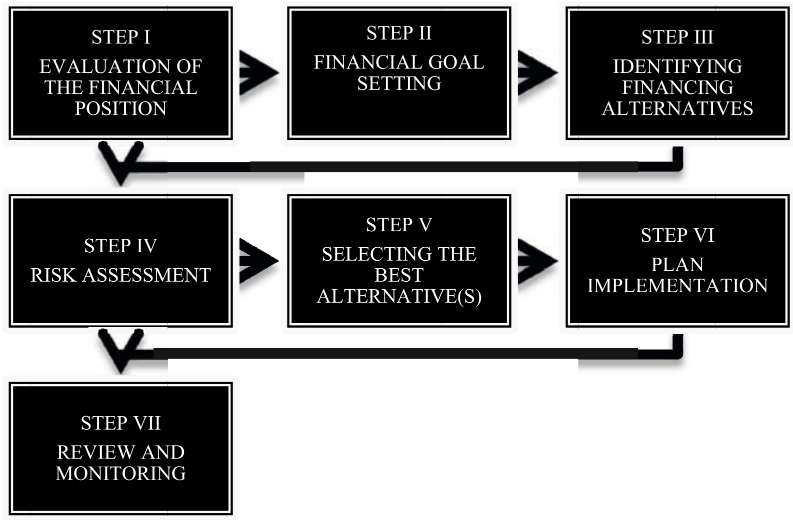


Exhibit 1 shows the *seven* steps of the business financial planning process. In the present context it is pertinent to explaine ach of these steps.

Step I: **Evaluation of Financial Position**

- It is the very first step in the business financial planning process whereby the current financial condition, i.e. the financial strength, weakness and requirements of the concerned business are examined in order to determine the future course of action. It helps in framing appropriate policies for collecting, administering and managing the business's finances.This process also enables the business to assessthe gaps that may exist between its 'funds in hand' and'fund requirements'.

Step II: **Financial Goal Setting**

- After a careful evaluation of the current financial position, the businesshas to set its financial goals or make abudget estimation for a particular project or task for a specific time period. Making provisions for emergency situations, paying-off financial obligations and liabilities,systematicallyand making provision for future use, etc., are the other factors to be considered whilesetting the business financial goals.

Step III: **Identifying Financing Alternatives**

- After making an estimation of the financial requirements, the next step is identifying the possible alternatives for financing a particular project. Here, the business focuses on the various potential sources of internal and external financing.

Step IV: **Risk Assessment**

- During the business financial planning process, risk estimation is also to be considered in respect of three major aspects, viz.:

  (a) The risk involved in collecting funds from different sources and selecting the best source(s).

  (b) The risk in the execution of the financial plan to ensure avoidance of any unwanted situation arising while executing the plan, and

  c) The risk involved in achieving the projected target. Identifying gaps and provisioning for alternative plan/s to mitigate the areas of possible deviations are also to be taken into account at this stage.

Step V: **Selecting the Best Financing Alternative(s)**

- After the risk-assessment exercise, the next step is to evaluate the opportunity and comparative costs among the competing and available financing alternatives. Analysis, identification and selection of the best funding option(s) for the business are to be taken diligently.

Step VI : **Implementation of the Financial Plan**

- Post-analysis and finalization, the plan so derived is finally to be implemented by the business entity. This step is considered as the action step as at this stage the plan is to be executed with the expectation of achieving the targetand reaping the rewards from the plan.

Step VII **: Review and Monitoring**

- Last, but not the least, is the step for timely monitoring and review of the performance of the financial plan. Periodical evaluation of the expected outcomes and the actual performances of the plan are necessary to facilitate corrective or remedial measures. Identification of any deviation from the target planned and achieved is mandatory, without any delay or laxity.

The necessary steps, involved in the business financial planning process are thus detailed and explained above and now, the Section 3below,explains the concept and importance of wealth management in relation to a business.

3. Business Wealth Management : Structure and Importance

Section 3 is sub-divided into two parts,*viz.*:

(a) Concept and structure of wealth management in relation to a business, and

(b) Importance and relevance of business wealth management.

(A): Concept and Structure of Business Wealth Management

Wealth management in relation to a business refers primarily to the function of managing the funds of a business aimed at increasing the net worth or value of the business by fostering diligent use of the limited resources. It is a continuous process that encompasses several activities, such as pooling adequate resources from different sources and channeling them efficiently to get the optimum outcome by minimizing wastage and simultaneously conserving as well as increasing the business resources. Therefore, it is not only about getting or acquiring new wealth or resource(s) for the business, but also ensuring the proper utilization of the existing business wealth. It mainly helps a business to improve its overall asset administration and wealth structure by stimulating its net worth, reducing its debt or external liabilities and influencing smooth cash flow process. While doing so, it considers proper implementation of the organization's economic policies for its future sustainability and growth expansion. Therefore, it comprises all such activities that are involved in securing new and additional business resources, optimally using the same and developing ideas for business sustainability and business expansion. It is recognized as a *'high-quality'* supervisory function of the management of a business. A sound business wealth management system thus considers a holistic and comprehensive approach towards managing an organization's overall wealth base. Its ultimate objective is to improve the business's financial system.

Exhibit 2 attempts to graphically clarify the above facets of wealth management and its nuances.

Exhibit 2:Business Wealth Management Structure

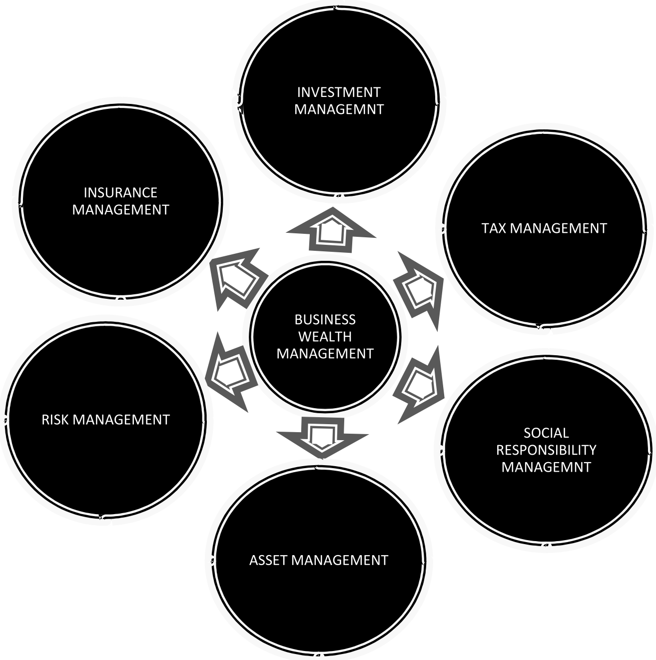


Exhibit 2 above shows the structural configuration of abusiness wealth management system categorizing it into *six* different and vital management aspects, viz.:

(*a) investment management,*

(b) tax management,

(c) social responsibility management,

(d) asset management,

(e) risk management, and

(f) insurance management.

(a) Investment Management

Investments form a major part of the overall wealth structure of any business organization. These are made with the intention to generate adequate cash inflows on a timely basis. Investments not only help in generating cash inflows but also in increasing further value to the existing business wealth structure. Now, in order to administer investment activities wisely, the role of the investment policies are pertinent since these actually guide the management in making a number of important and judicious decisions, such as :(i) where to invest, (ii) when to invest, (iii) how much to invest, and (iv) how to invest.

(b) Tax Management

Tax management is another area which demands the utmost attention on the part of the top management of a business organization. A significant portion of an organization's annual income is to be apportioned each year for several types of taxes, levies and duties. Tax management is an area where strategic policies are needed to be framed in order to restrict the unnecessary cash outflows in the form of taxes, and, ultimately, lower the overall tax-burden by following the rules and at the same time availing various concessions and deductions permitted in the tax structure determined by the appropriate authority from time to time.

(c) Social Responsibility Management

Every business earns out of the society. So it has its own moral obligation to perform ethically and contribute to the society wherein it functions. These are often termed as philanthropic responsibilities of the business. This kind of spending for societal causes and needs helps the organization not only to respond to various social issues but also to preserve scare resources of the society for future generations. For example, usage of solar energy, rain-water harvesting, tree plantation, are some of the specific projects that could be sponsored and funded by a business for inculcating and sustaining its own organizational values and to serve the society at large as it is said that *"the good of an individual is contained in the good of all"*.

(d) Asset Management

Asset management of the business is another important function, which consists of *(i)* fixed asset management, and *(ii)* current asset management. It is a comprehensive term which comprises activities like acquisition, maintenance, provisioning, disposal, allocation, amortization and preservation of assets. Its ultimate objective is to mobilize organizational resources in such a way that the availableresources can be used optimally and restrict wastageto the minimum possible extent.

(e) Risk Management

Since risks are always inherent to any business activity, these events can only be minimized but can never be entirely eliminated from the system. This necessitates the incorporation of the concept of risk management. According to Hubbard (2009),*"Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate eventsor to maximize the realization of opportunities"*. Risks are to be facedboth from internal as well as external sources. Internal risks are comparatively easy to handle in comparison to external risks. A sound risk management system has to be put in place, and, it has to remain alertalways with all its necessary tools and techniques to detect and analyse any kind of risk that may erupt from any legal, contractual, internal, social and ethical business obligations and be effective to tender risk mitigation and control measures promptly.

(f) Insurance Management

Insurance is a risk mitigating tool. In the context of a business, insurance management is basically concerned with identification, estimation and minimization of operational risks arising out of several operational assets, while risks arising out of financial assets are mainly dealt with portfolio diversification strategy/tool under investment management. Business or commercial insurance management includes a number of important functions, such as procurement of appropriate and adequate insurance, analysis of the policy terms and conditions, meeting the insurance obligations on time, submitting claims for the operational losses, if any, and negotiating with the insurance companies at the time of settlement of claim(s) etc.

(B) Importance and Relevance of Business Wealth Management

The importance and relevance of wealth management to a business are manifold. Its fundamental benefit lies in ensuring the supply of the right resources at the time of need and making a business financially stable and wealthy. The other importance and relevance of business wealth management are explained below.

(i) Maintaining existing wealth-base means keeping the existing resources ready and intact for their timely use. It is an administrative activity. A wealth manager or a wealth administrator is normally appointed for this purpose with the intention to ensure proper protection of the business resources from any kind of pilferage, damage or deterioration by applying a sound wealth administering and governance system.

(ii) Protecting organizational wealth demands insuring of the organizational resources against potential and uncertain future losses and damages. Herein lies the importance of business insurance management. It protects a business's resources to a greater extent from several threats and uncertainties like business lawsuits, fire, accident/s, property damage, theft and/or loss of income, and injuries and illnesses of its personnel etc.

(iii) Proper wealth mobilization means the channelization of resources in the right direction. It includes all such activities that are involved in acquiring additional resources, optimally using the existing resources and developing ideas for further business developments and improvements. All these become easy to perform when there exists a well-designed wealth management structure in a business organization.

(iv) Optimum utilization of business wealth can only be possibleunder the aegis of a good wealth management setup, and, through proper maintenance and resource mobilization, a business can utilize its available resources optimally and thereby control resource-wastageto its minimum possible extent. To achieve such an operational efficiency, a business first requires to have a scientific wealth-management system along with a good governance structure. A scientific wealth management system can channelize business resources efficiently and effectively and a good governance structure ensures accountability and transparency in such a system.

(v) Preserving organizational wealth refers to the set of strategies and practices adopted for ensuring protection and regular monitoring and maintenance of the value, quantity and quality of business assets, such as cash, investments, physical assets, scarce materials and intellectual properties, etc., while minimizing the risks associated therewith. The basic objective of organizational wealth preservation is to sustain the purchasing power of the organization in the longrun and making its resources available for generations to come. Thus organizational wealth preservation is precisely considered as "an ongoing process that demands diligence, foresight and adaptability" (Obel, 2023).

(vi) Exploring new investment opportunities is always an effective way to put an entity's surplus or savings into the creation of potential and additional wealth. It can be done in three ways, namely: *(a)* speculative *(b)* systematic and *(c)* strategic investments.

(a) Speculative investment comes with a higher degree of risk associated with higher returns;

(b) Systematic investments rely upon scientific investment portfolio construction that results in smoother inflow of cash in comparison to speculative investment; and

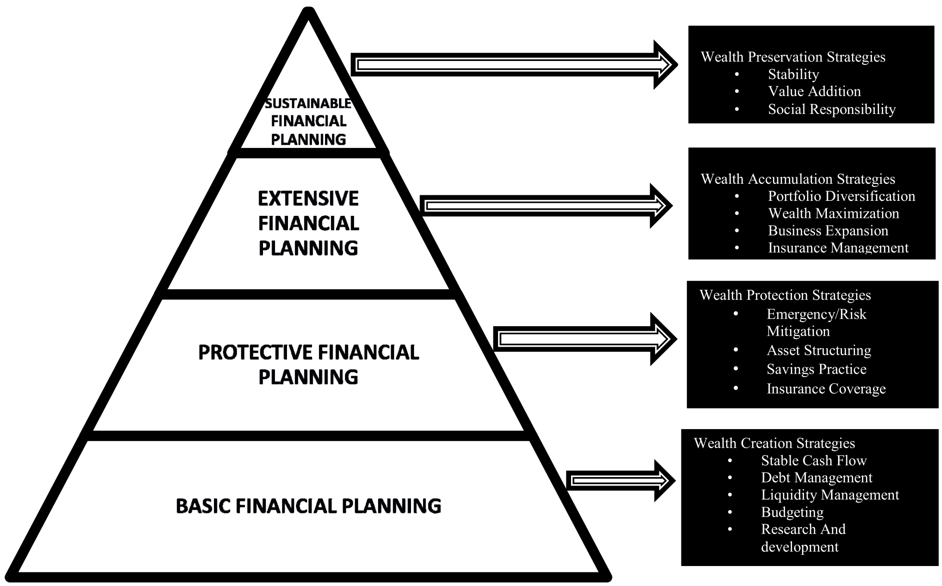
(c) Strategic investments are those that are made into other organization/s, start-up business or for developing a new product, capturing new market segment, etc., at the same time keeping in mind the long-term returns rather than achieving short-term gains.

(vii) Organizational value addition can be prompted in two ways : (a) Economic Value Added (EVA) and (b) Market Value Added (MVA). While EVA is simply a performance-based indicator which shows an organization's capability of earning profit or creating wealth by optimally using its invested capital, MVA represents the amount of wealth or value which an organization is capable of generating over its initial capital invested. It is used to calculate the market-based value that an organization has achieved or accumulated over time, since its inception.

4. Relation between Business Financial Planning and Wealth Management

In order to understand the structural relationship between business financial planning and wealth management, an insight into their underlying philosophy – structural architecture – becomes imperative. Business financial planning is basically a prerequisite for creating, protecting, accumulating and preserving a business's wealth at different stages of its entire existence, while, its wealth management structure serves as the control mechanism to its wealth-base for its maintenance and value addition. Thus, in a business, without financial planning, wealth management remains incomplete. To portray this relationship, Exhibit 3 is presented.

Exhibit 3: Structural Relation between Business Financial Planning and Wealth Management



[Source : Author's compilation from the literature on Financial Planning Pyramid.]

Exhibit 3 (above) has been prepared after a careful consideration of its related literature on Financial *Planning Pyramid and its Impact*, and (i) Financial Planning Pyramid developed by *Island Savings* (a Unit of First West Credit Union); (ii) *Relakhs* (a Personal Financing Blog); (iii) *info Diagram* (a Business Consultant Firm); (iv) *MWFIS* (a Megan Ward Financial and (v) Insurance Solution Agent) etc. – to mention a few such literature.

In the above exhibit, the structural philosophy, reflecting the underlying relation between business financial planning and wealth management, is explained with the help of a hierarchical pyramid that categorizes business financial planning into four major levels and thereby highlighting its wealth management strategies at each levelin terms of creation, protection, accumulation and preservation of organizational wealth. The exhibit further reveals that a business changes its wealth management strategies while shifting from one level of financial planning to the next in the ascending order on the basis of its experiences and expertise achieved in the earlier/previous level of functioning under a specific financial plan. An explanation of the above-depicted relational architecture becomes pertinent for its easier understanding.

1st Level in the Structural Relationship

Basic Financial Planning→Wealth Creation

Here, the businessis in its nascent phase of financial planning. Its main purpose is to establish itself in the market place, and, therefore,it attempts to develop a strong financial platform depending upon which it wouldself-sustain in the long run and create organizational wealth. Therefore, at this level of financial planning, a business prepares its wealth management strategies to have: *(i)* easy and cost-effective funding and steady and stable cash flows; *(ii)* well-defined debt management to pay-off regular dues to establish market creditability and simultaneously maintaining healthy liquidity condition; and *(iii)* a scientific and realistic budgeting system to estimate revenue and expenditure as accurately as possible to generate profit. At this level, the business would be in a position to invest both time and funds for research and development as well.

2nd Level in the Structural Relationship

Protective Financial Planning → Wealth Protection

This is the level of financial planning where a business is shifting from short-run to long-term operations, and hence, it has to be more circumspect about its strategic spending and asset building. Hence, it needs to have: *(i)* a good asset structure to support its internal and external liabilities, *(ii)* realistic provisioning for immediate and unforeseen risks or emergencies, and *(iii)* reasonable volume of savings and insurance schemes for leveraging any future loss in order to keep floating in the competitive market, and at the same time keep its capital base protected. At this level of financial planning, the business has to be extra cautious, even protective, in its financial decisions on spending.

3rd Level in the Structural Relationship

Extensive Financial Planning → Wealth Accumulation

At this level of financial planning, the business should be interested mainly in making and implementing wealth management strategies in order to achieve some specific financial goals, such as increasing and faster cash inflows, acquiring more assets and capital maximization. The business can now become more aggressive and launch extensive and expensive financial outlays to manage and thusaccelerate its organizational capital growth.Portfoliodiversification through investments into high-yield securities, businessexpansion through new product and market developments, business acquisition and operational risksalleviation through business insurance management,etc., are some of the viable strategies for accumulating organizational wealth at this level of structural relationship.

4th Level in the Structural Relationship

Sustainable Financial Planning → Wealth Preservation

This is the final level of the business financial planning and the apex of the planning pyramid where a business's main focus is to achieve stability and sustainability in terms of financial, environmental and societal goal setting. At this level of financial planning, a business tries to achieve its optimum performance at every stage and sphere of its operations, management and control. Value addition in terms of social and environment responsibility measures also becomes the key strategy for wealth preservation. Here, the business relies upon a strategic approach to safeguard its accumulated wealth and add further value to it and thereby attempts to protect the organization's wealth-base from any sort of threats or challenges by achieving financial, societal and governance stability.

5. Conclusions

The present study has delved into the concepts of business financial planning, and wealth management and also identified their significance and rational procedures. It has systematically explored the underlying structural relationship between the two.

While showcasing the structural philosophy of the business's financial planning and wealth management, the study also reveals the following components:

1. Both financial planning and wealth management of a business enterprise are architecturally dependent, since these are related to each other and yet each remains incomplete without the other – *Complementarity.*

2. Financial planning prepares the guidelines or roadmap for the formulation of the capital of a business and thus, helps in creating the platform or base upon which the business structure is built – *Consistency.*

3. Business wealth management signifies the process of managing and administering

the wealth created for future business sustainability and value addition – *Continuity.*

4. Financial planning helps in framing realistic financial policy modules to manage business expenditure and generate revenues to influence and hastenthe business wealth creation process, while wealth management makes a holistic attempt in improving a business's overall financial condition to pursue its financial goals and thereby enable it to become financially healthy and wealthy – *Credibility.*

Therefore, it can now be concluded that both financial planning and wealth management are the two engines equally necessary and important for a business to take off, grow, prosper and sustain itself, and in due course, enable it to leave its trail firmly imprinted on the market and its players enduringly.

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