**The Importance of Finance in Business**

**by Julie Davoren; Updated April 05, 2018**

The three main sources of funding for a business are revenues from business operations, investor finances such as owner’s, partner’s or venture capital, and loans from individuals or financial institutions. Businesses need finances for daily operations and to meet essential expenses and payments. Expenses are either short term, such as payroll payments, or long term, such as purchasing buildings.

**Meeting Goals**

It is impossible to achieve your long-term and short-term goals without effectively managing your finances. Inefficient management of finances could lead to liquidity shortages. You need funds for business growth, market competition, and to keep your business operational and maintain your customer base. If your finances are restricted, risks that can negatively affect the accumulation of necessary business funds should be hedged with adequate insurance coverage and effective internal controls. You can obtain insurance for accidents, liabilities and business vehicles to protect your finances from sudden untoward impacts.

**Short-Term Activities**

Your business can come to a halt or your working capital management may be jeopardized if you do not have the essential finances to cover short-term expenses. Creditors can demand payment for the items or services they have delivered to you at any time. Failure to meet these demands can cause inventory shortages or damaged business relations. Short-term sources of finance, such as cash revenue and advance receipts, must be obtained sufficiently through effective debt and discount policies. Preparing cash budgets can help you forecast outflow of money and the amount of finances needed to meet those outflows.

**Long-Term Activities**

Long-term sources of finance must be available for achievement of long-term goals, such as purchasing new machines. Relying on short-term sources would lead to a finance shortage for long-term projects and could repeatedly stall these projects. Finance long-term projects using your business’s savings, or obtain bank loans. To fund expenses of such magnitude, you cannot rely on short-term financial sources, because doing so could adversely impact your short-term activities. Use tools such as capital budgeting and proper planning to time when your long-term expenses occur.

**Achieving Financial Goals**

Every business owner has a vision for his company, and that vision is frequently manipulated by managing and prioritizing the use of financial resources. Given a set amount of finances, your financial objectives and anticipations will shape how you spend your business funds. For example, your immediate goal may be to increase sales by financing discounts, or you may have a long-term goal of expanding your manufacturing capacity for lower average costs. If you draw most of your finances from loans, repaying the principal amount and interest should concern you. If you obtain financing from your investors’ money, giving them the best possible returns must be a key objective.