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MODERN FINANCIAL AND BUSINESS MANAGEMENT: A RETROSPECTIVE STUDY

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ABSTRACT

Modern Business management concern needs finance to meet their necessities in the modern economic world. We know that Any kind of business activity depends on the finance. Therefore, it is called as lifeblood of business organization. Whether the business concerns are big or small, they need finance to fulfil their business activities. In the modern world, all the activities are concerned with the economic activities and very particular to earning profit through any venture or activities. The entire business management activities are directly related with making profit, a business concern needs alsofinancial management to meet all the requirements. Hence finance may be called as capital, investment, fund etc., but each term is having different meanings and unique characters. Increasing the profit is the main aim of any kind of economic activity

"A business management is all conceptual until you start filling in the numbers and terms. The sections about your and strategy are interesting to read, but they don't mean a thing if you can't justify your business with good figures on the bottom line.The financial section of a business plan is one of the most essential components of thebusinessmanagement, as you will need it if you have any hope of winning over investors or obtaining a bank loan. Even if you don't need financing, you should compile a financial forecast in order to simply be successful in steering your business management ……...……Elizabeth

KEY WORDS: --Business, Financial-management, Modern, financial- Decision, Resources

INTRODUCTION AND MEANING OF FINANCIAL MANAGEMENT:

Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Financial management is about analysing financial situation making financial decision setting financial objectives. Formulating financial plan to attain this objective and providing effective system of financial control to ensure plan to progress towards the set of objectives.

According to Weston and Brighan, "Financial Management is an area of financial decision making, harmonising individual motives and enterprise goals". According to Howard and Upon, "Financial Management is the application of the planning and controlling functions to the finance function". According to Ezra Soloman and Pringle John, "Financial Management is concerned with the effective use of an economic resource namely capital fund". A formal definition of finance would be determining acquisition, allocation, understanding and utilisation of financial resources usually in the aim of achieving of some particular goals of objective.

Financial Management means the entire excise of managerial efforts devoted to the management of finance, both its sources and uses of financial resources of an enterprise. Financial management has undergone significant changes over years as regards its scope and coverage. As such the role of finance manager has also undergone fundamental changes over the years. In order to have a better understanding of these changes, it will be appropriate to study both traditional approach and modern approach to the finance function.

MODERN APPROACH of FINANCIAL MANAGEMENT

The traditional approach outlived its utility due to changed business situations since mid-1950. Technology improvements, innovative marketing operations, development of strong corporate structure, keen business competition, all made it imperative for the management to make optimum use of available to the financial manager, based on which he could make sound decisions. The scope of financial management increased with the introduction of capital budgeting techniques.

As a result of new methods and techniques, capital investment projects led to efficient allocation of capital within the firm.

i. During the next two decades various pricing models, valuation models and investment portfolio theories also developed.

   Efficient allocation of capital became an important area of study under financial management.

ii. Eighties witnessed an era of high inflation, which caused the interest rates to rise dramatically. Thus, raising loan on suitable terms became an important aspect of financial management.

iii. In the new volatile environment investment and financing decisions became more risky than ever before.

iv. These environmental changes enlarged the scope of finance. The concept of managing a firm as a system emerged. External factors now no longer could be evaluated in isolation.

v. Decision to arrange funds were to be seen in consonance with their efficient and effective use. This total approach to study of finance is being termed as financial management.

vi. Thus, according to modern approach/concept, financial management is concerned with both acquisitions of funds as well as their allocation.

   The new approach views the term financial management in a broader sense.

   i) Investment Decision: The investment decision is a selection of assets in which funds will be invested by a firm. These are broadly divided into two parts; they are (a) Long-term Assets and

   (b) Short-term Assets.

   a) Long-term Assets: These are the asset which yield over a period of time in future such as capital budgeting. The capital budgeting is a crucial financial decision and it is a process begin with identifications of potential investment opportunities. The capital budgeting decisions relates to the choice of assets out of the alternatives or reallocation of capital when an old assets fails to justify. It is a decision which analyse the risk and uncertainty The worth of long term project implies a certain standard for benefits.

   b) Short-term Assets: It is also known as current assets. The short-term assets are resources of a firm in the form of cash or converted in cash without the diminution in value. Example: The working capital management. It is day to day activity of finance which deals with current assets and current liabilities. The two basic ingredients of working capital are

i) An overview of working capital management as a whole ii) Efficient management of the individual current assets such as cash, Bills receivables and inventory.

ii) Financial Decision:when, where from and how to acquire funds to meet the investment needs the financial decision is process perform by financial manager to decide. The main aspect is to determine the appropriate proportion of debt and equity mix known as capital structure.

iii) Dividend Decision: The financial manager must decide whether the firm should distribute all profit or return to them or distribute a portion. The proportion of profit distributed as dividend is known as dividend pay-out ratio and retained portion of profit is called retention ratio.

FUNCTIONS OF FINANCIAL MANAGEMENT

There are two approaches to identify the functions that must be performed by financial management. One classification system links the functions with the twin goals of liquidity and profitability. The second classification method focuses on what is being a managed asset or funds.

1. Liquidity Functions:

I. In seeking sufficient liquidity to carry out the firm's activities, the financial manager performs tasks such as the following:
II. The day-to-day operations require the firm to be able to pay its bills properly.
III. This is largely a matter of matching cash inflows against cash outflows.
IV. The firm must be able to forecast the sources and timing of inflows from customers and use them to pay creditors and suppliers.

2) Raising Fund: The firm receives financing from a variety of sources. At different times some sources will be more desirable than others. The possible source may not at a given time, have sufficient funds available to meet firm's need. The financial manager must identify the amount of funds available from each source and the periods when they will be needed. Then the manager must take steps to ensure that the funds will actually be available and committed to the firm.

3) Managing the Flow of Internal Funds: A large firm has a number of bank accounts for various operating division. The money that flows among these internal accounts should be carefully monitored. Frequently, a firm has excess cash in one bank account when it has

a need for cash elsewhere. By continuously checking on the cash balances in the headquarters and each operating division's accounts, the manager can achieve a high degree of liquidity with minimum external borrowing.

4) Profitability Functions: In seeking profits for the firm the financial manager provides specific inputs into the decision-making process, based on the financial training and actions. With respects to profitability, the specific functions are,

i) Cost Control: Most large corporations have detailed cost accounting systems to monitor expenditure in the operational areas of the firm. Data are fed into a system on a daily basis and computer-processed reports containing important information on activities are displayed on a screen.

ii) Pricing: Some of the important decisions made by a firm involve the prices established for products and service. The philosophy and approach to pricing policy are critical elements in the company's marketing efforts, image and sales level. Determination of the appropriate price should be a joint decision of marketing manager provides information on how differing price will affect demand in the market and firm's competitive position. The financial manager can supply information about changes in costs at varying levels of production and the profit margins needed to carry on the business successfully. In effect, finance provides tools to analyse profit requirements in pricing decisions and contributes to the formation of pricing policies.

iii) Forecasting Profits: The financial manager is responsible for gathering and analysing the relevant data and making forecasts of profits levels. To estimate profits from future sales, the firm must be aware of current costs likely increases in costs and likely changes in the ability of the firm to sell its products at the planned selling prices.

iv) Measuring Required Return: Every time a firm invests its capital, it must make a risk return decision. Is the level of return offered by the project adequate for the level of risk there in? The required rate of return that must be expected from a proposal before it can be accepted. It is sometimes called the cost of capital. Determining the firm's required return or cost of capital is a profitability function.

v) Management functions: In performing many functions leading to liquidity and profitability, the financial manager operates in two distinct roles. One role is manager, decision maker, a participant in the corporate team trying to maximise the value of the firm over the long run. The other role is an expert of financial matters and money markets, an individual with specific knowledge and skills in the area of money management. These roles are recognised in the two categories of functions performed by the financial manager.

vi) Managing Assets: Assets are the resources by which the firm is able to conduct business. The term assets include buildings, machinery, vehicles, inventory, money and other resources owned or leased by the firm. A firm's assets must be carefully managed and a number of decisions must be made concerning their usage. The function of asset management attests to the decision making role of the financial manager. Finance personnel meet with other officers of the firm and participate in making decisions affecting the current and future utilisation of the firm's resources. The decision making role crosses liquidity and profitability lines, converting idle equipment to cash, so as to improve liquidity, reducing costs and improving profitability.

II. Managing Funds: Funds may be viewed as the liquid assets of the firm. The term funds include cash held by the firm, money borrowed by the firm, money borrowed by the firm, money gained from purchases of common and preferred stock. In the management of funds, the financial manager acts as a specialised staff officer to the CEO of company. The manager is responsible for having sufficient funds for the firm to conduct its business and to pay its bills. Money must be allocated to finance receivables and inventories, to make arrangements for the purchase of assets and to identify sources of long-term financing. Cash must be available to pay dividends declared by the company. The management of funds has both liquidity and profitability aspects. If the companies are inadequate, the firm may default on the payment of bills, interest on its Debt or repayment of principle when a loan is due. If the firm does not carefully choose its financing sources it may pay excessive interest costs with a subsequent decline in profits.

Conclusion:--

It can be concluded from the study that there is a similarity in both the approaches however there is a difference in the researcher's interest regarding the small business management. In the first approach, the factors of the external environment are indicated that have influenced both small as well as large businesses in modern period. The second approach provides the benefit to analyse the characteristics of the factor directly on the smallest business. An informal relationship with a low range of suppliers and location of resources has been found. Using an institutional approach is modern entrepreneurship is considered a positive approach for the development of the economy in India. Institutions help the entrepreneurs to grab new opportunities as well as also help in providing favourable conditions. These conditions help in the further development and functioning.

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