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Modern Financial Management and Financial Intermediaries Techniques

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Abstract
Whether you're a business or an individual, you have to find a way to manage your finances now and in the future. The cost of everything continues to increase and there's no sign that this trend of price increases will stop anytime soon. As a result, all entities have to develop a financial management system to ensure their stability for many years to come. This system has to provide the businesses in question with enough flexibility for them to continue to grow and pay for their necessary expenses. It also has to be stringent enough to allow for money to be put away in the event of future catastrophes. In the case of a business, all expenses have to be prioritized in the interest of spending money on the right things. When it comes time for cost cutting measures to be implemented, they have to be come with consequences in mind. Everything that's done to cut costs has an end result once it becomes a common procedure. You have to ponder whether you're cutting enough or you're cutting too much. Work has to be done to ensure that cutting individuals from the workforce is the last possible resort. Odds are there are expenses that can be sliced without having to touch the workforce. Individuals in the private sector have to manage their finances in the interest of being able to acquire credit. A person's credit score can affect every possible aspect of their life. The biggest issue currently impacting the financial future of most people is the regular use of high interest credit cards. Most retail establishments try to push their credit card on their customers on a regular basis. These cards should only be used for small purchases that can be paid shortly after they have been completed. Financial management is a challenge in a world where spending is seen as the key to getting ahead. You have to exercise the utmost level of restraint if you want solvency to be in your future. Once you have established an effective budget, your worries about finances will become a thing of the past.

Keywords: *Finance Function, Organizational Processes, Financial Management Techniques*

1.0 INTRODUCTION

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

1.1 Scope/Elements

1. Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.
3. Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
    a. Dividend for shareholders- Dividend and the rate of it has to be decided.
    b. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

1.2 Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital Structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

1.3 Functions of Financial Management

Estimation of capital requirements: A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.

Determination of capital composition: Once the estimation has been made, the capital structure has to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.

Choice of sources of funds: For additional funds to be procured, a company has many choices like: Issue of shares and debentures, Loans to be taken from banks and financial institutions, Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing.

Investment of funds: The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.

Disposal of surplus: The net profits decision has to be made by the finance manager. This can be done in two ways: Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.

Management of cash: Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.

Financial controls: The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

2.0 FINANCIAL PLANNING

Financial Planning is the process of estimating the capital required and determining it's competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

2.1 Objectives of Financial Planning

Determining capital requirements- This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital requirements have to be looked with both aspects: short- term and long- term requirements.

Determining capital structure- The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio- both short-term and long-term.

Framing financial policies with regards to cash control, lending, borrowings, etc. A finance manager **ensures that the scarce financial resources are maximally utilized in the best possible manner** at least cost in order to get maximum returns on investment.

2.2 Importance of Financial Planning

Financial Planning is process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as: Adequate funds have to be ensured. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained. Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning. Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company. Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds. Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability an d profitability in concern.

3.0 FINANCE FUNCTIONS

Investment Decision: One of the most important finance functions is to intelligently allocate capital to long term assets. This activity is also known as capital budgeting. It is important to allocate capital in those long term assets so as to get maximum yield in future. Following are the two aspects of investment decision**:** Evaluation of new investment in terms of profitability**.** Comparison of cut off rate against new investment and prevailing investment. Since the future is uncertain therefore there are difficulties in calculation of expected return. Along with uncertainty comes the risk factor which has to be taken into consideration. This risk factor plays a very significant role in calculating the expected return of the prospective investment. Therefore, while considering investment proposal it is important to take into consideration both expected return and the risk involved. Investment decision not only involves allocating capital to long term assets but also involves decisions of using funds which are obtained by selling those assets which become less profitable and less productive. It wise decisions to decompose depreciated assets which are not adding value and utilize those funds in securing other beneficial assets. An opportunity cost of capital needs to be calculating while dissolving such assets. The correct cut off rate is calculated by using this opportunity cost of the required rate of return (RRR)

Financial Decision: Financial decision is yet another important function which a financial manger must perform. It is important to make wise decisions about when, where and how should a business acquire funds. Funds can be acquired through many ways and channels. Broadly speaking a correct ratio of an equity and debt has to be maintained. This mix of equity capital and debt is known as a firm's capital structure. A firm tends to benefit most when the market value of a company's share maximizes this not only is a sign of growth for the firm but also maximizes shareholder's wealth. On the other hand, the use of debt affects the risk and return of a shareholder. It is riskier though it may increase the return on equity funds. A sound financial structure is said to be one which aims at maximizing shareholders return with minimum risk. In such a scenario the market value of the firm will maximize and hence an optimum capital structure would be achieved. Other than equity and debt there are several other tools which are used in deciding a firm capital structure.

Dividend Decision: Earning profit or a positive return is a common aim of all the businesses. But the key function a financial manger performs in case of profitability is to decide whether to distribute all the profits to the shareholder or retain all the profits or distribute part of the profits to the shareholder and retain the other half in the business. It's the financial manager's responsibility to decide an optimum dividend policy which maximizes the market value of the firm. Hence an optimum dividend payout ratio is calculated. It is a common practice to pay regular dividends in case of profitability Another way is to issue bonus shares to existing shareholders.

Liquidity Decision: It is very important to maintain a liquidity position of a firm to avoid insolvency. Firm's profitability, liquidity and risk all are associated with the investment in current assets. In order to maintain a tradeoff between profitability and liquidity it is important to invest sufficient funds in current assets. But since current assets do not earn anything for business therefore a proper calculation must be done before investing in current assets. Current assets should properly be valued and disposed of from time to time once they become non profitable. Currents assets must be used in times of liquidity problems and times of insolvency.

3.1 Financial Intermediaries

A financial intermediary is a firm or an institution that acts an intermediary between a provider of service and the consumer. It is the institution or individual that is in between two or more parties in a financial context. In theoretical terms, a financial intermediary channels savings into investments. Financial intermediaries exist for profit in the financial system and sometimes there is a need to regulate the activities of the same. Also, recent trends suggest that financial intermediary's role in savings and investment functions can be used for an efficient market system or like the sub-prime crisis shows, they can be a cause for concern as well.

3.2 Financial Intermediation

Financial intermediaries work in the savings/investment cycle of an economy by serving as conduits to finance between the borrowers and the lenders. In the financial system, intermediaries like banks and insurance companies have a huge role to play given that it has been estimated that a major proportion of every dollar financed externally has been done by the banks. Financial intermediaries are an important source of external funding for corporates. Unlike the capital markets where investors contract directly with the corporates creating marketable securities, financial intermediaries borrow from lenders or consumers and lend to the companies that need investment.

3.2.1 Role of the Financial Intermediaries

The reason for the all-pervasive nature of the financial intermediaries like banks and insurance companies lies in their uniqueness. As outlined above, Banks often serve as the "intermediaries" between those who have the resources and those who want resources. Financial intermediaries like banks are asset based or fee based on the kind of service they provide along with the nature of the clientele they handle. Asset based financial intermediaries are institutions like banks and insurance companies whereas fee based financial intermediaries provide portfolio management and syndication services.

3.2.2 Need for regulation

The very nature of the complex financial system that we have at this point in time makes the need for regulation that much more necessary and urgent. As the sub-prime crisis has shown, any financial institution cannot be made to hold the financial system hostage to its questionable business practices. As the manifestations of the crisis are being felt and it is now apparent that the asset backed derivatives and other "exotic" instruments are amounting to trillions, the role of the central bank or the monetary authorities in reining in the rogue financial institutions is necessary to prevent systemic collapse. As capital becomes mobile and unfettered, it is the monetary authorities that have to step in and ensure that there are proper checks and balances in the system so as to prevent losses to investors and the economy in general.

3.2.3 Recent trends

Recent trends in the evolution of financial intermediaries, particularly in the developing world have shown that these institutions have a pivotal role to play in the elimination of poverty and other debt reduction programs. Some of the initiatives like micro-credit reaching out to the masses have increased the economic wellbeing of hitherto neglected sectors of the population. Further, the financial intermediaries like banks are now evolving into umbrella institutions that cater to the complete needs of investors and borrowers alike and are maturing into "financial hyper marts".

4.0 CONCLUSION

As have seen, financial intermediaries have a key role to play in the world economy today. They are the "lubricants" that keep the economy going. Due to the increased complexity of financial transactions, it becomes imperative for the financial intermediaries to keep re-inventing themselves and cater to the diverse portfolios and needs of the investors. The financial intermediaries have a significant responsibility towards the borrowers as well as the lenders. The very term intermediary would suggest that these institutions are pivotal to the working of the economy and they along with the monetary authorities have to ensure that credit reaches to the needy without jeopardizing the interests of the investors. This is one of the main challenges before them.

Financial intermediaries have a central role to play in a market economy where efficient allocation of resources is the responsibility of the market mechanism. In these days of increased complexity of the financial system, banks and other financial intermediaries have to come up with new and innovative products and services to cater to the diverse needs of the borrowers and lenders. It is the right mix of financial products along with the need for reducing systemic risk that determines the efficacy of a financial intermediary.

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