© Financial management is that managerial activity which is concerned with planning and raising of required financial resources and their optimum utilization with an objective to maximise the value of the firm and thereby maximising the wealth of owners) shareholders of a company. 24/7/12

© The success or failure of any business firm mainly depends upon the efficiency and quality of financial decisions taken by it

GREEN Ex - Index of 20 green co.'s listed on BSE.

Green Co. - Energy efficient co.'s

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Finance :- (as a discipline) is the application of economic principles & concepts to business decision making & problem solving.

Field of finance comprises of

Financial management - also known as corporate finance. Concerned with financial decision making within a business entity.

Investments - behaviour of financial markets & pricing of securities.

Financial Institutions - deals with banks and functioning of other financial institutions & financial intermediaries.

Financial Management
Concerned with acquisition of funds & their optimum utilization.

Financial decisions

1. Investment - Capital budgeting
2. Financing - Capital structure dividend decision
3. Working Capital Mgt. - Asset Mgt. decision.

FM is not an independent entity......

→ Linked to the overall economic environment (Macro factors like fiscal policy & Monetary policy)

→ Linked to micro factors

→ Linked to other disciplines such as psychology, economics, accounting etc.

BEHAVIOURAL FINANCE

Investors are not rational. They base their decisions on situations.

The basic change

- Where from???

  where from???
  How to??

The scope of financial management was limited to raise and administer funds needed by companies to meet financial needs

Three phases of Mgt. Evolution

1. Traditional Phase (upto 1940's)

Fin. was a part of economics & no attention was paid.

Finance was an episodic event. (like merger & acquisition)

Episodic - when the need arises.

There was no finance manager as such. Focus was external because money was raised from outside. No internal focus.

- episodic
- external focus
- no finance manager

2. Transitional Phase (1940-50's)

- It lies between traditional & modern phase.
- Scope of FM has increased tremendously
- Because of scarcity of financial resources, emphasis was given on optimum utilisation of raised funds

3. Modern Phase (from 1960's)

Finance function is a continuous affair & role of finance manager is strategic.

It uses more advanced techniques.

(As a result of gradual ↑ in compt^n & growth in business, & regular occurrence of boom & recession in economic activities, fin. fn becomes analytical & decision oriented.

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Traditional phase (continue) ②

- This approach has emphasis more and more focus on the procurement of funds by Companies to meet their financial needs

Emphasis has led to

- Emergence of more and more financial institutions to finance business needs
- Development of various financial ~~Institutions~~ instruments like shares, bonds etc. for raising funds.
- Development of legal and accounting practices to regulate the relationship between Corporation and fund supplies.

Limitations of traditional phase

- No emphasis on wise use of funds
  - ↳ For example
  - Should an enterprise commit capital funds to certain purposes?
  - Do expected returns meet financial standards of performance
- How should these standards are set

2 Outsider - looking in approach

- It was confined to the supplier of the funds.
- Outsiders issues like wise use of funds, forecasting expected returns, minimising cost of capital were completely ignored.
- (only centered around raising and administering of funds)

3 More Emphasis on Episode Events

more emphasis on episodic events such as less frequent events like promotion, incorporation, merger, acquisition etc.

Less emphasis on normal routine problems.

4 Heavy Emphasis on Long term financing

Short term financing like working capital needs were completely ignored.

(5) No Emphasis on working Capital management

Issues like determination of working capital needs
receivable management
payable management
efficient cash management
inventory management
were completely ignored.

(6) Viewed the finance function as staff speciality

- It has failed to view financial manageme[nt] as an integrated part of overall management

Modern Phase

Modern approach emphasis on both

- acquisition of funds
- proper and wise allocation of funds in various assets of an enterprise.

Hence it can be concluded

Modern approach to financial management laid emphasis on both procurement of funds as well as their optimal utilization through investment, financing and dividend decisions with an overall objective of wealth maximization

- not only measure of procuring funds at episodic events but also the optimum utilization through analytical decision making
- Significant contributions to the development of modern theory of FM are
- Theory of Portfolio management
- Theory of Leverage and Valuation of Firms

The modern phase of the evolution of finance can be summarised as (5)

- The scope has widened with the inclusion of optimum utilization of funds through analytical decision making.

- The finance function is now viewed from the point of view of the insiders that is those who are taking decisions in the firm.

- The knowledge of securities, financial markets and institutions is also required.

- Scope of finance manager's function has expanded beyond being merely descriptive into analytical in ~~nature~~. nature.

Role of finance manager or functions of finance manager

- Initially, Role of finance manager was limited to raising funds as and when needed. once procurement of funds done, his function was over.
- over a period of time his function has tremendously changed.
- His presence is required at every moment whenever any decision having involvement of funds is to be taken.
- In Particular, the finance manager has to focus on
  - procuring the required quantum of funds as and when required at lower cost
  - Investing those funds in various assets in most profitable way
  - Distributing returns to the shareholders in order to satisfy their expectations from the firms.

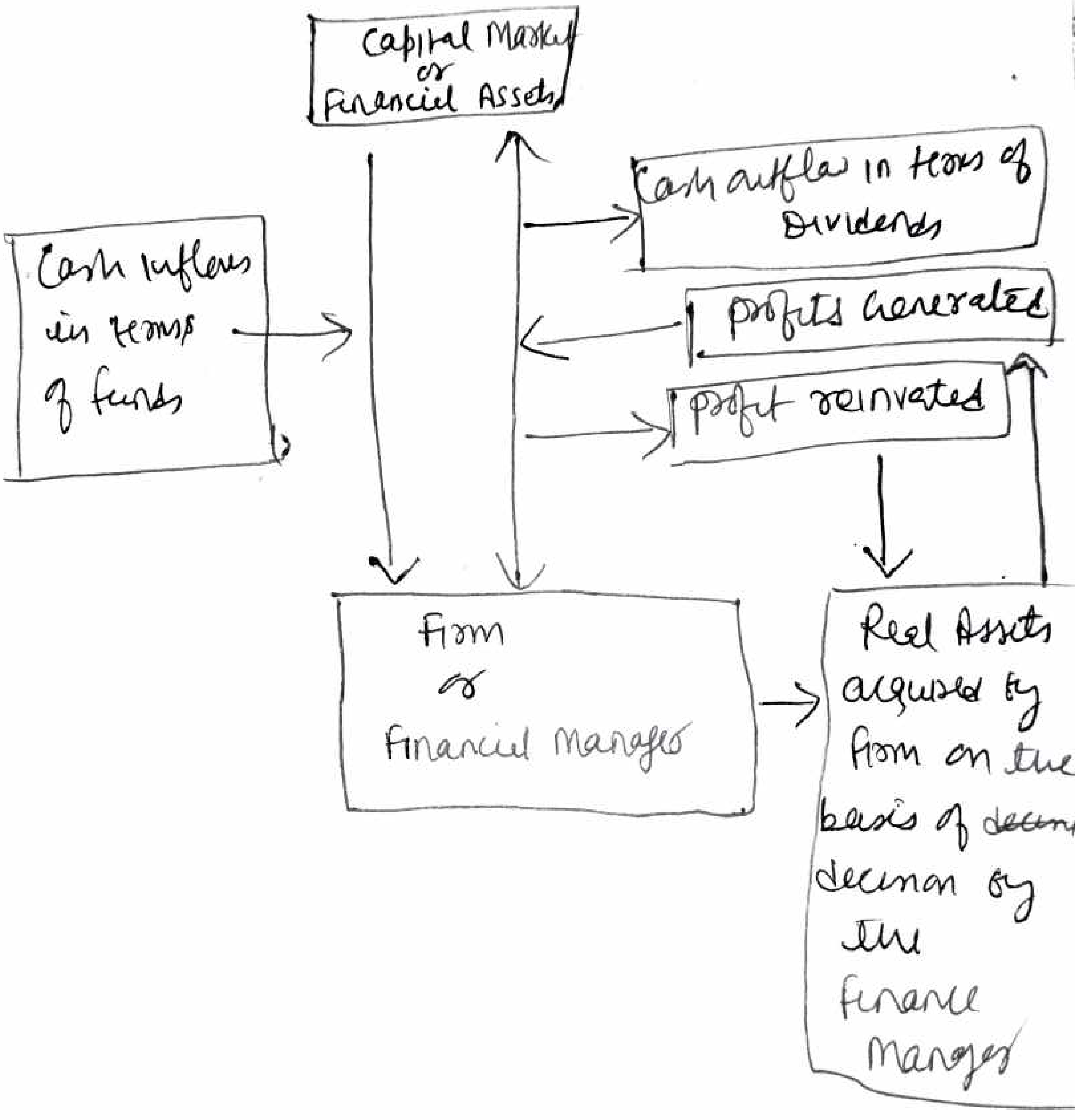
Hence, the function of finance manager may be summarized as

- overall financial planning and control.
- Raising funds from different sources.
- Selection of fixed Assets.
- Management of working capital
- Any other individual financial event.

Role of finance manager as intermediary between firm's operations and Capital Market

While performing above said functions finance manager has to operate as intermediary between firm's operation and Capital market because of two-way cash flow between ~~manager~~ the firm and the investor

The finance manager has to take care of the interest of investors as well as firm as depicted in fig. given below.



-① Investors provide funds through Capital Market to the firm.

② Firm distributes profits among the investors in form of interest or dividends

③ The firm raises fund by selling ownership securities or debt ~~sec~~ securities or borrowings in the Capital Market.

④ The fund raised in this way become the pool of the investible funds committed to investment decision of the firm.

⑤ The investment projects generate profit which are either distributed to the suppliers of investible funds or retained in business for reinvestment in future projects.