**FINANCIAL MANAGEMENT AND ITS IMPORTANCE IN ORGANIZATION**

**A Project Submitted to**

**University of Mumbai for partial completion of the Degree of**

**Bachelor of Accounting and Finance**

**Under the Faculty of Commerce**



**By**

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***CERTIFICATE***

This is to certify that Mr./Ms. **SIDDHI. SANTOSH. KELSHIKAR** has worked and duly completed his Project Work for the degree of Bachelor of Management Studies under the Faculty of Commerce in the subject of Finance and his project is entitled, **“FINANCIAL MANAGEMENT** **AND ITS IMPORTANCE IN ORGANISATION**” under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and facts reported by his personal findings and investigations.

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**I/c Principal Miss Nawal Khan I/c Principal Miss Nawal Khan**

Name and Signature of Course Coordinator Name and Signature of I/c Principal

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***Declaration by learner***

I the undersigned Mrs. **SIDDHI. SANTOSH. KELSHIKAR** hereby declare that the work embodied in this project work titled **“FINANCIAL MANAGEMENT** **AND ITS IMPORTANCE IN ORGANISATION**”, forms my own contribution to the research work carried out under the guidance of **Mr. Manohar Pathre** is a result of my own research work and has not been previously submitted to any other University for any other Degree/Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

**SIDDHI. SANTOSH. KELSHIKAR**

Name & Signature of the learner

Certified by

Signature of the Guiding Teacher

Mr. Manohar Pathre

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**FINANCIAL MANAGEMENT AND ITS IMPORTANCE IN ORGANIZATION**

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1. **Introduction**

Finance is the lifeline of any business However, finances, like most other resources, are always limited. On the other hand, wants are always unlimited. Therefore, it is important for a business to manage its finance efficiently.

For any business, it is important that the finance it procures is invested in a manner that the returns from the investment are higher than the cost of finance. In a nutshell, financial management endeavors to reduce the cost of finance, ensures sufficient availability of funds, deals with the planning, organizing, and controlling of financial activities like procurement and utilization of funds.

Financial management is such a managerial process which is concerned with the planning and control of financial resources. Financial management was started as a separate subject of study in the 20th century. Till now it was used as a part of economics. As an educational subject, its scope has undergone some basic changes from time to time. In the initial years of its development, financial management was concerned only with collection of funds for business. But according to the modern viewpoint, not only collections of funds but also their proper utilization are the basic functions of financial management.

In present times, financial management analyses all financial problems of a business. It refers to the functions involved in the management of financial resources. These functions are fund procurement, working capital management, capital budgeting, and capital structure designing of an organization. It includes controlling and maintaining the financial assets of an organization. In addition, it determines the futures strategies related to expansion, diversification, joint venture, and mergers and acquisitions.

Financial Management influences all segments of corporate activity, for both profit- oriented firms and non- profit firms. It is involved in a range of activities like acquisition of funds, the allocation of resources, and the tracking of financial performance. Therefore, it has acquired a vital role in every type 1 of organization.

**1.1 Meaning and Concept of Financial Management**

For the success of any business, it is necessary to procure adequate funds and to utilize them efficiently. The organization of sole proprietorship and partnership businesses is personal. Moreover, due to limited needs of these businesses, it is easier to manage the finances. But to manage finances for the corporations, which are non-personal in character, is a complex job

Finance is such a powerful source that it performs an important role to operate and co-ordinate the various economic activities of business.

Financial management entails planning for the future of a person or a business enterprise toensure a positive cash flow. It includes the administration and maintenance of financial assets. Besides, financial management covers the process of identifying and managing risks.

The primary concern of financial management is the assessment rather than the techniques of financial quantification. A financial manager looks at the available data to judge the performance of enterprises. Managerial finance is an interdisciplinary approach that borrows from both managerial accounting and corporate finance.

Some experts refer to financial management as the science of money management. The primary usage of this term is in the world of financing business activities. However, financial management is important at all levels of human existence because every entity needs to look after its finances.

**1.2 What is Financial Management?**

Financial management may be defined as planning, organizing, directing and controlling the financial activities of an organization. According to Gutman and Dougal, financial management means, “The activity concerned with the planning, raising, controlling and administering of funds used in the business.” It is concerned with the procurement and utilization of funds in the proper manner.

Financial management involves the management of the finance function. It is concerned with the planning, organizing, directing and controlling the financial activities of an enterprise.



In this broader view, the central issue of financial policy is the wise use of funds and the central process involved is a rational matching of the advantage of potential uses against the cost of alternative potential sources so as to achieve the broad financial goals which an enterprise sets for itself.

**1.3 Definitions of Financial Management**

* According to Harry Gutmann and Dougal, financial management means, “the activity concerned with the planning, raising, controlling and administering of funds used in the business.
* In the words of Weston and Brigham, “financial management is an area of financial decision-making, harmonizing individual motives and enterprise goals.”
* According to Solomon and Ezra, “Financial management is to review and control decisions to commit or recommit funds to new or ongoing uses.”
* Joseph and Massie define financial management as “the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.
* In the words of Phillippatus, “financial management is concerned with the managerial decisions that result in the acquisition and financing of long-term and short-term credits for the firm.
* According to J. C. Van Home, “Financial Management is concerned with the acquisition, financing, and management of assets with some overall goal in mind.”
* As such it deals with the situations that require selection of specific assets/combination of assets, the selection of specific liability/combination of liabilities as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives.”

**1.4 Evolution of Financial Management**

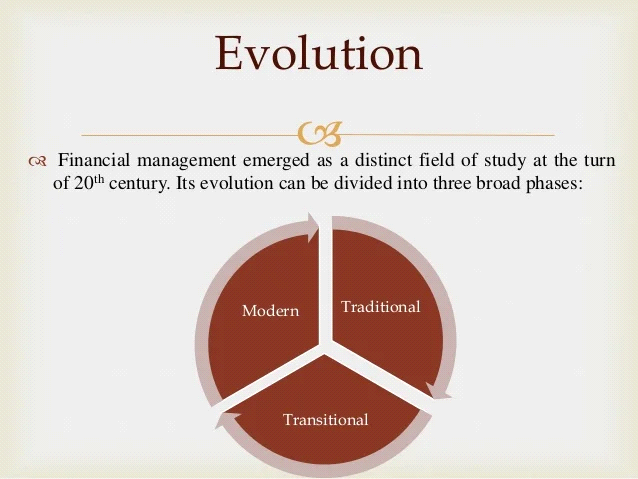
The nature and scope of financial management has evolved and widened over time.

Its evolution may be divided broadly in three phases:

1. Traditional

2. Transitional and

3. Modern phase.



1. The Traditional Phase (Till Early 1940’s):

The Traditional phase lasted for about four decades till the early 1940’s. In this phase, the focus of financial management was mostly on events of episodic nature like procurement of capital, engagement with major lenders like banks, issuance of securities, debt servicing, expansion, merger and com­pliance with legal aspects. The approach was mainly descriptive.

Financial management was viewed mainly from the viewpoint of the in­vestment bankers, lenders, and other outsiders.

In this traditional phase finance was a part of economics and no separate attention was paid to finance. Business owners were more concerned with operational activities.

a. Finance function was concerned with procuring of funds to finance the expansion or diversification activities. Finance function was not a part of regular managerial operations

b. Finance function was viewed particularly from the point of supplier of funds i.e., the lenders, both individuals and institutions.

c. The focus of attention was on long term resources and only the long-term finances was of concern.

d. The treatment of different aspects of finance was more of a descrip­tive nature rather than analytical.

e. Finance was concerned with procuring funds primarily by issue of securities such as equity shares, preference shares and debt instru­ments.

2. The Transitional Phase (1940 – Early 1950’s):

The Transitional phase began around the early 1940’s and continued till early 1950’s. Financial management had almost similar nature and scope during this phase as during the traditional phase.

However, there was an increasing emphasis on planning, procuring, managing and controlling funds to meet day to day financial needs of the business. Financial issues were begun to be analyzed in an analytical framework.

3. The Modern Phase (Since Mid-1950’s):

The mid 1950’s marked the beginning of the Modern phase in financial man­agement owing to increasing competition, growth opportunities, globaliza­tion, breakthroughs in economic theories and development of quantitative methods of analysis.

This led to development of a more analytical and em­pirical approach to decision making. Management or insider’s view point became central to financial management.

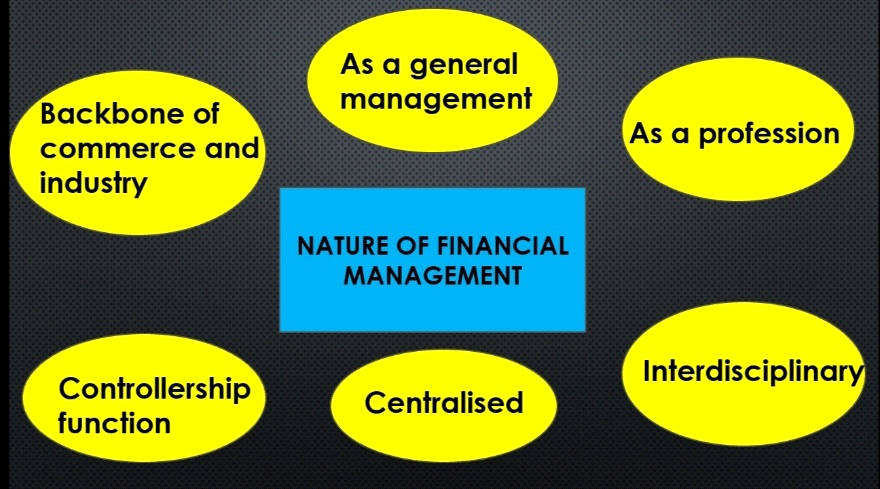
Thus, the modern approach views financial management in a broad sense and provides a conceptual and analytical framework for financial decision making. The finance function covers both acquisitions of funds as well as their allocations.

Development of Theory of Portfolio Management by Harry Markowitz in 1952, Theory of Leverage and Valuation of firm by Modigliani and Miller in 1958 and Option Valuation Model by Black and Scholes in 1973’s are regarded as milestones in the evolutionary journey of modern financial management.

Since then, the fields of capital budgeting, capital structure, efficient mar­ket hypothesis, option pricing theory, agency theory, financial derivatives and risk management, valuation model, dividend policy, working capital management, financial modelling, financial engineering, international finance and behavioral finance to name a few, have seen fascinating developments.

With the on-going endeavors of various academicians, researchers, practitioners and regulators, we are poised to see many more significant advancements in these and upcoming areas, which would add further dimensions to financial management

**1.5 Nature of Financial Management**



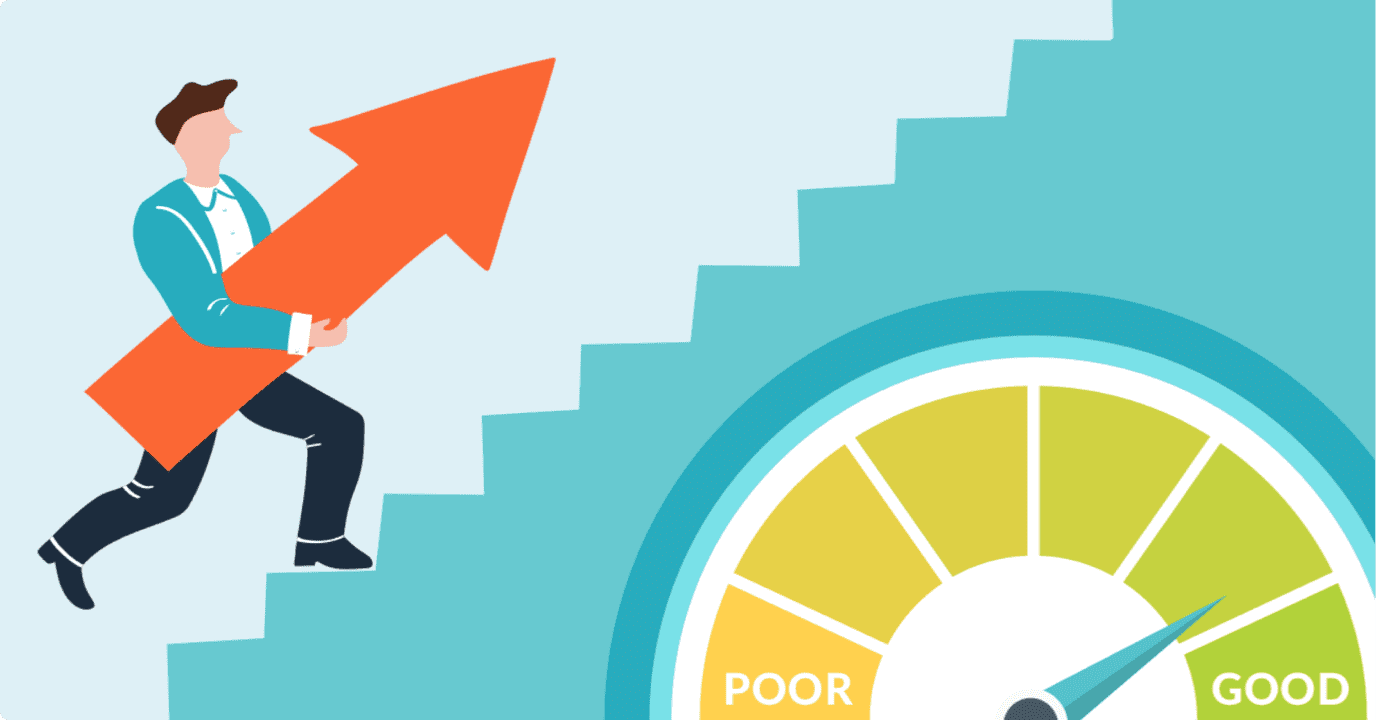
* Prof. S. C. Kuchhal has given three broad views on financial management simply providing the funds needed by the business or enterprise on terms that are most favorable in the light of its objectives.
* The approach is concerned almost exclusively with the procurement of funds and could be widened to include instruments institutions and practices through which funds are raised. It also covers the legal and accounting relationship between a company and its sources of funds. Financial management is certainly broader than procurement of funds-these are other functions and decisions too.
* At the other extreme there is a definition, which considers that finance is concerned with cash. Since every business transaction involves cash directly or indirectly finance may be assumed to be concerned with everything that takes place in the conduct of a business obviously it is too broad.
* The third approach which is more appropriate consider financial management as procurement of funds and their effective utilization in the business – though there are other organizations like school, associations, government agencies etc. where funds are procured and used.
* Financial management has to not only see that funds can be raised for installing plants and machinery at a cost but it has also to see that additional profits adequately compensate for the costs and risks born by the business while setting up the project.
* Thus, from the point of view of a corporate unit financial management is related not only to ‘fund-raising’ but encompasses a wider perspective of managing the finances for the company efficiently.
* In the developed state of a capital market raising funds is not a problem but the real problem is to put the capital resources to deal with tasks like ensuring the availability of funds allocating costs, forecasting financial requirements, doing profit- planning and assessment of return on investment and assessment of working capital etc.
* Financial management to be more precise is concerned with investment financing and dividend decisions in relation to objectives of the company such relation to objectives of the interests of the shareholders.

**1.6 Objectives of Financial Management**

The main objectives of financial management include profit and wealth maximization, cash flow management, cost efficiency improvement, operating risks management, survival management, and more.

The following are the details of the financial management objective:

* Profit maximization: This is the main objective of financial management. The finance manager strives to achieve optimal profit in the short term and long-term course of business. The finance manager shall try to achieve as high as profits. The company makes a decent profit in the long run if the finance manager makes the proper decisions using the various methods and tools available.



* Wealth maximization: It means shareholders’ value maximization. Wealth maximization means earning maximum wealth for shareholders. So, the finance manager tries to give maximum dividends to shareholders. The dividend declaration and payout policy are decided by financial management. Dividend decisions include a proper dividend policy regarding the distribution or retaining of company profits. This is related to the performance of the company. Better the performance, the higher is the market value of shares. In nutshell, the finance manager tries to maximize shareholders’ value.
* Proper mobilization: Mobilization of finance is an important objective of financial management. It means utilizing effectively the sources of finance. The finance manager can manage various sources of funds such as shares, debentures, after estimating the financial requirements, the finance manager must decide about the sources of finance.
* Increase efficiency: Financial management tries to increase the efficiency of all sections of the company. Proper distribution of finance to all departments increases the efficiency of the entire company.
* Proper estimation of total financial requirements: This means that the finance manager would be able to estimate the financial requirements of the company. He should be able to compute how much financing is required to start and run the business/ He shall estimate the fixed and working capital requirements of the company. If not, there will be a shortage or surplus of finance. The finance manager shall use various factors like the technology used by the company, the number of employees used, the scale of operations, and legal requirements.
* Proper utilization of finance: The finance manager must make optimum utilization of finance. This can be done by using various financial tools as managing receivables, effective payment policy in hand, and better inventory management.
* Maintaining proper cash flow: The financial manager shall ensure that there is a regular supply of liquidity in the company monitoring closely all the cash inflows and outflows reducing the instances of underflow and overflow of cash. The finance manager is entrusted with the responsibility to maintain an optimum level of liquidity. Healthy cash flow improves the chances of survival and success of the company.

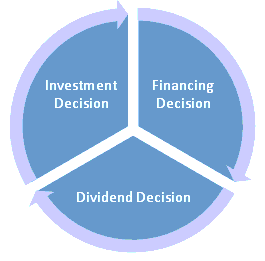


* Survival of company: The company must survive in this competitive business world. Hence, the finance manager shall take all the decisions intuitively. The big decisions shall be taken with proper due diligence and consultancy with consultants.
* Creating reserves: The higher the reserves, the better it will be for the company to overcome uncertainty. The company shall have an optimal dividend payout policy that will help itself to create reserves over the year. It must also keep the profits as reserves. The reserves can be used for the expansion of the company and overcoming uncertainty. It can also be used to face contingencies in the future.
* Reduce the cost of capital: This includes risk evaluation, measuring the cost of capital, and estimating benefits out of a particular project. Managers are responsible for deciding how available funds should be invested in fixed or current assets to get the best available returns.
  1. **Scope of Financial Management**

Financing a business involves multiple short-term and long-term decisions which by itself widens the scope of financial management. Short-term financial decisions primarily relate to day-to-day capital needs of the business firm or managing working capital.

These decisions influence the liquidity and profitability of the firm. On the other hand, long-term financial decisions are concerned with financing the enterprise, investment of funds and administration of earnings.

Some of the major scope of financial management are as follows: 1. Investment Decision 2. Financing Decision 3. Dividend Decision 4. Working Capital Decision.



1. Investment Decision:

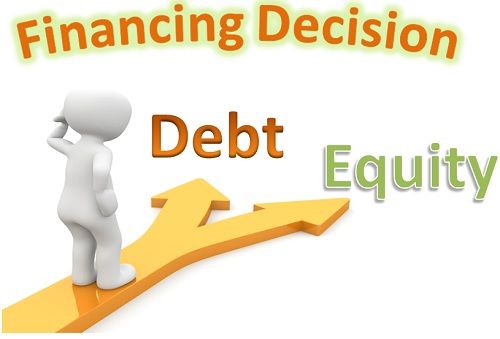
The investment decision involves the evaluation of risk, measurement of cost of capital and estimation of expected benefits from a project. Capital budgeting and liquidity are the two major components of investment decision. Capital budgeting is concerned with the allocation of capital and commitment of funds in permanent assets which would yield earnings in future.

Capital budgeting also involves decisions with respect to replacement and renovation of old assets. The finance manager must maintain an appropriate balance between fixed and current assets in order to maximize profitability and to maintain desired liquidity in the firm.

2. Financing Decision:

While the investment decision involves decision with respect to composition or mix of assets, financing decision is concerned with the financing mix or financial structure of the firm. The raising of funds requires decisions regarding the methods and sources of finance, relative proportion and choice between alternative sources, time of floatation of securities, etc. In order to meet its investment needs, a firm can raise funds from various sources.

The finance manager must develop the best finance mix or optimum capital structure for the enterprise so as to maximize the long- term market price of the company’s shares. A proper balance between debt and equity is required so that the return to equity shareholders is high and their risk is low.



3. Dividend Decision:

In order to achieve the wealth maximization objective, an appropriate dividend policy must be developed. One aspect of dividend policy is to decide whether to distribute all the profits in the form of dividends or to distribute a part of the profits and retain the balance. While deciding the optimum dividend payout ratio (proportion of net profits to be paid out to shareholders).

The finance manager should consider the investment opportunities available to the firm, plans for expansion and growth, etc. Decisions must also be made with respect to dividend stability, form of dividends, i.e., cash dividends or stock dividends, etc.

4. Working Capital Decision:

Working capital decision is related to the investment in current assets and current liabilities. Current assets include cash, receivables, inventory, short-term securities, etc. Current liabilities consist of creditors, bills payable, outstanding expenses, bank overdraft, etc. Current assets are those assets which are convertible into a cash within a year. Similarly, current liabilities are those liabilities, which are likely to mature for payment within an accounting

* 1. **Importance of Financial Management**

Every company has various business units that help it function and grow. Of all these departments, it is probably finance that exists even before a company has started working. It is the finance people who decide if a venture is viable and how it can earn revenue to sustain itself. For such an important department, it is essential to have excellent management.

It is a necessary and critical part of any organization. It is difficult for profit-making or other organizations to sustain themselves for long without proper finances. Apart from this reason, the efficient management of these financial resources is essential to be sustainable and viable in the long run.

The importance of financial management cannot be overemphasized. In every organization where the money is involved, Sound Financial management is necessary. Finance or money is the life blood of business. Every business organization requires money to make more money but money will earn more money, only when it is managed properly.

It requires sound financial management. As Collins Brooks has remarked “Bad production management and bad sales have slain in hundreds, but faculty financial management has slain in thousands”.

Finance managers must realize that when a firm makes a major decision, the effects of action will be felt throughout the enterprise. Sound financial management is essential for all types of organization.

The financial management helps in monitoring the effective investment of funds in Fixed Assets and Working Capital. Hence the financial management has gained much importance over time.

The following are the importance of financial management:

1) Successful Promotion:

Efficient and effective financial management is essential to achieve the success in the promotion of business enterprise. It is found that one of the most important reasons for failures of business promotion is a defective plan. For this purpose, a sound financial plan is very necessary for the success of business enterprise.

2) Smooth Running of an Enterprise:

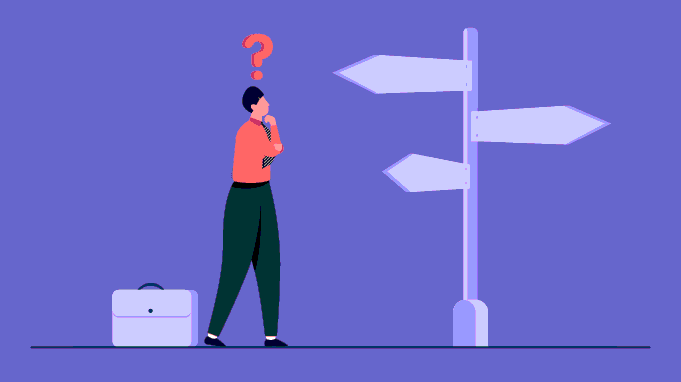
Finance is essential for smooth running of the organization. Finance to an enterprise is like oil to an engine. Finance is required at each stage such as promotion, incorporation, expansion, meeting day-to-day expenses, etc.

3) Coordination between Various Activities:

Financial management provides complete co-ordination between the various departments viz., production department, sales department, purchase department, marketing department, accounts department to achieve the organizational objectives. The finance manager is responsible to meet the financial needs of different departments timely.

For example, if the finance department fails in its obligations to the purchase department for purchase of raw materials, it will affect the production department, because of shortage of raw materials, consequently there is no supply and decreases in sales.

Consequently, the income of the concern will suffer. Thus, financial management occupies a central place in the business organization to control and coordinate all the activities of the enterprise.



4) Decision Making:

All the decisions are taken on the basis of profitability. Financial management supplies scientific analysis of all facts and figures, budget, financial statements, etc. This information helps the financial management to calculate the profitability of the plan in given circumstances and guide them in taking proper decisions to minimize the risk.

5) Solution to Business Problems:

Financial management provides various solutions to the top management problems.

6) Measures of Performance:

Financial management provides the financial results. Therefore, financial results are the yardstick to measure the performance of an enterprise, its size of the earnings. Financial decisions which increase the risks will reduce the value of the firm whereas financial decisions which increase the profitability of the enterprise will increase value of the firm.

**1.9 Approaches to Financial Management**

From theoretical point of view, financial management approach may be broadly divided into two major parts:

1. Traditional Approach

2. Modern Approach



1. Traditional Approach:

Traditional approach is concerned with the raising of funds only. Traditional approach is the initial stage of financial management, which was followed, during the year 1920 to 1950. This approach was very narrow because it was only related to the procurements of funds.

This approach has been criticized by the modern scholars on various grounds and they have given the modern approach to financial management.

2. Modern Approach:

According to the modern approach a financial manager is not only responsible for the arrangement of funds but at the same time he has to ensure wise application of funds. Finance manager is, therefore, concerned with all financial activities of planning, raising, allocating, and controlling finance. Thus, modern approach has wide scope as compared to traditional approach.

According to modern approach the finance functions can be categorized into two broad groups- I. Executive/Primary Functions ii. Subsidiary Function

I. Executive/Primary Functions:

a. Estimating Capital Requirements:

The first and the most important function is to estimate the capital requirements (needs) of the company very carefully. This must be done at the promotion stage. The company must estimate its fixed capital needs, working capital needs and for initial promotional expenses.

Promotional expenses include expenditure incurred in the process of company formation. Fixed capital needs depend upon the nature of the business enterprise-whether it is a manufacturing, non-manufacturing or merchandising enterprise.

Working capital is the amount which is required for day to day operating expenses of the business such as to pay wages, salary, rent etc. This depends upon the size of the enterprise.

For large organization higher amount of working capital is required as compared to a small level business. If there is any error in the computation of estimated requirements the company will become over-capitalized or under-capitalized.

b. Determination of Capital Composition:

Once the estimation of capital requirement has been made, the capital structure has to be decided. Capital structure is the ratio between owned capital and borrowed capital. There must be a balance between owned capital and borrowed capital. If the company has too much owned capital, then the shareholders will get fewer amounts of dividends.

Whereas, if the company has too much borrowed capital, it has to pay a lot of interest. It also has to repay the borrowed capital after some time. High amounts of borrowing can lead to the insolvency also. Every source of capital is having their own cost. This is to be also considered by the finance manager. So, the finance managers must prepare a balanced capital structure.

* 1. **Advantages of Financial Management**

1.Better Decision Making

Financial management facilitates better decision making. It collects and provides all financial information regarding the organization. Easy availability and accessibility of all information help managers in taking decisions efficiently on the bases of facts and figures.

2.Transparency of Information

Financial management leads to the transparency of all information in business. It records all information systematically and made it available to all business users. Better transparency helps in developing proper understanding within and outside the organization and avoids any confusion or errors.

3.Finance Control

Controlling the finance of an organization is one of the better advantages offered by financial management. It supervises and manages all activities of the business to exercise financial control. Finance managers ensure that all activities of business go in accordance with the estimated cost and should not go above the pre-set budgets.

4.Enhances Managerial Efficiency

Financial management is responsible for maintaining proper financial discipline in an organization. It ensures that all financial resources are efficiently utilized and there is no wastage. Financial managers supervise the activities of all employees and work at deriving better results out of them.

5.Profit Maximization and Wealth Maximization

Financial management aims at raising the profit of organization and wealth of shareholders. It aims at earning high profits by reducing the cost of operation and efficiently utilizing all resources. Higher the profit the company earns, the higher would be the dividend declared by the company for its shareholders. This way it will increase their wealth.

6.Determines Adequate Capital

Estimation of an adequate amount of capital that a business requires to start and continue its activities is an important task. Financial management estimates the right amount of funds required by the business so that it can be acquired timely.



7.Avoids Debts

Financial management helps in avoiding and taking any unnecessary debt by the company. It aims at the proper and efficient application of all funds and aims at reducing the overall cost. This leads to avoiding any need for additional funds requirements by the business.

**1.11 Disadvantages of Financial Management**

1.Costly

Practicing Financial management is a costly activity for business organizations. For controlling and measuring the cost, financial management implies various financial control tools. These tools are costly to use and are time-consuming.

2.Rigidity

Financial management leads to rigidity by setting certain standards for measuring performance. All the standards are set in accordance with certain parameters. However, conditions may differ while performing the actual task from those conditions which were considered while framing standards.

3.Determination of Standards

Financial management requires determination of standards for measuring actual performance which is a very difficult task. There are no proper setup criteria for setting up standards and there may be chances to set improper standards.

4.Difficulty in Applying Control Measures

Applying various financial control measures faces several difficulties. These financial controls can be easily applied at the starting of the process but its implication becomes difficult during operation of the process.

5.Problems in Recognizing Deviation

The identification of real reasons for deviation in an actual performance is not always possible. Financial management can work toward managing or avoiding deviations if and only real reasons for such deviations are found out, otherwise, it is ineffective.

**1.12 Importance of Finance Management in Companies**

* **Financial Management Helps Businesses Succeed**

Another problem that arises from not managing finance is bad planning and missing opportunities to improve profits. One can say with certainty that a lack of management of money will undoubtedly lead to businesses failing. Without experts in this subject, it is possible that business owners may overestimate revenues and plan for more expenses. They will be caught by surprise and be at a loss to know what to do.

* **Follow Rules and Manage Taxes**

Helping companies to maintain their books and mitigating tax burden are essential functions of financial management. Maintaining proper accounts is very important for all firms. This will not only help to follow regulations but also make tax calculations very easy. Finance departments also help to know what taxes to be paid. They also help in finding legal ways to reduce a company’s tax burden.

* **Get Better Access to Finance**

All companies need money to run businesses and to expand them. They must look at various sources for this valuable commodity. Finance managers help in finding suitable sources that will not be very expensive. They will also be able to advise business people about what methods to raise funds are most appropriate for their companies. These experts will also prepare [business plans](https://talentedge.com/articles/business-plan-important/) to convince lenders to finance that firm.

* **Control Business Costs**

Every company spends money on its regular operations. Companies must meet certain essential fixed costs. Sound financial management will help to cut costs. Budgeting is one of their responsibilities, and this helps to plan and reduce expenses. By spending within available funds, it is possible to minimize unnecessary bank charges. Reasonable control of costs will provide for surpluses that can be invested wisely to earn more.



* **Measure Your Success**

Money is the benchmark used for a company’s success. When they earn more money, they are said to be more successful. But one would need strict financial management to improve earnings. Organizations also need these professionals to work out how much profits they have made and compare it with previous years. Financial experts also see how a company has performed vis-a-vis its competitors. Such information motivates everyone in a firm and makes them work harder.

* **Improve Weak Areas**

Finance heads use analytics to know which areas in a business are bringing profits. They can give reports about how various departments in an organization are performing financially. It is also a function of financial management to assess what products are giving better profits. They can process this information for every activity of a business. Such analysis will help in improving weak areas and support profitable activities to perform better.

* **Optimizing Marketing Activities**

Marketing is a vital activity for any firm because it helps bring in revenue. But it is also a department that spends a considerable amount of money. So, one must necessarily know what returns each campaign brings. If any advertising program is not earning much, it must be optimized or temporarily stopped. Finance managers provide accurate information about returns from marketing campaigns.

* **Focus on Growth Areas**

All companies must expand their activities to grow. But there must be concrete information about where it is most beneficial to invest to improve earnings. Finance departments can help identify such areas where spending money can bring in excellent returns. It may be possible that investing in new machinery will help to increase production and satisfy new market demands. This is a significant role of financial management in business**.**

* **Enhancing Staff Strength**

Despite rapid automation of various processes in organizations, there is no way machines can replace humans. Devices also require people to program and operate them. This is why the human workforce is very crucial for any firm. But employing more people will need additional expenses. Financial management helps in finding out which positions are most profitable to fill. It will also enable companies to increase salaries to deserving employees.

* **Predict Risks and Avoid Them**

The role of finance departments includes forecasting future events using [analytics](https://talentedge.com/analytics-courses). It helps to know risks that can occur in the coming period. Comparing actual results with forecasted figures will also help to know if there is any area that needs to be taken care of. Companies can be aware of downturns in their financial position and take care to act against that. Finance managers also continue to study markets to know factors that are likely to affect a company’s position.

**1.13 Major roles of financial management**

* Financial Decisions and control
* Financial planning
* Capital management
* Allocation and utilization of financial resources
* Cash flow management
* Disposal of surplus
* Financial reporting
* [Risk Management](https://talentedge.com/risk-management-courses)



**1.Financial Decisions and Controls**

A crucial role of financial managers is in making financial decisions and exercising control over finances in the organization. They make use of techniques like ratio analysis, financial forecasting, profit and loss analysis, etc. These are all tasks that help a firm understand how efficiently they are working and what activities will help them improve their earnings.

Ratio analysis helps understand a firm’s liquidity, revenues, and profits by studying its financial records. It helps to know how financially healthy an organization is. Financial forecasting helps an establishment know how strong their finances will be in the future. Various indicators like predicted sales volumes are used for finding this. A profit and loss analysis detail a company’s earnings and expenses for a specific period which is usually a quarter or a year.

**2.Financial Planning**

A crucial role of financial management is the planning of financial activities and resources in the organization. To this end, they use available data to understand the needs and priorities of the establishment as well as the overall economic situation and make plans and budgets for the same. This is an important task that helps maintain financial stability by balancing outflow and inflow of cash.

A vital role of a finance manager is to look at what resources a firm requires for a particular period. Planning helps to convince those who lend money that a company is capable of managing funds well and will use it judiciously.

**3.Capital Management**

As part of financial management functions, these officials must estimate the capital requirements of the organization from time to time, determine the capital structure and composition, and make the choice of source of funding for the capital needs. This ensures that a company has enough cash flow to meet its immediate and distant needs for smooth operation. Companies can complete day-to-day expenses and short-term financial commitments quickly.



4.Allocation and Utilization of Financial Resources

Financial management ensures that all financial resources of the organizations are used and invested effectively and efficiently so that the organization is profitable, sustainable, and viable in the long run. Companies are working in a highly competitive environment, and this makes it necessary for finance heads to ensure that available funds are used most beneficially. This activity probably answers the question of what is financial management ideally. One can read more about it here.

Funds are invested in both fixed and current assets. Fixed assets will include those whose value will depreciate over time. This results in an increase in returns on these investments as time passes. Current assets include working capital which is a short-term investment.

**5.Cash Flow Management**

It is extremely important for organizations to have sufficient working capital and cash flow to meet their operational expenses and emergencies. Financial management tracks account payable and receivable to ensure there is the adequate cash flow available at all times. This is the role of financial management that is vital in all companies but especially crucial for small establishments as a shortage in cash flow can affect their functioning badly.

It has been assessed that a significant percentage of companies fail because of bad cash flow management. When expenses are not controlled, and they go beyond earnings, then there will be a cash shortage. Real estate development firms often face this problem as their daily outflow is very high. Rapidly expanding businesses can also face cash flow shortages.

**6.Disposal of Surplus**

The decisions on how the surplus or profits of the organizations is utilized are taken by the financial managers of the organizations. They decide if dividends should be distributed and how much, and the proportion of profits that must be retained and plowed back into the [business](https://talentedge.com/business-management-courses). It is also paid to employees as a bonus for performing well.

Various factors like how a company continues to earn will influence this decision.

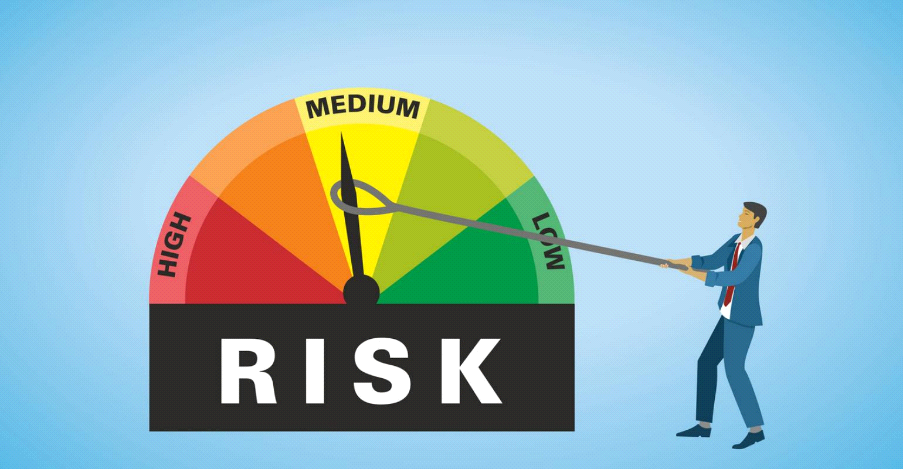
**7.Financial Reporting**

Financial management maintains all necessary reports related to the finance of the organization and uses this as the database for forecasting and planning financial activities. Reporting is a very important function for all organizations. It is a way of knowing the firm’s financial position and performance. This is usually done periodically, either on a quarterly basis or annually. It tells how much money is there, where it came from and what expenses were incurred in that period.

**8.Risk Management**

Sound financial management prepares the organization to forecast risks, put in place mitigation plans as well as meet unforeseen risks and emergencies effectively. No company is safe from risks. There can be dangers from various sides. Market conditions can result in a sudden drop in sales. Government policies could increase tax or other burdens. Exchange rate fluctuations can affect import and export firms. Companies also face problems from internal issues like machine failures.

While it is not possible to remove all risks, companies must strive to avoid what is possible. There must be steps to ensure that those threats don’t affect the company too severely for those risks that cannot be eliminated. Financial managers should have clear plans about how they can be handled. Risks must be identified, measured and action plans drawn up depending on how serious they are. Such plans must be shared with all stakeholders.



**1.14 Latest Trends in Financial Management**

Like other functions, financial management is also going through transformations. As companies become global and technology become used, [increasingly new trends](https://talentedge.com/blog/emerging-trends-international-finance/) in this job are emerging. Financial managers must be aware of them and come to terms with changes quickly.

**1.Managing Skill Shortage**

As there is increased use of modern technology, there is also a shortage of people who are skilled to use them effectively. With data being the new hero in most businesses, finance managers must look at hiring people who are adept at data analytics. They must hire people skilled at using past and existing information to provide valuable insights. The use of automation is also a trend to look for and ensure skilled people to properly use this technology are available.

**2.Making Decision-Ready Data Available**

This is another trend that is fast spreading in many businesses. Unlike conventional methods of using data to arrive at an accurate result, it is now more popular to use data that can support making decisions immediately. This means that a larger volume of information must be analyzed. Decentralizing control of data will also help in managing more information and getting insights to make decisions faster. There is also a heightened focus on data quality improvement. Moving to multiple sources of data is also helping in better decision-making.

**3.Creating On-Demand Reports**

With [advanced technology](https://talentedge.com/technology-it/), it is possible to make reports available at any time. There is no need to wait for them to be prepared manually. People can view reports on a real-time basis. This is allowing stakeholders to access them whenever they want. Finance managers must see what technology must be used to ensure that reports are available whenever concerned persons want to see them. AI and ML help to prepare more advanced reports. It is also possible to deliver more relevant insights using analytics and data visualization tools.

**4.Better Supplier Collaboration**

As companies go global and competition becomes tougher, it is necessary for them to look at all possible avenues to keep their business edge. This is possible by ensuring customer satisfaction by prompt order fulfillment. Another important way to keep buyers close is to offer competitive prices. Both these are possible only when firms can ensure a smooth supply of raw materials at low prices. There must be an excellent collaboration with suppliers for this. Finance managers can play a highly proactive role in mitigating supplier risk. Such close cooperation also helps in identifying acquisitions for vertical integration.

**5.Controlling Cost to Improve Profits**

For several years now, cost increase has far outpaced revenue growth. This has been hurting businesses by decreasing profits a great deal. This is partly because nobody has bothered to give much importance to analyzing the breakdown of costs. With conditions getting worse, it is time for finance managers to look at ways to reduce costs. It will be their duty to compare their costs with peers and find where they are spending more. Companies will start shelving unviable projects and concentrate on activities giving better returns.

**6.Increasing Remote Accounting Work**

One good thing that has resulted from the [Covid-19 situation](https://talentedge.com/blog/covid-19-pandemic-affected-best-laid-strategies-renowned-startups/) is that remote working is almost becoming normal in many firms. This is especially true in accounting firms. With the easy availability of technology, it is now possible for accountants to sit anywhere and provide excellent service to clients. Finance managers must make sure that adequate cybersecurity measures are put in place to ensure no data leak occurs. As most aspects of accounting are getting digitized, it is going to be easier working from anywhere.

**7.Cloud-Based Accounting**

This is another trend that is getting very popular. As cloud services become more secure and safe, more firms are willing to adopt this method. Cloud accounting is a technology that can further help remote working. A big advantage of this method of accounting is that companies need not invest in costly hardware or software. There are no license fees to pay. Moreover, cloud service enterprises are more capable of handling failures and quickly restoring services. This service is also scalable as per requirement.



computer networking background, deep learning, data software program process, hacker server, ai technology with web system, cyber social online, information cloud storage, server safe, sky n

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**2. Research Methodology**

Research comprises "creative and systematic work undertaken to increase the stock of knowledge, including knowledge of humans, culture and society, and the use of this stock of knowledge to devise new applications." It is used to establish or confirm facts, reaffirm the results of previous work, solve new or existing problems, support theorems, or develop new theories. A research project may also be an expansion on past work in the field. Research projects can be used to develop further knowledge on a topic, or in the example of a school research project, they can be used to further a student's research prowess to prepare them for future jobs or reports. To test the validity of instruments, procedures, or experiments, research may replicate elements of prior projects or the project as a whole. The primary purposes of basic research are documentation, discovery, interpretation, or the research and development (R&D) of methods and systems for the advancement of human knowledge. Approaches to research depend on epistemologies, which vary considerably both within and between humanities and sciences. There are several forms of research: scientific, humanities, artistic, economic, social, business, marketing, practitioner research, life, technological, etc.



**2.1 Steps in conducting research**

Research is often conducted using the hourglass model structure of research. The hourglass model starts with a broad spectrum for research, focusing in on the required information through the method of the project (like the neck of the hourglass), then expands the research in the form of discussion and results. The major steps in conducting research are:

• Identification of research problem

• Literature review

• Specifying the purpose of research

• Determining specific research questions

• Specification of a conceptual framework, sometimes including a set of hypotheses

• Choice of a methodology (for data collection)

• Data collection

• Verifying data

• Analyzing and interpreting the data

• Reporting and evaluating research

• Communicating the research findings and, possibly, recommendations



**2.2 Techniques of Research**

1. Interviews

* Interviews can be conducted in person or over the telephone
* Interviews can be done formally (structured), semi-structured, or informally
* Questions should be focused, clear, and encourage open-ended responses
* Interviews are mainly qualitative in nature

2. Questionnaires and Surveys

* Responses can be analyses with quantitative methods by assigning numerical values to Likert-type scales
* Results are generally easier (than qualitative techniques) to analyze
* Pre-test/Post-test can be compared and analyses

3. Observations

* Allows for the study of the dynamics of a situation, frequency counts of target behaviors, or other behaviors as indicated by needs of the evaluation
* Good source for providing additional information about a particular group, can use video to provide documentation
* Can produce qualitative (e.g., narrative data) and quantitative data (e.g., frequency counts, mean length of interactions, and instructional time)

4. Focus Groups

* A facilitated group interview with individuals that have something in common
* Gathers information about combined perspectives and opinions
* Responses are often coded into categories and analyzed thematically



5. Ethnographies, Oral History, and Case Studies

* Involves studying a single phenomenon
* Examines people in their natural settings
* Uses a combination of techniques such as observation, interviews, and surveys
* Ethnography is a more holistic approach to evaluation
* Researcher can become a confounding variable

6. Documents and Records

* Consists of examining existing data in the form of databases, meeting minutes, reports, attendance logs, financial records, newsletters, etc.
* This can be an inexpensive way to gather information but may be an incomplete data source.

**2.3 Limitations**

Organizational leaders must devote the necessary effort to comprehending regulatory requirements, as well as developing procedures that satisfy standards without incurring excessive expenditures. Let us take an overview about limitations of financial management to understand it better.

1. Uncertainty About the Future

The assumption about the future circumstances connected with the project serves as the important disadvantage of financial management. The nature of the future is unpredictable, and most of the time, things do not turn out the way we anticipate them to. The unpredictability of future occurrences has a significant impact on the dependability of financial data.

2. Rigidity

By establishing specific criteria for assessing performance, financial management contributes to rigidity in the organization. All of the standards are established in line with a set of criteria. Ones, on the other hand, may change when doing the real work from the conditions that were taken into consideration when developing the standards

3. Inaccuracy in the Data on Which Decisions Are Based

Financial management is the process of making predictions about the future based on historical or studied data gathered from many sources. If there are limitations in financial management data then it’s based is faulty, as the results objectives of financial planning may be erroneous impacted.

4. Standardization and Determination of Criteria

Financial management necessitates the establishment of performance criteria for evaluating actual performance, which is a time-consuming and complex process. There are no suitable setup criteria for establishing standards, and there is a possibility that the standards may be established incorrectly.

5. More Emphasis Are Placed on Fund Raising

This strategy places a greater emphasis on obtaining cash from external sources while overlooking concerns pertaining to the optimal usage of those monies. Another possible limitation of financial management for profit maximization is the possibility for product quality to suffer as a result of it. On the contrary, greater profit may be demonstrated in order to issue additional equity shares or to pay a higher dividend in order to attract shareholders and other interested parties.



6. Rapid Shifts in the Environment and in Public Policy

Government laws and regulations governing the economic environment might change dramatically, which can have a negative impact on financial management. If the plan does not have the flexibility to adapt to the changing environment, it may turn from being a flawless financial plan to being a financial failure.

7. Unavailability of Required Information

A variety of reasons can be used to alter financial records. This is the major limitations of financial management. For example, it might be presented in accordance with the wishes of management or it could be developed from the perspective of shareholders. When it comes to financial management, profits and financial situations, as well as the rate of profitability, are the only things that are presented to the public.

8. Difficulty in Putting Control Measures into Practice

The implementation of different financial control procedures is fraught with challenges. These financial controls are simple to implement at the outset of the process, but their implementation gets more complicated throughout the course of the process’ operation.

9. Warning

In order to remain on top of the constantly changing regulatory environment, business executives must have procedures in place. Company policy adjustments to accommodate this change are the responsibility of the employer. Whether or whether company owners are aware that there has been a change, penalties are levied.

10. Costly

Practice of financial management is a time-consuming and expensive activity for commercial enterprises. Financial management entails the use of a variety of financial control instruments for the purpose of managing and measuring costs. These instruments are both expensive and time-consuming to use.

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**2.4 Objectives**

Financial management involves planning, organizing, directing and controlling financial activities in an organization. It’s the lifeline of any business, irrespective of the business model and industry. However, like any other resources, finances are limited. Therefore, businesses need to manage them effectively.

The primary goal of financial management is to manage an organization’s finances so that businesses are compliant with necessary regulations and are successful in their field. The process involves high-level planning and proper execution. When done right, businesses succeed and improve profitability. This is also the reason why the finance department, along with finance or revenue managers, plays a critical role in any organization. They ensure the basic objective of financial management is met by:

Making important decisions through profit and loss analysis, financial forecasting and ratio analysis, among others. Utilizing available resources and ensuring that they fulfill an organization’s needs and priorities. Ensuring that an organization makes decisions after thorough consideration of available funds and potential risks in the future

In short, fiscal or financial managers shoulder the responsibility of ensuring that an organization’s decisions are aligned with the overall financial management objectives. Financial managers need to determine financial management objectives for efficient procurement, use of resources and minimizing costs. Here are the most important financial management objectives that businesses across industries need to prioritize:

1. PROFIT MAXIMIZATION

The basic objective of financial management is to achieve optimal profit, both in the short and long run. It even includes wealth maximization, where every shareholder’s value or hold over dividends should increase. These outcomes are related to business performance, which means that the better a business performs, the higher its market value of its shares will be.

2. PROPER MOBILIZATION

Effective mobilization is one of the most important objectives of financial function. It means that managers need to make decisions regarding the allocation and utilization of various funds. Whether it’s shares or debentures, finance managers need to estimate an organization’s requirements and make financial decisions accordingly.

3. IMPROVED EFFICIENCY

Proper utilization of finance also encourages proper distribution. From creating inventories to investing in profitable businesses, mobilization and utilization of finances lead to better business decisions. This also allows managers to dedicate resources and distribute them among departments, increasing the overall efficiency of an organization.



4. BUSINESS SURVIVAL

The primary goal of financial management is ensuring an organization’s survival. As the term suggests, businesses need to survive the competitive market and the best way to do so is to manage their financial resources. Managers need to make big decisions after due diligence. They may consult with external members or agencies if needed. Every decision makes a difference as it impacts the business.

5. BALANCED STRUCTURE

As financial managers prepare capital structure, it creates balance among different sources of capital. This balance is essential for liquidity, flexibility and stability. This further decides the ratio between owned capital and borrowed capital.

In short, the basic objective of financial management is to create financial discipline and improve the financial well-being of an organization. These objectives guide financial managers in determining how much to invest and how much to retain, among other functions. It includes various management decisions that address short-term and long-term needs, ensuring availability of funds when needed and how funds should be distributed.

**2.5 Purpose of research**

Financial management is the effective handling of money through planning, organizing, directing and controlling funds in a corporation or for an individual. Financial management uses ratios, equities and debts to reach investment goals.

It helps organization in financial planning and acquisition of funds and in effectively utilizing and allocating the funds received or acquired, make critical financial decisions help in improving the profitability of organizations and increases the overall value of the firms or organizations, provides economic stability and encourages employees to save money, which helps them in personal financial planning.

These efforts may focus on managing a portfolio, distributing dividends, raising and allocating capital, budgeting, monitoring foreign currency and following product cycles, to name only a few possibilities. Within a corporation, management of finances is a function usually handled by the highest-level managers of the company. However, the term may also refer to the management of an individual's investment portfolio.

Some specialized types of financial management exist. For example, managerial finance involves the way monetary matters interact with the overall management of the company. Another specialty is corporate finance, which is the study of how a corporation allocates money. Another specialized field is how information technology functions as part of a financial management strategy. This field involves the allocation of IT resources to reach business goals.

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**3. Literature Review**

“Literature review is one of the early and important steps for doing research. Review of the

related literature enables the research to have clear & profound understanding about the

specific field of the study. Literature review also facilitates the researcher to have a deep

insight into the methods, procedures & interpretation of similar studies done elsewhere.

The literature review also helps the researcher to remove limitations of the existing work

and helps in extending the prevailing studies. There were several studies that served as a

source of inspiration & starting point for the current study. The literature review related to

various study on Financial Management in an organization and overall study has been discussed.



1. Jindrichovska, Irena (2013)

The principal goal of this paper is to review recent studies on small and medium sized companies in order to concentrate on the main critical issues of SMEs financial management. There are three core elements of financial management: (1) the question of liquidity management and cash flow management. Cash is company’s most precious nonhuman asset. (2) The question of long-term asset acquisition – which directs the long-term course of business. (3) Questions of funding, capital structure and cost of funding. The most imminent question is the liquidity management. A business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital.

1. Gutman and Dougal, (2015)

Gutman and Dougal, says that “Financial management is the activity concerned with planning, raising, controlling and administering of funds used in business.”

1. Harry Lopez, (2013)

Harry says that, “Finance means, acquisition as well as allocation of a corporation’s funds, utilizing the unbiased to increasing stock value. Primary function of corporate financing is resource acquisition. It is the generation of wealth from either external or internal sources at the least expensive cost toward company”.

4. Brandley, (2019)

J. F. Brandley, mentioned that “Financial management is that area of business management devoted to a judicious use of capital and a careful selection of the source of capital in order to enable a spending unit to move in the direction of reaching the goals”

1. Massie, (2018)

Massie explained in one of her books that “Financial management is the operational activity of business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.”

1. Solomon (2016)

According to Solomon, “Financial management is concerned with the efficient use of an important economic resource, namely, capital funds”

1. Weston & Brigham (2014)

According to Weston & Brigham, “Financial management is an area of financial decision-making harmonizing individual motives and enterprise goals”

1. Lisbon Ferry (2019)

 The primary objective of corporate finance is to enhance shareholder value in short and long run respectively. Shareholder value also determines success of the economic activity. In other words, generating capitals and deploying them for productive purposes is what forms the basis of capital finance. Ownership and management are the essence of capital financing.

1. Howard & Upton (2020)

According to Howard & Upton, “Financial management is the application of the planning & control functions of the finance function.”

1. Phillippatus (2002)

In the words of Phillippatus, “financial management is concerned with the managerial decisions that result in the acquisition and financing of long-term and short-term credits for the firm.

1. J. C. Van Home (2011)

According to J. C. Van Home, “Financial Management is concerned with the acquisition, financing, and management of assets with some overall goal in mind.”

1. Jack Menon (2015)

Finance defines as a basic component in determining exactly how a business or company will operate its functions. Well, corporate financing is the area of finance which is much concerned about managing the required funding and its sources. Also, it oversees the capital structure and optimizes its proficiency to maximize valuation of the company.

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**DATA INTERPRETATION**

IT Sector Leaders TCS and Infosys have released their Quarterly Results for Financial Year 2021. Both the companies have posted decent quarterly results. And hence, we will be comparing the performances of both companies as per their results. Let’s begin!

TCS and Infosys, 2 leading companies in the IT sector of India have announced their quarterly results for year 2021 on 12th April and 14th April respectively. In this we will be doing a comparative analysis of the quarterly result of both companies. This comparison will be mostly of Qualitative Type and the comparison will be done on basis of 5 points which are as follows:

**TCS VS INFOSYS – COMPARATIVE ANALYSIS**

1) Financials: Revenue, Profitability, Cash Flow Markets

A) Revenue Highlights:

In terms of Revenue (INR) on basis of sequential growth, TCS has outperformed Infosys. Revenue of the TCS has increased by 4% this quarter, while Infosys has reported growth of only 1.5% in Financial Year 2021.

While in terms of revenue (INR) on yearly basis, Infosys has reported growth of 13.1% while TCS has only able to deliver growth of 9.4% in revenue.

Yet again in terms of Revenue (USD), TCS has outperformed Infosys by 2.2% in this quarter. Growth of TCS is 5% while, Infosys revenue in USD terms has only able to grow by 2.8%.

Repeating the trend, Infosys has beaten TCS in terms of revenue growth (USD) on yearly basis. Revenue Growth of Infosys in Financial Year 2021 is 13% and the same is 10% for TCS.

While computing the performance of Revenue growth of the companies on a Constant Currency basis, we see TCS again as the winner between the two on comparison. Revenue growth of TCS in Financial Year 2021 on a basis is 4.2% and Infosys only records growth of 2%. Also, Infosys has reported revenue growth of 9.6% on a Constant Currency basis, and yet again TCS lacks behind Infosys in revenue growth on yearly basis.

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| --- | --- | --- | --- | --- | --- | --- |
| Q4 FY21 Performance | Q3 FY21 | YOY | QOQ | Q3 FY21 | YOY | QOQ |
| INR Revenue | 43,703 | 9.4% | 4.0% | 26,311 | 13.1% | 1.5% |
| USD Revenue | 5,989 | 10.0% | 5.0% | 3,617 | 13.0% | 2.8% |
| CC Revenue Growth |  | 5.9% | 4.2% |  | 9.6% | 2.0% |

B) Revenue Highlights- FY21:

In INR terms, the Total Revenue of the TCS stood at Rs. 1.64 Lakh Cr. accounting for 4.6% growth. Whereas, Total Revenue of Infosys for FY21 is Rs. 1.05 Lakh Cr. and reported 10.7% growth.

In USD terms, TCS reported revenue amounting to $22,174 million in FY21 and YoY growth of only 0.2%. Here, Infosys has performed well as the company recorded growth of 6.1% and the revenue of Infosys stands at $13,561 million in FY21.

In Constant Currency (CC) terms, TCS has recorded a de-growth of 0.8% in FY21 in its revenue and at the same time, Infosys has recorded immense growth of revenue of 5% in FY21

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| --- |
| 1. FINANCIALS – REVENUE HIGHLIGHTS |

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| --- | --- | --- | --- | --- |
| FY21 Performance | FY21 | YOY | FY21 | YOY |
| INR Revenue (Rs. Lakh Cr) | 1.64 | 4.6% | 1.05 | 10.7% |
| USD Revenue  ($ Mn) | 22,174 | 0.2% | 13,561 | 6.1% |
| CC Revenue Growth |  | -0.8% |  | 5.0% |

C) Profitability:

In the context of Operating Profit, TCS has reported growth of 4.9%. Operating Profit of TCS in Financial Year 2021 was Rs. 11,734 Cr. While negative growth has been recorded by Infosys of 2.3% quarterly and is Rs. 6,440 Cr.

TCS has reported growth of 17% in Operating Profit whereas Infosys has reported significant growth of 30.7% in their operating profit.

The Operating Profit Margin of TCS is at 26.8% in Financial Year 2021 with a growth of 1.3% and 0.2%. While OPM of Infosys is at 24.5% in Q4FY21 with an expansion of 3.3% YoY and negative growth of 0.9% sequentially.

Further, both the company has presented a double-digit figure growth in Net Profit. Net Profit of the TCS is Rs. 9,246 Cr. in Q4FY21 with a growth of 14.8% YoY and 6.3% sequentially. On the other hand, Infosys has reported healthy growth in Net Profit of 17.5% YoY to Rs. 5,076 Cr. in Q4FY21 but the same went down by 2.3%.

TCS has posted a strong Net Profit Margin of 21.2% in Q4FY21 with an increase of 1% YoY and 0.5%. Here, Infosys lacks behind TCS, its NPM stands at 19.3% in QFY21 with an expansion of 0.7% YoY and contraction of 0.7

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| --- |
| 1. FINANCIALS – PROFITABLE HIGHLIGHTS |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Rs. Cr | Q3 FY21 | YoY | QoQ | Q3 FY21 | YoY | QoQ |
| Operating Profit | 11,734 | 17% | 4.9% | 6,440 | 30.7% | -2.3% |
| Operating Margin | 26.8% | +130bps | 20bps | 24.5% | +330bps | -90 bps |
| Net Profit | 9,246 | 14.8% | 6.3% | 5,076 | 17.5% | -2.3% |
| Net Margin | 21.2% | +100bps | 50bps | 19.3% | +70bps | -70 bps |

D) Profitability- Financial Year 2021:

Operating Profit of the TCS for the whole financial year 2020-21 stands at a whopping Rs. 42,481 Cr. and has reported growth of 10.1% YoY. Whereas Operating Revenue of the Infosys for the same period stands at Rs. 24,622 Cr. and has recorded magnificent growth of 27.1% on yearly basis.

For the Fiscal Year 2021, the OPM of TCS is 25.9% and for Infosys, it is 24.5%. OPM of both the companies has increased by 1.3% and 3.2% respectively.

Coming to the Net Profit figure, then there is a huge gap between the TCS and Infosys. Net Profit of TCS is Rs. 33,388 Cr. in FY21 and has grown by just 3.2%, and Net Profit of Infosys for the same FY is Rs. 19,351 Cr. with significant growth of 16.6% from its previous year net profit.

For the Fiscal Year 2021, the NPM of TCS is 20.3% which is down by 0.3% and for Infosys, it is 19.3% and it has increased by 1%.

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| 1. FINANCIALS – REVENUE HIGHLIGHTS |

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| --- | --- | --- | --- | --- |
| FY21 Performance | FY21 | YoY | FY21 | YoY |
| Operating Profit  (Rs. Cr) | 42,481 | 10.1% | 24,622 | 27.1% |
| Operating Margin | 25.9% | +130 bps | 24.5% | +320 bps |
| Net Profit (Rs. Cr) | 33,388 | 3.2% | 19,351 | 16.6% |
| Net Margin | 20.3% | -30 bps | 19.3% | +100bps |

E) Cash Flow Metrics:

Infosys does not declare Operating Cash Flow and hence Operating Cash Flow as a % of Net Profit is not possible for the company as well.

On the other side, TCS has an Operating Cash Flow of Rs. 9,247 in Financial Year 2021 and Rs. 41,107 Cr. in the whole Financial Year 2021.

In Financial Year 2021, TCS is having a free cash flow of Rs. 8,085 Cr. and Infosys is having a free cash flow of Rs. 5,824 Cr.

In Financial Year 2021, the Free Cash flow (FCF) of TCS is up by 17.5% and is at Rs. 37,968 Cr. while, the same has grown by 44% to Rs. 22,020 Cr. for Infosys.

FCF as a % of Net Profit is 87.4% of TCS but the same is 114.7% for Infosys in Financial Year Overall, Infosys was a bit ahead in terms of growth in FCF and growth in FCF as a % of Net Profit.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Rs. Cr | TCS | Infosys | TCS | Infosys |
| Operating Cash Flow | 9,247 | - | 41107 |  |
| OCF as a % of Net Profit | 100% | - | 123% |  |
| Free Cash Flow (Rs. Cr) | 8,085 | 5,824 | 37968  Up 17.5% YoY | 22020  Up 44% YoY |
| FCF as a % of Net Profit | 87.4% | 114.7% | 89.4% | 113.8% |

2) Revenue Mix

A) Geography Wise FY21:

TCS generates 50.2% revenue from America, 32.8% from Europe, 5.6% from India, and 11.4% from the rest of the world.

While the other company, Infosys revenue from a geographical perspective are as follows: 61.6% from America, 24.4% from Europe, 3% from India, and 11% from the rest of the world.

The above figure shows that Infosys has a high dependency on America for its revenue. But overall, in a consolidated manner, both the company are generating revenue from America and Europe at the same level

A) Segment Wise FY21:

Both TCS and Infosys generate revenue from almost similar business segments.

TCS generates 32.2% revenue from the BFSI Sector which has given the growth of 13.3% to TCS while Infosys generates 33% from the same sector has reported growth of 15.6% in this sector.

Likely, the FMCG sector has also contributed a similar percentage to the revenue of TCS and Infosys i.e., 14.5% & 14.8% respectively.

Overall, Infosys has performed better than TCS in Vertical wise Constant Currency Growth.

The contribution of the other sectors to the revenue and segment-wise revenue growth in this segment of these companies are as follows:

Vertical % Mix

Vertical-wise CC Growth YoY

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Vertical % | TCS | Infosys | TCS | Infosys |
| BSFI | 32.2 | 33.0 | 13.3 | 15.6 |
| Retail | 14.5 | 14.8 | -0.9 | 4.5 |
| Life Science & Healthcare | 9.7 | 6.8 | 19.3 | 18.3 |
| Manufacturing | 9.6 | 9.6 | 1.3 | 3.4 |
| Technology & Services | 8.4 | 8.1 | 3.9 | 15.5 |
| Communication &Media | 6.5 | 12.0 | -4.0 | -0.8 |
| Energy, Utilities, Resources | Included in Others | 12.3 | - | 4.9 |
| Regional Markets & Others | 19.1 | 3.4 | 0.8 | 25.8 |
| Total | 100 | 100 | 5.9 | 9.6 |

3) Demand Highlights- Client Parameters:

Infosys has able to get 3 Contracts of more than US$ 100 million in this quarter and has reached a total of 32 contracts in this category. But TCS has not been able to increase a single contract in Financial Year 2021 and the total contract of more than US$100 million is the same as Financial Year 2021 i.e., 48.

Further, TCS has increased a total of 4 clients in the category of US$50 million+ clients and has taken the total client’s numbers from 97 in Financial Year 2021 to 101 in Financial Year 2021. In the same category, with the loss of 1 client, Infosys is having 59 clients in Financial Year 2021.

Also, there are no changes in clients of US$ 10 million+ customers for TCS and are at 615 clients in Financial Year 2021.While Infosys has gained 6 clients and has taken the total client figure of US$10 million+ clients to 252 in Financial Year 2021.

TCS and Infosys are having 1,665 & 779 clients in Financial Year 2021 of above US$ 1 million+.

In terms of Total Contract Value (TCV) of Deal wins, TCS has won deals of $9.2 billion in Financial Year 2021. Previously in Financial Year 2021., the company was having a TCV of $6.8 billion. Whereas, Infosys has only won TCV of only $2.1 billion in Financial Year 2021. Infosys had won $.13 billion in Financial Year 2021.

Total Contract Value (TCV) of deal wins Financial Year 2021 is $31.6 billion and $14.1 billion of TCS and Infosys respectively. Hence, TCS outperforms Infosys in terms of TCV of deal wins by a huge margin in Financial Year 2021.

TCS is having around 2,500 total active clients. On the other hand, Infosys is having 1,626 clients.

TCS

Infosys

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Vertical % | Q3 FY21 | Q4 FY21 | Q3 FY21 | Q4 FY21 |
| US$ 100Mn + Clients | 48 | 48 | 29 | 32 |
| US$ 50Mn + Clients | 97 | 101 | 60 | 59 |
| US$ 10Mn + Clients | 615 | 615 | 246 | 252 |
| US$ 1Mn + Clients | 1642 | 1665 | 761 | 779 |
| Total (TCV) of Deal Wins in Q4 FY21 | $6.8 Bn | $9.2 Bn | $7.13 Bn | $2.1 Bn |
| TCV of Deal Wins in FY21 |  | $31.6 Bn |  | $14.1 Bn |
| No. of Active Clients |  | Around 2,500 |  | 1,626 |

Client Contribution to Revenues:

TCS does not report any client's contributions to revenues.

While the contribution of clients of Infosys revenue presents non-dependency on top clients and consistency of the company. Client Contribution of Infosys is as follows:

Not reported to Revenues

Infosys

TCS

|  |
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| Clients Contribution to Q4 FY21 Q4 FY21  Revenues |
| Top 5 Clients - 10.9% |
| Top 10 Clients - 18.3% |
| Top 25 Clients - 34.2% |
| Repeat Business % - 93.4% |

4) Employee Metrics:

As per Q4FY21 Financial Year 2021 results, TCS is having a total of 6,88,649 employees and Infosys is having a total employee base of 2,59,619.

In this quarter, TCS has added a total of 19,388 employees whereas Infosys has added 10,307 employees.

TCS is having women employees of 36.5%, same is 38.6% for Infosys in the Financial Year 2021.

The attrition rate of the last 12 months is 7.2% in Financial Year 2021. which is down by 0.4% and the Attrition rate for Infosys is 15.2% in this quarter with an increase of 5.2% from the previous quarter.

Gross Utilization is 82.2% for Infosys and Utilization is 87.7% excluding Trainees in Q4FY21.

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| --- |
| Q4 FY21 TCS Infosys |
| Total Employee Base 4,88,649 2,59,619 |
| Net Addition in Q4 19,388 10,307 |
| Diversity: 36.5% 38.6%  Women Employee % |
| LTM Attrition 7.2% 15.2%  from 7.6% in Q3FY21 from 10% Q3FY21 |
| Gross Utilization % - 82.2 % |
| Utilization % - 87.7%  (Excluding Trainees) |

5) Valuation Comparison:

The Current Market Price (as of 15/04/2021) of TCS is Rs. 3,170 and of Infosys is Rs. 1,350

Currently, TCS and Infosys are trading at a PE ratio of 37.1 and 32 respectively.

The historical average PE ratio of TCS ranges between 21-2 and of Infosys it ranges between 16-20.

As per the current valuation, both the companies are trading at 60%-70% premium valuation.

|  |
| --- |
| TCS Infosys |
| Current Market Price Rs. 3,170 Rs. 1,360  (As on April 15, 2021) |
| Current PE 37.1 32 |
| Historical Average PE Range 21-23 16-20 |
| Both the Companies are Trading at 60-70% Premium Valuations |

Both the IT companies, TCS and Infosys having good earning visibility. Also, healthy double-digit growth is visible for both the counters. But the only concern for TCS and Infosys and almost all the IT Companies are its Premium Valuation and hence, these companies might face some consolidation in the coming time.

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**CONCLUSION**

It can be concluded that for effective financial management outlines should be drawn before valuation of assets which includes need for valuation, factors affecting business value, methods which may use for valuation and calculate profit for the purpose of valuation. It reveals that what financial objectives should a business concern frame as per its nature of business environment considering the facts related with capital market and also observing the prevalent economic environment, so that a firm can opt a safer route. Besides all these things it explains the principals of business and asset valuation and their applications.

Financial management is an essential discipline as it guides the financial managers to make informed financial decisions in their companies. Financial management is guided by several principles that the managers should adhere to in ensuring that the finances of a company are appropriately invested. The investment comes with the analysis of the outcome where different financial profitability and market ratios are used in establishing the stability of a firm. The analysis of Boeing Company using the ratios reveals that the company’s financial position is unstable since the ratios have been noted to significantly decline after the crush of the Ethiopian airliner. The company should put in place strategies to restore its glory. It should prove to the world that its next aircraft to be manufactured meet the safety standards. The company should, therefore, consider developing its staff with the modern safety skills that should be incorporated into the aircraft.

Also, the company should reach out to its clients and assure them that such an accident is unlikely to occur in the future while at the same time explaining the safety measures it aims to put in place. Also, the company trades in several products. To assure the world of its competency, it should specialize in a few products such as the manufacture of aircraft. Such specialization is likely to work best and may lead to the manufacture of defective-free aircraft.

**SUGGESTIONS**

Financial management should become part of the key processes within your business and be included in your ongoing planning.

Following suggestions would help you to gain control of them:

1. Have a clear business plan

A business plan will establish where you are and where you want to get to over the next few years. It should detail how you will finance your business and its activities, what money you will need and where it will come from - see write a business plan: step-by-step.

2. Monitor your financial position

You should regularly monitor the progress of your business. On a daily basis, you should know how much money you have in the bank, how many sales you're making and your stock levels. You should also review your position against the targets set in your business plan on a monthly basis - see cashflow management.

3. Ensure customers pay you on time

Businesses can run into major problems because of late customer payments. To reduce the risk of late or non-payment, you should make your credit terms and conditions obvious from the outset. You should also quickly issue invoices that are clear and accurate. Using a computerized credit management system will help you to keep track of customers' accounts - read ensure customers pay you on time.

4. Know your day-to-day costs

Even the most profitable of companies can face difficulties if there isn't enough cash to cover day-to-day costs such as rent and wages. You should be aware of the minimum your business needs to survive and ensure you do not go below this - see how to measure cash in your business.

5. Keep up-to-date accounting records

If your accounts are not kept up-to-date, you could risk losing money by failing to keep up with late customer payments or not realising when you have to pay your suppliers. Using a good record keeping system will help you to track expenses, debts and creditors, apply for additional funding and save time and accountancy costs - see financial and management accounts.

6. Meet tax deadlines

Failing to meet deadlines for filing tax returns and payments can incur fines and interest. These are unnecessary costs that can be avoided with some forward-planning. Keeping accurate records saves your business time and money and you can be confident that you're only paying the tax you owe. Therefore, it's important that you meet your obligations - see set up a basic record-keeping system.

7. Become more efficient and control overheads

Is your business operating at its most efficient? Saving energy and therefore money can happen by implementing changes in behavior and using existing equipment more efficiently. It's one of the easiest ways to cut costs. Areas to look at in an average office include heating, lighting, office equipment and air conditioning - see save money by using energy more efficiently.

8. Control stock

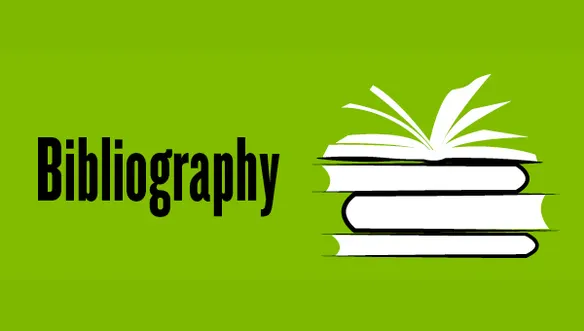
Efficient stock control ensures you have the right amount of stock available at the right time so that your capital is not tied up unnecessarily. You should put systems in place to keep track of stock levels - taking control of this will allow you to free up cash, while also having the right amount of stock available - see business mistakes: poor stock control.

9. Get the right funding

It is essential that you choose the right type of finance for your business - each type of finance is designed to meet different needs. Smaller businesses usually rely more on business overdrafts and personal funding but this might not be the best kind of funding for your company - read business financing options - an overview.

10. Tackle problems when they arise

It is always very stressful facing financial problems as a business, but there is help and advice available to help you tackle them before it gets too much to handle so seek professional advice as soon as possible. There are also some initial steps you can take to minimise the impact such as tackling priority debts first and assessing how you can improve your cashflow management - see business debt: help and advice.



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**ABSTRACT**

Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not seen in the 'Line' but also in the capacity of 'Staff' in overall of a company. Financial management typically applies to an organization or company's financial strategy, while personal finance or financial life management refers to an individual's management strategy. It includes how to raise the capital and how to allocate capital, i.e. capital budgeting. Not only for long term budgeting, but also how to allocate the short-term resources like current liabilities. It also deals with the dividend policies of the shareholders. The World of Finance contains chapters on the structure and goals of firm, the role of financial managers, and an examination of the financial environment. Special attention is given to how the Financial Crisis affected nonfinancial companies, financial markets, and financial institutions. Essential Concepts in Finance presents chapters on accounting statements and their interpretation, forecasting, risk and return, the time value of money, and security valuation. Special attention is given to systematic risk and its role in the Financial Crisis. Capital Budgeting and Business Valuation contains chapters on measuring a firm’s cost of capital, capital budgeting decision methods, incremental cash flow estimation, and business valuation. Long-Term Financing Decisions contains chapters on capital structure basics, corporate bonds, preferred stock, leasing, common stock, and dividend policy. The turmoil in the stock and bond markets during the Financial Crisis is examined. Short-Term Financial Management Decisions includes chapters on working capital policy, cash and marketable securities, accounts receivable and inventory, and short-term financing. Finance in a Global Economy is where international finance topics are covered, in addition to those international topics that are woven throughout the book. The contagion of the Financial Crisis around the world is examined.