

Financial planning an overview: Determining indicators for sound financial health of an organization

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Abstract

It is well known that the basic requirement of the business is finance and all other functions like marketing personnel ,IT and all other functions are dependent on finance ,without adequate finance these programs can't be completed so, is necessary for an business to do the maintain the balance of funds this can be possible only with effective financial planning . In financial planning program it is decided what are the requirement of funds from which sources these funds will be procured ,which are the best alternative available for procuring funds and how these funds will be used .Now question arises that is it any single approach which best suitable environment or business has to adopt Financial approaches according to the requirement so that there is no shortage of funds and excess of funds as shortage of funds will be cause of shutting down the business and excess of funds will increase the cost of capital and there will be useless funds on which we have to pay interest or dividend. So, it is necessary for a business to do well defined financial planning now question arises which determining factors effect effects the financial plans in this article we will study about these factor.

Introduction

The modern era is the era of competition businesses are growing in fast way and using innovative techniques to satisfy all stakeholder needs .Today the profit approach is replaced by value added approaches as in word of competition everyone is aware either it is investor, customer or society everybody wants something good in return if they are giving something to the business this is possible only when firm have adequate sources of finance maximizing its returns through proper channels and satisfying its al all parties related to business. All parties will be satisfied only when they are getting maximum rate of return this is possible if firm has used adequate sources of finance and chosen best alternative after analyzing business requirements and done proper financial planning ,By doing this organization work also will go smoothly it will take the business on path of progress ,

reduce the cost of capital and maximize the profits and increase the value of firm in market .and all related parties will be automatically satisfied as business will have good return to repay them. Now question arises how this is possible this is possible only if financial plans are made after deeply analyze the business a requirements and after that business needs are matched with sources of finance. different authors have given their views about his there are different finance decisions are taken like how much long term funds will be required ,how much short term fund will be required what should be financial leverage .how the optimum capital structure is one maintained. What should be the liquidity position, capital structure decisions?

Literature review

Donaldson (1961)	Management generally prefer internal financing instead of external financing because of management control issues
Beaver (1966)	Financial ratios are not good indicator for financial planning as these are based on past events and this can be useless concept if present business needs are not considered and present business competitiveness is not considered
Metcalf and Titard(1976)	The outcome of a business is considered in broad way .outcome includes all those return which covers all kind of parties related to business.
Lundberg(1982)	Financial planning should include more quantitative facts like considering profit and loss statement cash flow statements, fund flow statement
Hutchinson.R. and Hunter(1995)	Profitable firms use debt over equity to take advantages of tax as income of business is tax deductible.
Morris(1997)	Careless financial planning put the organization in great troubles as all the efforts can go in vain as without finance nothing is possible and it will lead the business the point of closing down.
Sharma and Patterson(1999)	Investors invests our business to satisfy their needs long run and it is necessary to keep their trust so, that they invest in our business for long time and upcoming future needs like expansion and growth plans can be fulfilled easily if investors have trust on the company and they will further invest in future ..
Ross et al.2000	There must be adequate balance between short term sources and long term sources of finance t t maximum output from the funds
Myers(2001)	There cannot be single practice make our organization successful it is necessary to adopt practical applicability

	<i>of events on future planning</i>
<i>Booth et al.(2001)</i>	<i>Raising funds through debts will make the organization risky to overcome this barrier organization issues more tangible assets as at time of losses it will help the firm in raising funds against collateral securities.</i>
<i>Huang (2006)</i>	<i>Using too much debt will put the organization in danger of insolvency and financial distress and dependent on share will create the danger of fulfilling the cash needs so, both situation will make cause of danger for organizational existence</i>
<i>Vasilou eriotis and daskalokis(2005)</i>	<i>Risk and size of the firm is closely related as large scale businesses uses diversified portfolios and small scale business feels difficulty in this matter</i>
<i>Berger,oliver and pua (2007)</i>	<i>Financial performance tells about the competitive distinctiveness in market</i>
<i>K.John,Robert M.Mooradian,Karin .S(2008)</i>	<i>Problems of financial distress arise due to determining low leverage and because of this business have shortage of funds and feels difficulty to operate daily expenses.</i>
<i>Ezeoha and Francis(2010)</i>	<i>Large scale firms can easily fulfills the capital requirement due to large market share and goodwill position .</i>

How financial planning should be organized so that optimum balance between funds can be maintained and profits of the firm can be maximized. different scholars have given their opinions that are as follows

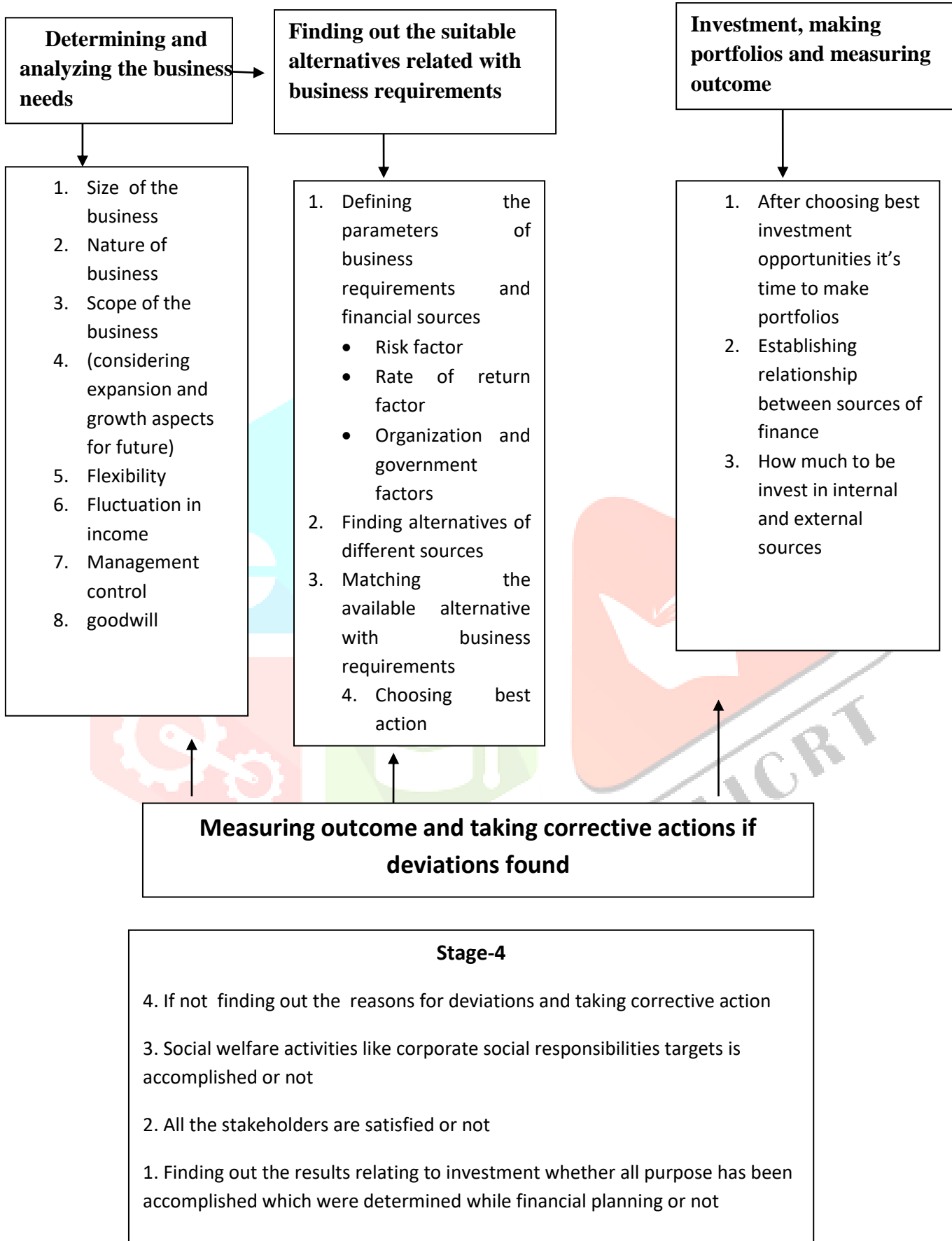
So objective of the study is to find out the best financial planning technique which is best suitable for business there are different kind of financial tools which helps in financial planning some are quantitative in nature and some are qualitative in nature(benchmarking ,score card analysis,SWOT)which are best suited for business how these techniques can help in organizational success.

As in fast changing environment nothing can be used for long time like we are making financial structure policies we can't use the same financial tools which were adopted by us in past or our competitor is using that policies for E.g may be at that time the they analyzed the external environment according to govt . policies or they may have get subsidy from government but now the policies may be changed .so it is necessary for business to deeply analyze the business requirements and analyze the internal as well as external environment and adopt best tools for financial planning. In below diagram which factors put impact on financial planning and how different tools can be adopted in different business situations to planning of finance. This is understand through different stages as shown in diagram.

Stage -1

Stage-2

stage-3



IN FIRST STAGE- various factors will be analyzed while doing financial planning that are as follows

Size of business-

What is the size of the business for the small and medium enterprise it is difficult for them to invest too much in external sources of finance as investors feels risky while investing in new comer enterprises in businesses so internal sources of finance will be more suitable for small and medium enterprises.

For large scale enterprises it will be easy to use external sources of finance as they have great market shares and profit shares in market so external investors can easily attracted towards business as they already have knowledge about the positive position of financial performance of business.

Nature of business-

If the risk factor is too much in business then dependent on debt sources will create trouble for business even the debt is cheaper sources of finance and shareholder invest in business for future and equity shareholders don't get income at the time of losses. if the risk factor is less then debt will be best and cheaper sources of finance. as income from debt is tax deducted.

Fluctuation in income-

If business has definite rate of income then debt is good source and as debt holders gets fixed rate of income and business will get tax benefits if business is suffering losses then amount is to be transferred for future but they will get the income even business has to sale its assets to return their amount.

Demand and supply factors –

if the demand is flexible there will be more requirement of short term finance sources to fulfill the daily needs of business and sudden change in demand and supply factors.

Expansion and growth –

expansion and growth factors also should be considered while making asset structure and doing financial planning of the firm .

Goodwill-*goodwill factors also put impact on financial planning of the firm as firm with the great goodwill have good external opportunities of finance and vice versa.*

SECOND STAGE-**DEFINING THE PARAMETERS FOR FINANCIAL PLANNING**

RATE OF RETURN-what should be the rate of return on our investments this should be carefully estimated as otherwise in future it can be cause of under capitalization and over capitalization issues and business has to start whole process of financial planning and it will consume too much precious time of business.

Organizational factors –organizational policies includes

Management control policies

management control policies put impact on financial planning as using too much sources of Equity finance will give ownership to the outside as equity shareholders are considered owners and using too much debt will put he organization in danger so, there must be proper balance created this can be done with well organized financial planning.

Liquidity and profitability position –

what are the cash requirements of business should be analyzed as investing too much finance in fixed assets will create cash shortage in business and daily needs will not be not fulfilled .and adversely effect our business and excess liquidity position will create useless cash which can be invested and income can be gained so there must be balance between liquidity and profitability position of business.

Choosing best action-

After analyzing the business requirements it's the time to match all business requirements with available alternatives next step is choosing best course of action which minimize our costs and maximize the profits and fulfills the all obligations toward stakeholders

Either it is towards society**Towards employees****Toward business itself****Towards customers****Towards investors**

As business develops and grows around all these parties so it is necessary for business to fulfill all obligations toward all above parties like running social welfare programs, giving good quality products to consumers at low rates, giving proper rate of return at accurate time this can be possible if business is earning maximum rate of return at low cost of finance sources this can be possible if financial is done after deeply analyze the business requirements and choosing best opportunities.

Third stage -

Investment and portfolio making

It is time to put planning into actual action after measuring all benefits and drawbacks of finance resources it is time for investment in different sources and establishing their relationships through portfolios.

Stage-4

Measuring outcomes and taking further actions-

On basis of three stages the last and the final step is that requirements of the business is fulfilled .all value maximization goals are accomplished or not .all parties are satisfied or not if not then quick action is required for further after finding out the root problem.

Conclusion of the study

Even the analyzing of different tools and alternatives of financing is time consuming process but it is necessary for business to run for long time. Without it all our efforts will go in vain as finance is the base of all other functions so it is necessary for the business to stand in competition and pin the fast changing environment finding out the drawbacks of presently adopted methods and replaced with new and innovative methods on the continuous basis which maximize our return and fulfills all obligations of business.

There are different methods which seems compatible in financing and good for one business but cannot be suitable for other so business requirements should be analyzed and matched and then all decision related to financing, investing and paying the return to different parties should be taken under consideration otherwise one wrong decision can put the whole organization's existence in danger.

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