

“A Study Of Financial Management At Hidustan Copper Ltd. Nagpur.”

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Abstract: *Financial Management is the lifeblood and nerve centre of a business. Just as circulation of blood is essential in the human body for maintaining life, Financial Managements is very essential to maintain the smooth running of a business. No business, no undertakings, no enterpriseial management can brings a sound solvency to the business. It also enables an undertaking in creating and maintaining goodwill. It also enables a business undertaking to pay off its current dues and also provides regular supply of raw materials. Adequate Financial provides inherent strength to the business undertaking and ability to face crisis. Financial Management extremely essential for meeting the daily requirements of an organization, no organization can thrive even for a single day without adequate Financial Managements. It is evident from the words of accounting standards board's guidance which states working capital as "the funds available for conducting day to day operation of an enterprise.*

Keywords: *management of Financial management, financial performance, use of capital.*

I. Introduction

Corporate sector and economic situation have two way relationships, both influence each other. Corporate sector plays a significant role in the development of economic environment. Similarly, economic situation also impacts the corporate sector and its performance. In order to perform well in an economic situation firms try to adopt the financial practices that can lead to a greater performance. Financial practices go together with scanning the economic environment of a certain market. When we talk about the selection of financial practices, it does not mean that a financial manager can control fluctuations in an economic environment. Rather it refers to the ability to effectively control external and internal financial resources of organization in accordance with economic fluctuations with an objective to attract market participants. This study extends the body of knowledge in the form of selection of financial management practices by 3 variables (uncertainty, corporate social disclosure and stakeholder theory) proposed by different authors. Few studies (Miller and Waller, 2003;Chatterjee et al., 2003) reveal that apart from decision making theories, uncertainty can be a determinant of financial practices adopted by top management. Further, this study lays down the recommendation that a firm's financial practices can be altered by their strategy regarding social disclosure. Smith et al. (2010) highlight that investment decision and projects selection can be influenced by corporate social disclosure. Moreover, the present endeavor also takes into account the recommendation regarding the relationship of stake holder theory with financial practices of a firm by Bae et al. (2011). The specific purpose of this endeavor is to investigate various factors that impact the selection of financial management practices. Further, the study attempts to investigate the impact of financial management practices and earnings management on performance of a firm.

II. Research theory

Uncertainty is defined by the existence of more than one possible outcome to a course of action; the form of each possible outcome is known, but of these techniques. Generally, it is believed that sometimes with the increase of uncertainty options become more important and valuable (McGrath et al., 2004).Here it is suggested to gather more information before making a final decision (Murto and Keppo, 2002; Zhu and Weyant, 2003). Thus, a decision regarding financial practices becomes even more vital in high uncertainty as the costs can be offset by higher gains from successful ventures. Several studies suggest that various financial practices and capital budgeting tools may solve the investment dilemma by complementing each other and providing additional information (Zhu and Weyant, 2003; Miller and Waller, 2003). Literature review demonstrates that uncertainties can be specific to affect the adoption of financial practices (Dixit and Pindyck, 1994). According to the game theory, optimal investment criterion can be altered by specific uncertainties (Smit, 2003). Therefore,specific uncertainties need to be properly analyzed before making a decision regarding financial practices.Although the literature is scarce, there is indication that a relationship exists between uncertainties and financial management practices. Thus, it results in the following:

Proposition 1: Specific uncertainties are associated with selection of financial practices.

Corporate social disclosure (CSD) gives information to public regarding a company's activities that relate to the community, that is the information on their commitments to reduce hazardous impacts on the environment, to improve

management, to show compliance with the quality regulation, efforts to protect employees and other social issues. These are the beliefs that impact the disclosure and reporting practices of an organization and its financial practices in particular. The cultural context is indeed important in shaping the practices of organizations (Jones et al., 2007).

Researchers also examine the results of corporate social disclosure (CSD). There is a relationship between economic performance and CSD (Al-Tuwaijri et al., 2004). CSD is also related to the forecasts done by analysts (Aerts et al., 2007). Findings reveal that investors value CSD a lot. It has been examined by various experimental studies (Hendricks, 1976; Belkaoui, 1980; Chan and Milne, 1999). These studies highlight the importance of CSD that can maximize a company's wealth.

Proposition 2: Corporate social disclosure is related to selection of financial practices.

The general idea of the stakeholder concept is redefinition of an organization. In general the concept is about what an organization should be and how it should be conceptualized. Friedman and Miles (2006) stated that an organization itself should be thought of as a group of stakeholders and the purpose of an organization should be to manage their interests, needs and viewpoints. Titman (1984) pointed out for the first time that stakeholders' motivations regarding firm-specific investments significantly influence financing decisions of a firm. Financial condition of a firm is important while making firm-specific investment, since stakeholders have to face the switching costs if somehow a firm gets liquidated. Switching costs of stakeholders are related to a firm's assets or products. Firms try to reduce the liquidation risk by maintaining lower leverage and hence provide better incentives to stakeholders. Studies reveal that the firms that maintain good and bilateral supplier-customer relationships tend to maintain low level of leverage. The relationships also impact the financial practices of a firm as well as the incentives given to stakeholders (Titman and Wessels, 1988; Banerjee et al., 2008; Kale and Shahrur, 2007).

These studies tend to enhance the concept and understanding regarding the importance of stakeholders for corporate decisions. However, little attention has been given to employees, or workforce of firms. Most of the studies are from the perspective of customers and suppliers.

Proposition 3: Stakeholders have a relationship with making decision regarding

financial practices. It is evident from the financial literature that firm's performance and wealth is largely affected by the financial practices it adopts. If the financial practices are well managed, a company operates efficiently. If a company's financial resources are managed well, then it gives a positive signal to investors. Practices of working capital policy and performance assessment financial ratios and their relationship with organizational performance have been determined by Niazi et al. (2011) for Pakistani corporate sector and the results revealed there exists a significant relationship between these

practices and organizational performance. Adve (1980) investigated the financial practices in the corporate sector of India. The study compared the practices of small, medium and large organizations. Further, the study also differentiated the financial practices of private and public limited companies. Butt et al. (2010) conducted a research to determine the relationship between financial management practices and organizational performance in Pakistani corporate sector and found the significant relationship. Hunjra et al. (2011) have done a research on application of finance techniques in Pakistani corporate sector and found that finance executives are well aware

about financial techniques but these techniques are not implemented properly in Pakistani corporate sector. Patterns of capital structure and dividend policy have been investigated and revealed that these financial management practices have significant relationship with organizational performance (Hunjra et al., 2011).

Proposition 4: Financial management practices impact firms' performance.

The managers whose income compensation increases with the income tend to maximize the profit of organizations somehow. Studies also reveal that managers sometimes use accruals to increase the value of firms (Christie and Zimmerman, 1994). Managers may tend to adopt certain opportunities to increase their compensation which may result in a decreased organizational performance. A number of methods can be used to audit the performance of managers such as investor protection mechanisms, independent audit procedures complied with accounting standards, auditing CEOs and including outsiders into the board (Leuz et al., 2003; Ashbaugh et al., 2006; Laux and Laux, 2008). However, manipulation in earnings may be with the intention to increase its value at the market. Companies may adopt discretionary accruals before they issue debt or equity (Beneish, 1999; Shivakumar, 2000; Gaud et al., 2007). Here, a firm's main intention is to provide

better reporting to reduce the cost of capital and hence increase the performance of an organization (Hirshleifer et al., 2004). Choi (2010) found there are significant differences between high performers' financial practices and low performers. The patterns of exercising their financial strategy over the industry cycles are different. However, there may be a possibility that if management earnings is to be increased, then there should be higher offerings. There may also be an effort to obtain more financing at lower capital cost by reporting earnings upward before the issue date of capital (Beuselinck et al., 2003; Doukas et al., 2005). So, the ultimate objective is to increase the organizational performance.

III. Conclusion and Implication

The study considers 3 important determinants that foster financial management practices within an organization – uncertainty, corporate social disclosure and stakeholders. The study also investigates the impact of financial practices and earnings management on organizational performance. In order to achieve the objective, a conceptual model has been developed based on previous theories and empirical literature. The findings of the study would be quite beneficial for capital providers – lenders and shareholders – when they think their funds are utilized in proper financial practices. On the other hand, capital providers will be hesitant to provide the capital to

those firms which are not using appropriate financial practices and have poor disclosure. This would also help organizations to attract more investors and hence increase its value and wealth. Present theory is also helpful for market authorities and regulatory bodies. Fair disclosure and proper information regarding financial practices will help them to review or prepare financial and accounting regulations regarding firms' performance. Similarly, financial managers can acquire the capability to effectively forecast the industry structure and information and can exercise best financial practices.

IV. Future Research

The present endeavor opens new horizons for research in this particular subject. The present research can be extended by comparing high performing and low performing firms. Secondly, the study can be expanded over various sectors to have in-depth knowledge regarding various sectors. Thirdly, industry wise analysis of this issue can be a good future study. Fourthly, determinants of financial management practices can be compared between the service and manufacturing sectors. Lastly, a research can be done to investigate the theory and practice gap as far as the determinants of financial practices are concerned. The role of behavioral factor can be investigated for selection of financial management practices.

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