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CORPORATE FINANCING STRATEGIES and IMPACT OF RISK

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INTRODUCTION :

The strategy will become finalized as the entrepreneur has a better sense of the market, the product or services to be marketed, the management team, and the financial needs of the venture. As the venture evolves from an early start-up to a mature business, strategy will continue as management seeks to meet its short-term or long-term business goals. For any given organization, it is possible to find financial strategy, marketing strategy, human resource strategy, production strategy, and sales plan. Strategies may be short term or long term, or they may be operational. Strategies will also differ in scope depending on the type of business or the anticipated size of the operation. Even though they may serve different functions, all the strategies have one important purpose : to provide guidance and structure to management in a rapidly changing market environment. Before beginning a discussion of the financial strategy, it is important to understand the types of strategy that may be part of any business operation. Strategy is a process that never ends for a business. It is extremely important in the early stage of any new venture when the entrepreneur will need to prepare a preliminary business plan and existing business also.

As long term factor : Strategies are generally long term plans for the organization. In this current competitive global era strategies are generally very common acceptable concepts. Without strategies, planning for the organization is day dreaming or nightmare. Specially when we are talking about the financial decisions like project selection decisions, pricing decisions, dividend decisions, cost decision, and other market and competitors decision. We have to concentrate more and more on the decisions which are very essential and effective for the organization. In the project selection or we can say capital budgeting decisions it is very important task of the finance manager to maintain the level of decision for the ongoing health of the organization. The cost involvement in the project is very important factor.

Corporate Financial Strategies: The level of management for an organization is generally divided into three levels. They are very important as per organization need. The strategies can be understood under the following three forms:-

1) Corporate Level Strategy.
2) Business level strategy.
3) Functional level strategy.

Finance area deals primarily with raising, administering, and distributing financial resources to various activities so that a proper balance is maintained and the organization achieves its objectives. Since the objective achievement is often expressed in monetary terms, the areas of finance and accounting have assumed added importance. The extent to which the organization has effective financial management and accounting system, it is strong. The strengths and weakness in the area of finance and accounting can be ascertained in the following ways.

1. Capital Cost
2. Capital structure
3. Financial planning
4. Tax Benefit
5. Pattern of shareholding
6. Relationship with shareholders and financiers
7. Accounting Procedures

1.Capital Cost : The various sources through which the organization raises its financial fund determine the capital cost. A proper balancing of various sources of financing ensures that the overall cost of capital for the is low. While determining the sources of fund, various factors can be taken into account, such as debt/equity norm, capital market position, profitability of organization, and various conditions attached with funds. A low capital cost is a strength and high capital cost is weakness.

2. Capital Structure : Capital structure of an organization determines the scope for flexibility in raising additional capital needed, maintaining financial leverage, and maintaining minimum capital cost. An effective capital structure is strength which provides for greater flexibility for raising funds and appropriating various sources of funds so as to take advantages of trading on equity.

3. Financial Planning : Financial planning is the determination. In advance of the quantum of capital requirement and its forms. Thus, it determines what types of assets will be required to run the business and how much capital will be required for this, time when the capital is required, and from where the necessary capital will be available. If the organization plans all these things well in advance, it stands to benefit and thus, it is its strength.

4. Tax Benefits. : Tax benefits are partly the result of efficient financial planning and partly the result of environmental variables, particularly government policy. If the organization is planning its investment pattern properly, it takes the advantages of tax benefits under the provisions of sections 32A, 80-I, 80-HH, 35(2-ai), and 35(28-a). Advantages under these provisions may reduce the tax liability of the organization to a very low level or even zero level, consequently improving its liquidity. Similar advantages may accrue in indirect taxes also.

5. Pattern of Shareholding : The pattern of share holding decides the type of threats the organization may face regarding its take over by another companies or group. If the shareholding is widely distributed, the company and its present management can run things smoothly and can think in long term perspective. Thus, wider shareholding provides strength to the organization but concentration of shareholding even in the hands of financial institutions may be a weakness.

6. Relationship with shareholder and financiers : The type of relationship between the company and its shareholders and financiers determines the type of risk that the company can take . If such relationship is cordial, the company can go for smooth working even in case of adversity and can undertake major policy changes. The role of shareholders and financiers is quite important in formulating and implementing these policies because such actions can be taken only after their approval.

7. Accounting Procedure: Efficient accounting procedures and systems for costing, budgeting, profit planning and auditing not only determine that there is no misappropriation of funds but also provide feedback for further course of action. They provide information at the points where it is needed and the time when it is needed. Absence of such systems provides in efficiency in the organization and it cannot know the way in which it is progressing.

FINANCE FUNCTIONS

It may be difficult to separate the finance functions form production, marketing and other functions, but the functions themselves can be readily identified. The functions of raising funds, investing them in assets and distributing returns earned from assets to shareholders are respectively known as financing decision, investment decision and dividend decision. A firm attempts to balance cash inflows and outflows while performing these functions. This is called liquidity decision, and we may add it to the list of important finance decisions or functions. Thus finance functions include:

- Long term assets-mix or investment decision
- Capital mix or financing decision
- Profit allocation or dividend decision
- Sort-term asset-mix or liquidity decision

IMPACT OF RISK, CONTROL ,COST AND RETURN IN CORPORATE FINANCING STRATEGIES

The sources of corporate financing, generically, comprises some combination of debt and equity. Financing a project through debt results in a liability that must be serviced-and hence there are cash flow implications regardless of the project's success. Equity financing is less risky in the sense of cash flow commitment, but results in a dilution of ownership and earnings. Thus, while striving for taking a core decisions like corporate financing ,the major considerations that often vitiate the ultimate fruitfulness thereof i.e. Risk, Control, Cost and Return should be properly calibrated.

1. Risk Of Finance:- Risk Refers to the situation that may or may not happen in the near future. An act or a happening of something is said to be risky if it is understood that the same can not be expected to occur with hundred percent accuracy.

2. Control of Ownership: The term control means the authority or capacity of someone to manage, direct and exert powers over others in a beneficial manner for the betterment of himself or herself. It can also be interpreted as the dominating capacity of a person to influence others in a favorable way as he desires

3. Cost of Capital: The aspect cost consideration in capital structuring decision occupies a vital role. It is so important because every organization must earn sufficient revenue from its capital investment to meet the cost of capital and necessary finance to provide for its growth and prosperity.

4.Traditional Approaches: The proponent of traditional approach claim and argue that an organization can successfully change or control its overall cost of capital in its favourable way by manipulating the debt-equity mix, i.e, by increasing the total debt content in the total capital structure or by decreasing the same.

5.Modigilani and Miller Approach: F.Modigilani and M.H.Miller in their approach paper vehemently argues that the cost of capital of an enterprise is independent of its method as well as level of financing.

6. The Modern trade–off Model : In contrast to M&M Approach where the basic contention rests on the indifference of the level of its debt-equity mix in capital structure of a firm to vacillate its cost of capital, the modern trade-off model overviews the proposition that the capital structure does matters so.

7. Agency Cost: An agency cost is the cost incurred by an organization and is associated with the issue of principal-agent problem such as divergent management –shareholder objective and information asymmetry.

8. Bankruptcy Cost: The bankruptcy cost of a firm is related to the function of two variable-the cost of going bankrupt and the cost related there to mitigate the causalities other things being equal, the greater the implicit of bankruptcy cost in the operating cash inflows of the firm, the less debt the firm should afford to use.

9.The Pecking Order Model: The pecking order model of corporate capital structure was evolved by Stewart Myers in 1984.Myers argues that the management of an organization will follow order in its preferences for using sources of corporate finance for investment and therefore do not seek to maintain an optimal or target capital structure.

Conclusion : In every form entrepreneurial activities finance plays a vital and role model of perfection to dominate over the whole process of enterprising to make it a real success. Corporate financing decisions like procurement of funds and its effective utilization form the basic philosophy of financial management and are highly influenced by the three distinct factors like cost, control and risk. There are many sources of raising finance and each source has its own cost, control and risk vulnerability corresponding to its nature and size. It is the prime duty of the financial manager to take appropriate financing decision from among the several alternatives to raise corporate finance in a cost effective manner and to ensure the optimum and judicious application of fund to avert loss of finance as far as practicable since it is finance that alone satisfies the eternal desire of a firm i.e. survival. The most dilemma of raising finance either by way of own financing or debt financing or a robust ally of them has to be deciphered with all care and expertise to construct the compact capital structure of a firm and should be calibrated meticulously before adopting a specific corporate finance decision since a financing decision once taken cannot be altered substantially without suffering a sizeable loss. Any reshuffling of corporate financing decision afterwards will lead to jugglery of corporate interests.

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