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Financial Management - Indian Trends

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Background

Indian economy is going through a major change. Not only as part of the global changes that are taking place today, but by herself, India by itself is going through a phase of very quick heating and cooling. The way economic indicators like inflation, the sensex, and foreign exchange rates have been fluctuating in the last few years shows the dynamic nature of the activities. Too many activities are taking place at such a fast pace that to get a comprehensive idea about what is really happening seems very difficult.

It is stated that BRIC economies (Brazil, Russia, India and China) would be the leaders in the version 2.0 of the economic performance after the cold war. The end of 20th century and the beginning of the 21st saw the emergence of India as a super power in information technology, nuclear research, and even as owner of global businesses. No single attribute can be singled out as the main reason for such a performance.

This paper deals with the trends that are likely to take place in the field of finance. The field of finance encompasses both private and public sectors. Today the differences between the private and public finance are reducing due to the development that are taking place not only in terms of financial and information technology but also the demand of the users for an accountable and transparent system. At this juncture this paper looks at the strengths of the Indian financial management as it used to be, the issues that are currently influencing the finance field and the likely trends. The paper concludes with identification of a few major issues that need to be dealt with, based on the Indian Management Thought.

Strengths of Indian Financial Management – as they were

The entire financial world is wondering how India has been doing well despite the global economic meltdown. The global economic meltdown is the result of unscientific and inhuman thinking of a few in power and position. Glitz and glamour coupled with avaricious human nature and greed resulted in a domino effect that completely battered the world economy these last few years. India was also definitely affected due to its connectivity with global issues.

Before getting into the trends in the financial world with which India has to catch up, it may be worthwhile examining the strengths of Indian financial management practices. This will also indirectly tell us why the impact of the meltdown on the Indian economy was relatively less.

Indian financial management practices have been considered very 'conservative'. This word conservative has been thoroughly misused. When someone does scientific risk analysis he is scientific because he is conservative. When someone does audit of the accounts of an organization he will be a good auditor if he is very conservative. A cautious financial manager could be termed as a conservative one; but he would deliver what he has to, and that is what India did.

Let us examine some of the salient features of the so called conservative financial management in India. Unfortunately many of these features are slowly vanishing. Indian financial managers are also becoming brash and impulsive. However, the inherent strengths arise from these features of the Indian financial management practices.

Propriety is the key word in Indian financial management, as far as Indian businesses are concerned. This term implies 'ownership with responsibility'. The employees of the organization need to appreciate the propriety that is bestowed on them, and accordingly be responsible. This concept when extended to financial management implies that the employees shall be fully accountable for the financial decisions they are taking. Depending on the

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values of the Management, individuals tend to take risk in financial decision. This could be one of the reasons why Indian financial managers are called 'conservative'.

Accounts based MIS has enabled Indian companies, particularly those run in the western part of India to be more financially efficient. In general the top management would route the entire MIS through the finance and accounts department. This means that every bit of key managerial information will be 'as per the books' or confirmed transactions. This check is extremely important for overall control. This looking at the MIS through accounting information is typically Indian and is now increasingly recognized by the west.

Cash flow based management is the key for Indian organizations, despite their size. The focus on cash flow based management has enabled these organizations to be effective with regard to debtors management, purchase decisions and inventory management. However it is sad to note that India was one of the last countries to introduce cash flow statement as part of audited financial statements.

Cost control has always been a real challenge in any organization. In India frugality plays a very important part in middle class life. This idea is also extended to organizations and cost control is one of the most important parts of the financial management function. India is one of the few countries where cost accountants exist as independent from financial accountants, and even the government has a separate mandate of cost audits.

Lending based on tangible assets/earning capacity is possibly one of the main reasons why the banks in India did not face the fate of some of its counterparts in the west. Though the government has been talking about 'development financing', in India it has been basically money lending. India has a long tradition of money lending, which is based on the asset base of the borrower. However, thanks to the modernization of the lending processes, the banks and financial institutions look for earning capacity and the inherent ability of a project to generate profits. Hence apart from the debt:equity ratio, the Indian banks also focus on debt service coverage and internal rate of return. This approach coupled with the NPA chase made by the RBI has been able to make the financial managers take decisions that do not make their organizations unviable. While there are a lot of criticisms in this regard, it is the strict adherence to such basics that have enabled many of the organizations to sail above the critical performance levels.

Risk aversion with high value addition is another inherent part of Indian financial management. While the science of finance talks about 'risk returns' correlations, in reality the text book conditions do not exist. Also it is in reality not possible to assign proper weights for any of the external factors in India. For instance politics can pose a deadly risk and with policies getting amended with retrospective effect, it is almost impossible to assess true risks. So the risk averse attitude of the Indian financial managers has really helped organizations. As an extension of this Indian entrepreneurs choose projects with low BEP or high value addition. This approach provides cushion for the risks that might affect the project.

Long term vision – emotional commitment. In India nobody starts an organization to sell it. They rear it as their own child. Indian entrepreneurs want their organizations to grow from strength to strength and exist happily ever after. This long term attitude enables the promoters to patiently wait for grounding the organizations strongly. This is very much reflected in the financial management of the organization also. Hence the financial managers take decisions based on long-term considerations. Even the short term considerations factor in the long term vision. Hence the financial management decisions contribute for stability of organizations.

Ethics is possibly the core of Indian Management. The word 'ethics' has several meanings and is expressed in different contexts. However, when it comes to business, ethics is the "fair way" to do business. Ethics is defined as 'moral principles that control or influence a person's behaviour'. It is also about right and wrong. When it comes to ethical business, the question of right and wrong comes up in every situation. In the field of accounting and financial management of organizations, ethics form the