

# INFLUENCE OF FINANCIAL DIVIDEND DECISIONS AND POLICY ON INDUSTRIAL AREA

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## ABSTRACT

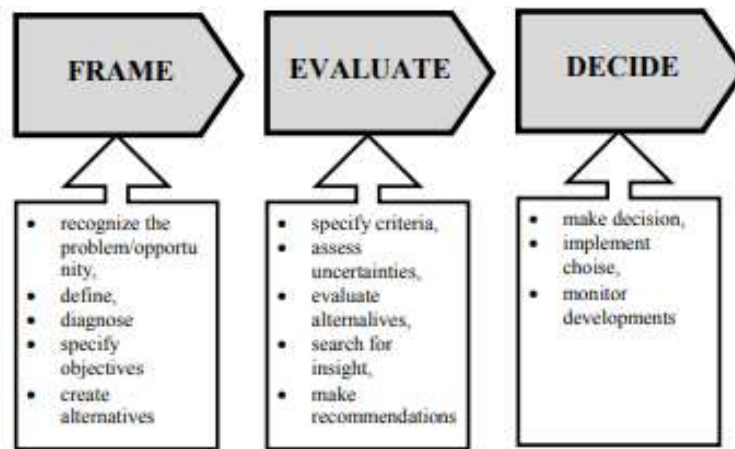
There are currently many different management tools in the industrial company for decision-making. This article focuses mainly on the analysis of decision making on investments and financing. The goal is to make industrial enterprises more effective and efficient. A complex interaction between factors such as personal psychology, Group dynamics, context, access to data, and self-interest is the process in which decisions are made by a firm. These decisions are either scheduled or not. Programmed choices are policies, a standard operating process, a rule or precedence. There is no need of creativity and analysis. The majority of decisions are of this nature, even at the executive level. Unprogrammed decisions, by contrast, are not structured and escape – they cannot be answered by default. There are very few unprogrammed decisions within an enterprise.

**KEY WORDS:** investment decision making, financing decision making, industrial company

## INTRODUCTION

Decision-making can be examined from two different viewpoints: the normative view and the descriptive view. The standard view indicates what should happen, which is how the ideal decision maker sets the task. How this actually occurs is the descriptive view. One of the main criticisms of the normative procedure is that there is no time to analyze the options in full. Moreover, people usually are not interested in the best way to settle for the first option, a process known as the 'satisfactory' process, which means both satisfying and sacrificing. Our focus is on the methods and means of taking successful decisions on capital investment. These decisions are not taken at this juncture. They generally involve the use of substantial resources and therefore represent the regulatory process more closely. This is why the debate on the subsequent decision-making process is based on the standard view. It can be divided into various steps in decision-making. Figure 1 shows one wording that could be useful. In this formulation, the decision-making process occurs in three stages:

- Frame,
- Evaluate,
- Decide.



**Figure 1 The decision-making process**

### 1. Frame: the Decision Context and Possible Alternatives

Management has to solve problems of a wide-ranging nature. The framework of decision is the background to the decision. Usually the specific problem or opportunity is "in-built." The acceptance of this context, however, restricts opportunities for a creative and better solution. Another technique useful in deciding is to ask stakeholders what the major problems with this opportunity are. These problems and related information can be classified into facts, uncertainties and decisions. In this connection, information is known; an uncertainty is a quantity or a variable that is not controlled by the decision maker or the company, and a decision can be controlled by the decision maker. In developing a model of the possible results, the class of uncertainties is used. A decision-making hierarchy of three different groups can be used for the division of the decision-making group: policy decisions are those already taken; policy decisions are those necessary for the resolution of the problem and the decisions taken later.

### 2. Evaluate: the Assessment of Alternatives Based on Criteria

The second step is the evaluation of alternatives against a set of requirements or criteria. Three things are required to perform this step:

- An alternative, which have been generated in the decision framing step;
- A set of criteria;
- A method of evaluation.

The set of criteria in general decision-making can be broad. However, in investment decisions, the main criterion is usually that the company should create wealth for its shareholders, that is, the project seeking approval must be economically viable or profitable. The senior management of a company usually specifies a measure of profitability that must be used, like the payback period and return on investment. The method of evaluation involves both:

- The methods for the calculation of the decision criteria,
- The method for assessing the most attractive alternative.

A number of tools can assist in the evaluation stage. These are influential diagrams. They link in the framing stage the uncertainties and choices to the decision criteria. The diagrams of influence are used to identify all the factors affecting the decision in the assessment and to build a model of decision criteria. They give visual insight

into the interaction of the factors influencing the criteria of decision. Decision trees are connected to the value of the decision criteria with the outcome of events and decisions. Choices and events create different results and these are shown in the decision-making book as different paths. In order to determine the best choice or choice, values of the final results shall be used. Sensitivity analysis and scenario analysis are other useful techniques in the assessment phase. The analysis of sensitivity determines how much the criterion of decision changes when the values are varied. The sensitivity of the first uncertainty is the extent to which profit changes to change market share, and the sensitivity of the second insecurity is the extent to which the profit changes to production costs.

### 3. Decide: the Act of Decision-making

The final step is to select and implement the decision as the preferred alternative. Depending on the stage of project development and the decision taken, this may take a range of forms. In the approval of a capital project, for example, there are several decision-making stages, each requiring three decision-making steps discussed. In the stages outlined in Figure 2, the project goes through. Finally, the team of engineers and projects enter the detailed engineering stage. Detailed engineer, including procurement, construction and commissioning, are followed by a phase of implementation. After implementing the project, the effectiveness of decision-making is usually assessed by post-auditing.





Role	Stage of Project			
Business Development	Opportunity Assessment	Business Case	Business Plan	Final Business Plan
Engineering Study	Concept	Pre-Feasibility	Feasibility	Detailed Engineering
Approval	 → Y • Accept next phase plan	 → Y • Accept next phase plan	 → Y • Accept next phase plan	 → Y • Accept implementation plan

Figure 2 An overview of the business development

## FINANCIAL DECISION MAKING

There are two major financing issues associated with large capital projects. These are the following:

- How is the project to be financed during construction?
- How is the project to be financing permanently after construction?

The split into these two stages is important because the additional risk is that the project will not be completed on time or in the budget during construction. The funding during construction depends of how the project is "contracted" by the owner with engineering contractors and equipment vendors. In a number of ways, the owner of a project can procure a capital project, each carrying various risks. Three main models are available: owner managed, cost-repayable and lump-sum turnkey. The financing during the project is determined by the way the project is procured or delivered. When the project is being run by the owner, the design package is prepared by the owner, and the project and the necessary equipment are defined and indicated. The owner then purchases all the equipment and builds the project at the cost of the owner. In other words, the owner directly finances the project from its own source of funds, namely, the company's equity and debt. The main benefit of this method is

that it enables the owner to select the most suitable engineering company for the project. The owner is the active project manager and has overall responsibility and control. The contract that can be reimbursed is only slightly different in financial terms from a project managed by the owner. With this kind of contract, the owner appoints the engineering design contractor, procures the equipment and, on behalf of the owner, manages the construction until completion. All aspects are integrated by the contractor. It is financed from its own resources directly by the owner. Although the owner delegates the responsibility to the contractor, the owner remains responsible for most of the project risk. The owner pays the contractor on the basis of the contractor's costs and the contractor's charges. The owner may develop a specification and tendering of a fixed or "lump amount" price to engineering contractors for the project delivery at a particular date. These agreements are referred to as lump sums or lump sums. The contractors are assigned the risks and responsibilities for building the project. The project's financing will be transferred to the contractor, who may have to arrange a construction loan. In addition, engineering contractors would be required to provide performance guarantees. The building loan is finished and permanent funding is provided by the owner. However, in the event that the contractor requests the owner to provide a performance bond which the contractor would forfeit if a project is not concluded, he may agree to the agreed price in line with a construction plan.

The financing of the project after building is permanent financing. In some cases, no difference can be made between building financing and permanent financing because the owner funds all requirements. In any event, the permanent funding may be organized on the basis of the owner's general position, i.e. the own resources of the owner or as "project financial" after the project has been constructed. The owner, who is usually a company, is able to raise funds from two sources, equity and debt, to finance the capital project. In order to raise capital, the company sells shares or shares in the company to investors. These shares form part of the company's ownership and the investor bears the risk of being owned. On the other hand, it can raise funds from creditors who are prepared to lend to the company because of the company's creditworthiness. Simply referred to as debt financing or corporate debt capital, loans which are levied by the company, normally over extended periods. The lenders can require collateral or security, and the company's assets are often used as collateral. Another way to secure the funding against the anticipated cash flows of the project is permanent funding for a project. In order to evaluate the loan, the lenders do not rely on previous results of the company, but do not require the assets of the company to be collateral. The lenders instead examine the profitability and debt-repayment capabilities of the project. The project is legally and financially separated from the original owner, who is currently called a sponsor, and the funds are structured to meet the project needs. This form of financing, called project financing, has been applied both in the private and public sectors in large infrastructure and industrial projects.

The organization needs funds to pursue a project or an investment opportunity. The sources of funds, the organizational management of funds and the interactions of financing and investment provide the context that impacts the assessment of capital projects, the decisions on which and the ones that are not pursued. Financing or the decision to finance an enterprise is to determine the most adequate financing arrangement or structure that is required to finance an enterprise. The financing decisions are mostly concerned with the following three issues:

- How much debt can the company afford to have (called the capital structure);
- How much credit the company can afford to provide to its clients (called the credit policy);
- How much of the company's profits should be retained by the company (by not paying all the profits to the shareholders) to have sufficient resources for all anticipated needs and future investments (called the dividend policy).

It will be shown that it is advantageous to have as much debt as possible, because the returns to shareholders increase with increasing debt. However, increasing debt also increases the risk for the company. In structuring the finances for the company, the financial manager makes a trade-off between return and risk. Similar trade-offs are involved in considering the other two issues. From a strategic viewpoint, the financial manager must ensure that the company has sufficient resources to meet its goals. The financial manager must forecast what the resource requirements are, and determine if additional resources are required. If insufficient, the financial manager must raise the additional capital that matches the requirement from either shareholders or debt-holders. The funding requirements for the company are pooled or lumped together; finance is not generally arranged for a particular project. The financial manager determines the total requirements for the company, and determines the best method for meeting these requirements.

## CONCLUSION

The business environment is currently complex and dynamic, requiring greater adaptability if enterprises are to be competitive. Financial resource management is a business role that has gained significance as resources companies need to be used more efficiently. Three key categories of decision-making, regardless of its size, should be considered by each organization: workforce decision-making, investment decisions and financing decisions. The main aim of this study is to analyze financial decisions and business strategies of Indian organizations and their competitiveness relationship. The most important investment information and decision-making financing information is required as a financial statement. Decisions on investment relate to the purchase of operating asset or financial assets. Items like equipment, vehicles, property, stock and buildings shall be used for operating assets. There are usually differences among fixed assets like equipment for manufacturing and work capital - the net amount of money that is necessary to stock, stock, debtors and creditors. The company can hold shares in other enterprises or lend money to other businesses. The financial assets of these investments are. In other words, by investing in other enterprises or investing in financial instruments sold in the financial markets, the company may acquire financial assets.

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