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The Impacts and Assertions of International Financial Management – A Review

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Abstract:

Financial Management is a vital tool in ensuring corporate and organization success. It is important for firms to use assessment and management models or systems with proper balances and checks and in an independent manner without external, internal, or personal interests influencing the process. Financial Management has been one of the utmost reasons of growth, development and production. In accounting processes, long term strategic planning has proved to be beneficial, however overlooking the importance of short term goal management has led corporations and organizations in a position of great depravity and all production has reached a phase of stigma and standstill. Corporations have incurred losses due to inefficient financial management strategies. An array of financial models can be utilized in the identification, assessment and the prioritization of risks within a corporation. The aim of this paper is to research on different international financial systems, analyze, and establish their role as an indispensable tool in managing international finances in corporate governance. The study researched empirical data to find out financial systems and their role in the economy as applicable in corporate governance. This research paper attempts to provide a brief review on the impact of short term financial management in the global standing of the world. It is imperative that organizations should preplan their finances and other fiscal measures, and the process of a well-carried out management has been briefly explained in this paper. The research paper aims at presenting a common understanding and information on the nature of international finance, while explaining its significance, role and impact and calculating its efficiency. International Financial Management is a process very different from that of local and national management of resources and is based on a number of factors, therefore implying its forecasting and growth strength. The paper reflects on the dynamics used in international finance management as well as the approaches carried out as part of controlling the international economy. The findings show that financial management helps in identifying, assessing and putting priority of the financial risks that the organization is likely to come across and putting strategies on how to stop, manage or counter them. However, the process works bilaterally in case of corporations because both financial risk management and corporate governance have a reciprocal relationship where they depend on each other for the success of a corporation regardless of the financial risk model utilized. Financial management is a tool in good corporate governance and good corporate governance is essential through proper controls over financial risk management. There is limited research in comparing effectiveness of different strategies and financial risk models; therefore, it is an area worth being ventured into for future research.

Keywords: Corporation, organizational planning, Financial Models, Management

1. Introduction

This section introduces us to the research study. It consists of sections that discuss the background of the research, significance of the research, research rationale, scope, questions, hypotheses, aim, and objectives.

1.1. Background of the Research

When running a small business in the export sector to Europe, and relying on Euros for every business transaction, a drop in the Euro value will be devastating to the financial ability of the exporter. However, the risk associated with the drop in value of the Euro or any other currency could be mitigated and managed in an effective way. The first option available is to undertake an exchange rate observation for a fixed period to determine the incoming trend in forex exchange. Through this knowledge, the exporter should then avoid making any forward contracts that will involve a fixed value for all export regardless of the exchange rate. This means that in the situation where the Euro will drop, the exporter will not be forced to any contract to retain the same prices but will have to increase the prices of their products to compensate the drop in value of the Euro (Goyal, 2013). This option is quite beneficial especially when the exporter is undertaking big purchases that are extremely prone to any loss in value of the trading currency.

The second option available to the exporter is mixing up the trading currencies. Since the export is meant for Europe, the use of the Euro can be accompanied by the use of the United States Dollar, which is mostly considered the international trading currency. The use of the dollar will help mitigate the loss associated with the Euro. In the global economy, every single commodity can be purchased or bought using the United States dollar. The shift in value within the global currencies have for a long time presented the notion of a verse-versa reaction between the value of the Euro and the United States dollar (Goyal, 2013). This means that if the Euro is expected to drop, the United States dollar will eventually rise, and if the United States dollar drops, the Euro will subsequently rise. Through using both the Euro and the United States dollar in trading, the exporter will ensure that the losses attributed to the Euro will be cancelled out by the profit of the United States dollar. However, a fifty-fifty use of both currencies should be encouraged in this situation. The exporter's third option to undertake a 'hedge-like' transaction with the suppliers. Since most of the export business mostly involves paying for exported goods after arriving at their destination, the exporter can set a fixed value for all the products, but change the medium of payment from Euros to Gold, or any other hedging item. Gold is the most used Hedging and is applicable to an international pricing system mostly in United States dollar (Goyal, 2013). This will ensure that all good exported will be paid a fixed amount of gold, whose prices do not fluctuate so much with the fluctuation of any economy. Even with the drop of the Euro, the exporter will still receive the same amount of gold for the product and later sell the gold in terms of United States dollar.

The final option to the exporter will involve market diversification. It will be extremely beneficial for the exporter to establish new markets out of Europe to ensure that a drop in the Euro will not affect the entire business (Goyal, 2013). The new market will provide some relief to the loss being experienced by the Euro due to the use of different currencies. However, the exporter should ensure that the new markets are not affected directly and adversely by the European market. Some of the most recommendable markets will be the American, Asia, and the African markets. In a situation where a large multinational company dealing with consumer's products and being faced with a major decision on the strategy to employ after the drop in value of the South African and Indonesian currencies, there will be consequences for its production location and marketing strategy. Since, at the same time, the Chinese RMB has dramatically increased in value, an effective solution is practical in this situation. The value drop in the South African and Indonesian currencies tends to signify a diminishing economy that presents different constraints in operation for multinational companies (Shackman, 2015). More resources will need to undertake production as more money will be required to buy the same amounts of raw material previously bought. The multinational firm will be advised to close all its production facilities in South Africa and Indonesia if the currency drop is expected to prevail for a long time and move them elsewhere. The marketing strategy employed in Indonesia and South Africa will also be mitigated to reduce cost as the two markets can no longer be considered profitable markets. Any products being sold with South Africa and Indonesia will result to increase in price under the local currencies in order to retain the same value of the consumer products. The increase in prices within the local currencies will be expected to have a drop in sales within the two markets, hence making these two market non-profitable markets (Avadhani, 2010). On the other hand, the growth in value of the Chinese RMB signifies the growth of the Chinese economy, and better terms for Multinational business operations (Shackman, 2015). The increase of the Chinese RMB value means that a little money will be used for production purposes and more profits being gained from the consumer products. The multinational company will be expected to change the location of its production facility to China and later use the global market as the main market for its products (Avadhani, 2010). Due to the reduced cost of doing business in China, the multinational company can be able to market its products in Indonesia and South African and get a profit irrespective of their low currency value.

When predicting the value of any currency, a lot is taken into consideration. In the situation where the foreign country has seen a lot of new foreign investment being undertaken, and the prices of commodity being halved when compared to the United States dollar, the value of the foreign country's currency is expected to increase dramatically. Since the Big Mac at McDonalds is sold at a half the price of the same product in the United States, this means that the value of the foreign currency is twice as much as that of the United States dollar. The prices of any products within the foreign the country will demand a double price for any transaction made using the United States dollar (Agarwal, 2009). New foreign investments tend to improve the economy of any country and hence the value of the country, as the business environment within the foreign country seems to be more favorable. There are numerous opportunities for business to grow, and new companies to be set up in the foreign country with the increasing value of its currency (Agarwal, 2009). The financial manager in the foreign country will advise the boss in the New York headquarter of the predicted increase in currency value, and hence try to expand the business operations within the foreign country. This would be beneficial to the company and the New York headquarters as more profits will be expected from the foreign country once its currency has increased and stabilized. A small input in the business expansion will be undertaken for the bigger profits that will be received with the increased currency value.

2. Research Methodology

The research paper mainly entailed a qualitative research approach through using past studies and other documented source that includes peer review journals and books in preparing this report. Graphical illustrations have also been used through the paper to enhance the visual information of the research paper. This section provides insights on the research methodology and the most appropriate methods used in the carrying out of this study. It consists of sections covering the research purpose, study design, empirical evidence, theoretical modelling, ethical considerations, and challenges encountered in the course of the study.

3. Research Purpose

This research aims at showing the importance of financial management tools in corporate firms. It being a descriptive research, attempts to provide a description of different aspects that have a correlation with the situations or events within an organization, in this case financial planning. Therefore, the purpose of having such a study would be to generalize the outcomes so as to develop theories.

Further, it takes the form of a descriptive research as the researcher only possess adequate knowledge about the problem in question and there is limited intention to find out the relations between the causes and effects of the problem. It will adopt this approach as secondary data will be involved in the investigation of the problems to be solved by this research study. For this study, secondary data will be derived from the literature review section and theories from these used to support the empirical evidence.

4. Study Design

This study incorporates the theoretical study design and the empirical research design. The theoretical study design involves the creation of different models while the empirical research design will involve the use of the scholarly articles and books as a means of lending credence to the assertions therein. The pros of adopting such a design is that it takes less time in adoption and implementation, is cheap and makes it easier to compare data in order to come up with reliable and valid findings.

5. Research Objectives

The research paper aims at presenting a common understanding and information on the nature of international finance, which it at times is seen to be quite different from regional and local management. Hence the paper reflects on both dynamics and approaches used in international finance management as part of controlling the international economy. The paper studies the various factors used as assumptions in managing organizations and descriptively considers each factor to further make implied decisions. The aims and objectives are further exemplified in the research significance section of the study.

Objectives of the research will be:

- i. To find out if financial management tools enhance corporate governance.
- ii. To find out the significance of financial management tools and if they can help in the identification, assessment and the prioritization of the finances that can be incurred by the organization.
- iii. To find out how the financial management tools can be used in unwarranted finances.

6. Research Significance

The research significance is portrayed through the enforcement of an understanding in the basic nature of international financial management. Hence the paper can be used by small business owners who may have plans to expand their business internationally, and to international business people who need to add on their knowledge of international financial management. The implication of this research is that it would help corporate managers of corporations with the requisite tools and knowledge on financial risk management and its implementation to guarantee corporate governance. Corporations and other firms modeled under a corporate culture are significant in any economic order and usually strive to measure and improve their doings to ensure that they do not suffer from either anticipated or non-anticipated disadvantages that may reduce their competitive spirit. This research paper seeks to analyze how the corporate firms can use different financial models and their effectiveness as a means of ensuring that they are properly functional. This study therefore lays a significant basis for corporate firms using different financial systems that have had limited applications in previous studies but remain effective in a competitive business world. A working financial management system is significant in ensuring success of any business firm. Financial handling, accounting and management systems play roles in the growth of corporate systems and their efficiency is pressing and significant. This research paper is therefore important as it offers corporate firms the prerequisite and overly emphasizing data to analyze and make a choice of the best financial management systems that they can apply in order to enhance corporate governance within their entities. The discussed and researched financial systems are effective tools in corporate governance in modern-era firms.

7. Research Questions

The research will address the following questions:

- i. Does having a financial system planned goal enhance corporate governance?
- ii. What are the implications of not having a financial short term goal on the corporate governance of the organization?
- iii. How can financial management tools help in the identification, governance and prioritization of finances?
- iv. How can the identification, assessment and prioritization of finances help in management of the organization?

8. Research Hypothesis

- H1 A financial management system fosters corporate governance in organizations.
- H2 Financial management helps in identifying, assessing and putting priority of the finances that the organization is likely to come across.
- H3 Financial management tools help in the stopping, management and the countering of unwarranted finances.

9. Accounting Standards

International Financial Reporting Standards (IFRS) is considered to be an accounting standard that is commonly used in over 100 countries with the exception of the United States. However, with the expansion of the global economy, the United States is considering to have a convergence with the IFRS with the aim of archiving a more uniform international accounting standard with other nations in the world. This shift to a single standard by the United States is expected to be more likely towards the publicly-held companies. Even though the main goal of this convergence is to have a uniform financial reporting standard on a global context, the shift will eventually have effects and conflicts within its implementation and utilization. The United States currently used the

Generally Accepted Accounting Principle (GAAP) in its current tax planning strategy. Hence the effects of the IFRS on the current tax planning strategy will be the shift from the much used GAAP system (Bernard, 2008).

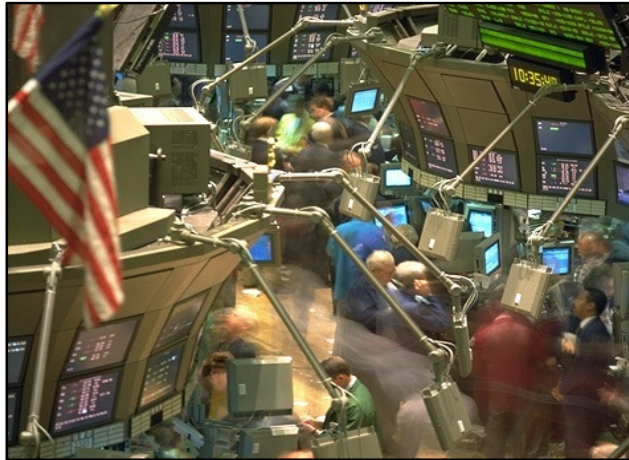


Figure 1: Organized markets (exchanges) with physical locations, like the NYSE

IFRS will affect the current tax planning strategy since IFRS is principle-based as compared to the current tax planning strategy which is rule based. The IFRS entire guidance fits within a single book which is roughly two inches thick. However, the Current tax planning strategy which is rule-based tends to fill three volumes that total to eight inches of books. The current tax planning strategy uses the GAAP standard which provides numerous rules, interpretation, restrictions and exceptions as compared to IFRS which is simply a principle-based accounting standard. There will need some consideration of accounting methods once there are changes on the book accounting method. The current tax planning strategy has cases where their tax and book methods are the same (Bernard, 2008). Hence if IFRS is adopted, there will be changes in the book methods which may result in some changes towards the existing tax methods. This will mostly be practical since it will tend to be quite hard to use the historical tax methods after adopting a new concept of tax accounting. The big questions will be, whether tax should conform to the book methods. The implementation of the IFRS will also have to affect the tax planning strategies, but will the changes be acceptable when taxes are concerned in the United States (Bloomer, 2009).

The effect of the IFRS on the current tax planning strategies will be different levels like the federal and state level. This difference between the federal and state level impact of IFRS on the current tax planning strategy is that most states that impose a corporate level tax may have their own different interpretations of what is acceptable when tax reporting methods are concerned. Hence multistate corporations may end up being faced with numerous adjustments that will be required to be undertaken on the state and local level, and later result in more complications within the federal level (Agyei, 2013). Some effects of the IFRS on the current tax planning strategy has been seen as differences on the accounting methods that includes the disallowance of last-in-first-out (LIFO) method of inventory, capitalization methods, purchase price accounting, equipment and plant for depreciation purposes, and valuation of property. This difference has effects on the recognition of impact revenue, sine IFRS tends to demand the FASB to consolidate the 25 current different industry-specific rules to become a single general standard that will work out well with the principled-based nature of the IFRS. This makes it quite hard to come up with a single tax planning strategy that will be effective to all the different 25 industry rules (Bloomer, 2009). The current tax planning strategy will hence have to be changes to accommodate different views and concepts. Since the current tax planning strategy is industry-specific, it takes into account the different dynamics of the industry and prepares a comprehensive tax strategy that fully effective in tax collection and planning. However, with the implementation of the IFRS, this will have to change a more general tax planning strategy will have to be developed, taking into consideration all industry dynamics (Agyei, 2013). This will hence present a situation where some dynamics will not be considered and others will be utilized on industries that have no idea what they entail. Some compromise will have to be made on the current tax planning strategy when implementing the IFRS (Outa, 2011).

The IFRS standards tend to mandate the allocation of taxes in between periods that will be determined by the transactions recognition in periods that are governed by the IFRS application. Deferred taxes are then used to reconcile the differences of tax purposes and financial statements. There exist some significant differences in treatment of liabilities, tax basis, recognition of deferred tax assets and uncertain tax positions between the IFRS and the current tax planning strategy. The IFRS convergence will be expected to have huge impact in establishing the measurement of the liability of tax which will be based on the probability-weighted average of any possible outcomes like considering detection (Jara, 2011).

Most taxing jurisdictions in the world are not planning to adopt the IFRS; this means that most companies trying to implement the IFRS will be generally affected but the recognition and measurement of deferred taxes. Hence any major activities, planned business combination, or products need thorough review before being implemented under the IFRS standard. All the current tax planning strategies need to be evaluated for consistency when trying to implement the new IFRS standards in the United States. The Securities and Exchange Commission (SEC) should continue to advance its implementation towards the convergence while considering all relevant information (Jara, 2011).

10. The Altman Model and its Interpretation

The Altman model is commonly referred to as the Altman Z-score which is considered to be the combination of five different weighted business ratios, commonly used in the estimation of financial distress likelihood. This model is of extreme use especially in understanding the possible and available credit risks associated with equity investment. A company's financial health can also be determined through the use of this model (Chi, 2012). The lower the score in Z-score in any non-financial company presents a greater risk of financial distress affecting a company. After completing the Altman Z-score model on a company, any result close to or even lower than 3 calls for due diligence and analysis before investment is considered. There are different interpretations zones associated with the Z-score, which are:

- i. Above 2.99: this indicates the safe zones where a company is considered to be 'Safe' when financial figures are concerned.
- ii. Between 2.99 to 1.8: this is the Grey zone which indicates that there exist some chances that the specific company will eventually go bankrupt in about 2 years of operations.
- iii. Below 1.8: this is the distress zone which indicates a high chance of a company being in distress at the time.

There has been a re-estimation of the Z-score which is based on different dataset for non-manufacturing companies and private manufacturing companies. When considering the Z-score calculation of a public company, the computation is undertaken using the formula; $1.2*T1 + 1.4*T2 + 3.3*T3 + 0.6*T4 + 1.0*T5$, where T1 is the working capital / total assets: T2 is the retained earnings / total assets: T3 is the earnings before taxes and interest / total assets: T4 is the equity market value / total liabilities book value and T5 is the sales / total assets (Gritta, 2011).

11. Differences between Business risk and Financial risk

11.1. Business Risk

Business risk associated with any company is considered to be the firm's assets risk without using any debt. The risk facing a company's operation is the business risk. In any business, there are numerous factors affecting the business risk, and the more volatile the factors are, the riskier the business risk is within a company (Chong, 2000). Some factors to consider in any business risk are:

1. Sales risk- this risk is commonly affected by a company's product demand and its price per unit.
2. Input-cost risk- this risk is the inputs' volatility on any company's product, and the ability to make any changes towards the prices if there is a change in the input cost (Reuvid, 2010).

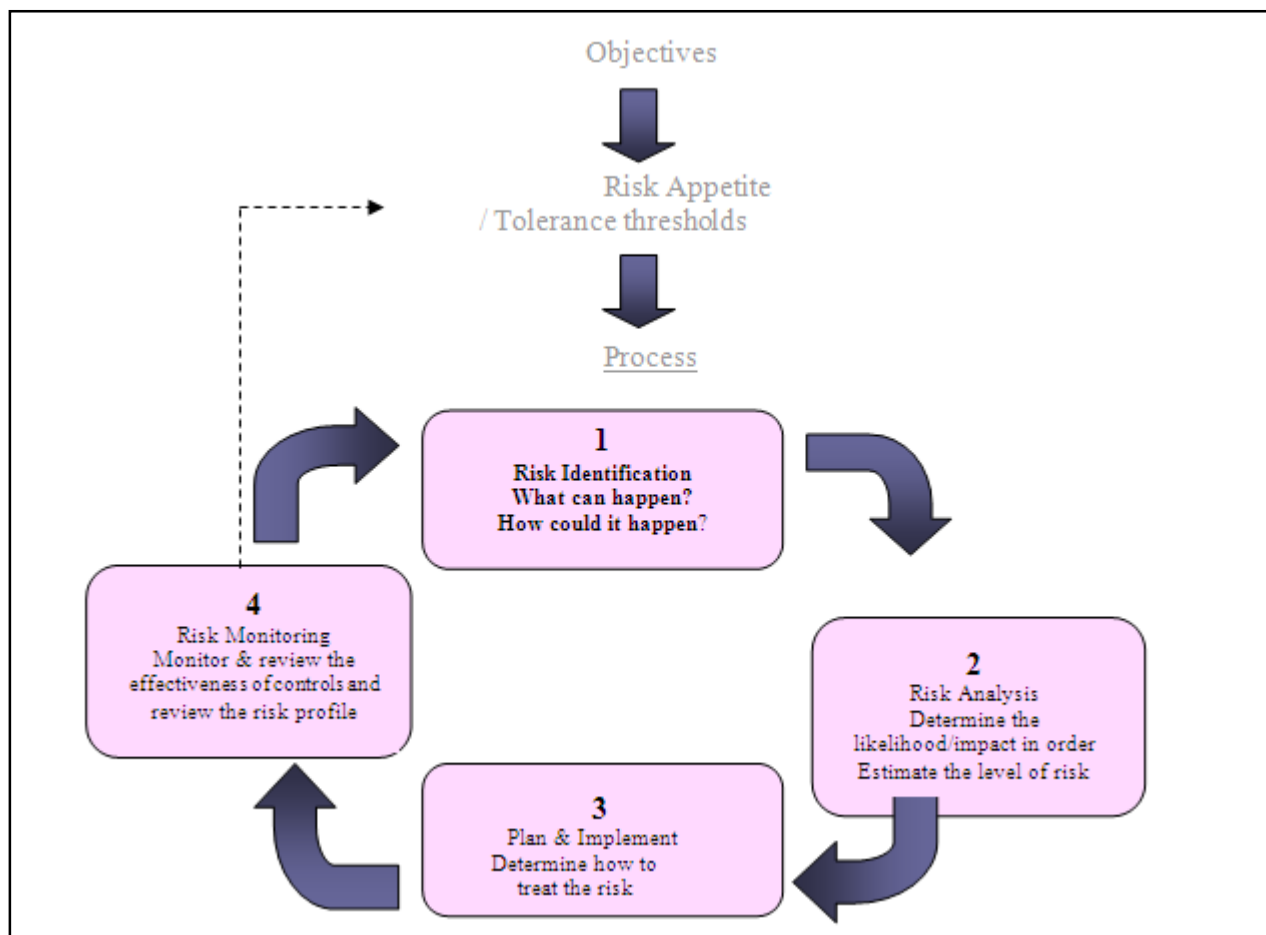


Figure 2: Four stages to the risk assessment process

11.2. Financial Risk

Financial risk affecting a company tends to take a company's leverage into account when looking at risk. A high financial risk towards the stakeholders is often present when the company has quite a high leverage amount (Hampton, 2011). This means that there exists a high risk towards the stockholders on not getting monetarily satisfied when a company is not able to cover its debt and become bankrupt. A good example of the financial risk can be presented on the airline industry which is known to have quite a high leverage for some airline which may be over 100 percent. A high financial risk exists in this situation due to the high leverage in the industry and may result in an airline company facing bankruptcy (Hampton, 2011).

Likelihood	Very likely	5	5 Low	10 Medium	15 Medium	20 High	25 High
	Likely	4	4 Low	8 Medium	12 Medium	16 High	20 High
	Possible	3	3 Low	6 Low	9 Medium	12 Medium	15 Medium
	Unlikely	2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Very Unlikely	1	1 Low	2 Low	3 Low	4 Low	5 Low
RISK RATING MATRIX			1	2	3	4	5
			Minor	Moderate	Significant	Serious	Major
			Impact				

Figure 3: Risk Rating Matrix

12. Importance of Cost of Capital within a Corporate Finance Environment

The cost of capital in corporate finances environment is required return that is necessary in making capital budgeting project like building a new office (Pratt, 2008). Cost of equity and cost of dent are included the cost of capital. New projects that are to be funded using large sums of money are funded through preferred equity, common equity, and debts. This makes the corporate adhere to the different target weights associated with each source of funding. The capital structure is affected by any decision concerning the capital budget. The cost of capital is quite crucial to corporate finance as its entails a capital structure that contain both long-term and short-term debts, the preferred equity and common equity and represents the manner in which the corporate will finance its overall growth and operations through the different sources of funds.

Cost of capital has some controllable and non-controllable factors. The controllable factors include:

1. Dividend policy: the capital schedule on marginal cost breakpoint can be changed by a firm since it has control over its own payout ratio.
2. Capital structure policy: since any firm has control over its own capital structure, it can hence target an optimal capital structure. The debt cost increases with the increase of debt and the equity cost tends to increase with the increase of equity being issued.
3. Investment policy: the cost of equity and debt tends to change with any change made by a firm on its investment policy which is relative to the risk.

The uncontrollable factor that is affecting the cost of capital is the interest rate levels: the cost of debt and at some point the cost of equity will be affected by the interest rates levels (Truong, 2008).

13. How to Apply Financial Analysis Techniques to Other Corporate or Business Situations

Financial analysis also known as analysis of finance or financial statement analysis is the assessment of profitability, viability and stability of any project or business. it mainly deals with profitability solvency and liquidity of a firm, to ensure proper management of finance (Warfield, 2007). To apply financial analysis to a corporate or a business, an individual look at the following factors,

1. Past performance of the business. You check on how the business have been fairing in the past 5-6 years. And record the observation.
2. Future performance of the business. Using the above records that you obtained from past and some statistical and mathematical ways, an individual may obtain prediction of the future performance by also including present values in their extrapolation.
3. Comparing performance (comparing the financial ratios) with other firms is also a way of applying financial technique.

Another important method is using comparative analysis (Robinson, 2009). Helps one to determine trends by presenting information for more than two given periods and presents all sides of the business for better analysis.in calculating ratios and comparing with other companies, using the historical performance of a company is all about application of the financial analysis. Since it shows how the company is using assets to bring profitability.

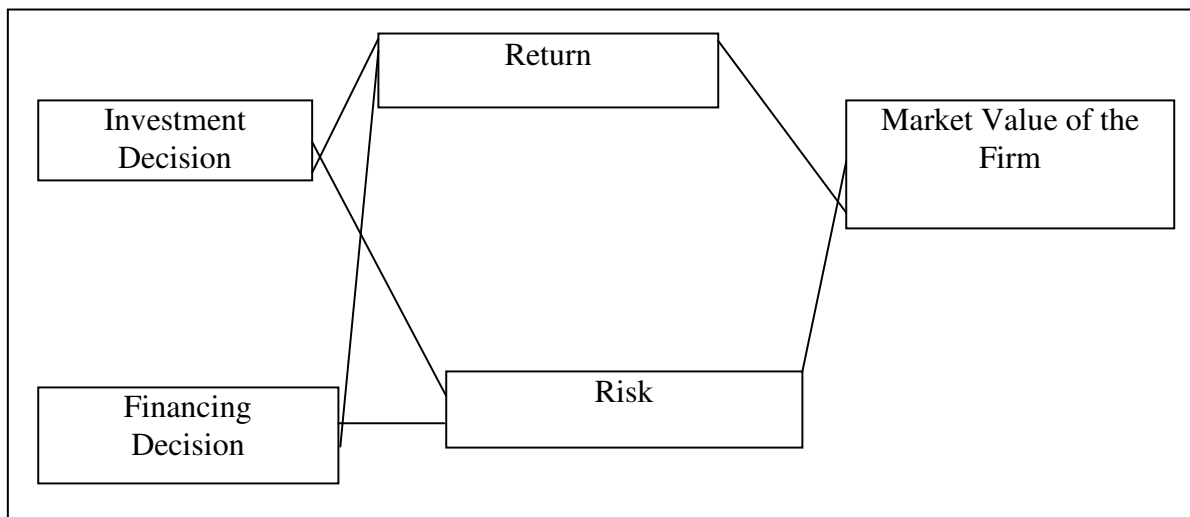


Figure4: Decision, Return, Risk and market value

14. Opportunities of Applying Financial Analysis

Financial analysis can be used by many departments in business. They include; in accounting by accountants and in banks, large investors can be used in business loan application, in large institutions like universities also need financial analysis, Hotels and restaurants, and many other places (Robinson, 2009). Financial Analysis is significant, important and underlying to the progress of a firm, and its operations further take its efficiency to different levels.

15. How to Apply Financial Analysis in One's Own Personal Financial Management

At the beginning of every new financial year of a business it is important to assess and reflect critically on how the previous year's performance of the business was, and this is where the financial analysis comes in. Some of the questions asked, are, what can be changed? Improved? Done? Or what went wrong? One of the techniques the researcher will use in analysis is the trend analysis. -this will help to know how the business will perform in future. In this method one calculates the financial ratios. For example, we can calculate the current ratio, that is, the ratio of short term assets to the current liabilities in the business (Rodgers, 2008). Another technic the researcher may use is the bench marking. This is where the researcher will compare my business to other companies in the industry. to see how it performs financially compared to other companies. This will help me do adjustments in financial area and how to run the business well. There are different tools that help in comparing of businesses. Analyzing the financial statements will help in avoiding risks that may arise during the growth of a business (Rodgers, 2008).

16. Structural Corporate Degradation

In current world large firms are taken as efficient and most productive firms. But this is not the case; hence it calls for the systematic and an effective way to examine them. They have grown too big and inefficient, corporate structure calls for reorganization of the firm to see whether this problem will be refuted. The main function of the corporate governance, control is to ensure that large firms are more efficient and very competitive in the current time. They are supposed to look at every part of the firm to ensure there is more profitability; if the firm is continuously failing the management tries to see whether it can restructure the firm. The shareholders also play a good role to agitate for change in the firm since they also need profit from it. We see that the firm is both externally and internally pushed for better results, but most of the time it is not seen in the too-big-to-fail financial firms. When faced with problems these firms tend to break and the shareholders make it more successful. In this article we will try to explain why most of this structural ideology does not work in these firms.

One of the examples of the firms that have portrayed this problem is the JPMorgan Chase - an American largest firm that faced a \$6 billion loss. After facing a financial crisis, JPMorgan decided to not to sell positions that they had but decided to buy new one and opposite ones, but did not bring positive results but rather more loss to the company. Even more badly, the bigger structure made it complicated and weirdly to manage the firm. This chased away shareholders and it was difficult for the firm to unwind the trades by selling them. Large firms always look upon the government to bail them out when it comes with risks. This makes it easier for them to take large risks with no worries. Like the Whale, the more the risk they took brought more loses, its seen in both the shareholders and the firm itself, if the risks become positive it pays off the shareholders and the financiers. But when it goes badly, they are bailed out by the government, which shows a bad picture of the firm, this force the firm to file for Bankruptcy. When this is experienced, it is expected for the firm to restructure its management and its size. Since the problem is for the shareholders and managers, normal forces the corporate governance to re-size the form to the right way simply to prevent failure.

An initiative to explore how too-big-to fail firm's pressures warp, by the stakeholders, boards, and managers and hence making the corporate governance unproductive. Financial firm has also become too big to manage and the firm is rendered more inclined to errors like the one faced by the whale's firm. They include the failure of the management to oversee the trading desk properly and led to the

loss, also the failure that is brought up by the firm when it became too large and scope, since the optimum size would become a loss to the too-big-to-fail subsidy. We critically look at these factors and divide them into five facts, they include;

Firms are too-big-to-fail as poison pill- this how a poison pill works; the corporate board gives a preferred stock to its shareholders. Then there is a controlled altering event that old shareholders are allowed to redeem for their preferred shares, the shareholders are barred by the terms of old preferred stock from participating in the exchange of new stock. It dilutes the activist shareholder's common stock and poisoning its initiatives to be active at all. The subsidy works the same way, by lowering the financial Cost of the firm, makes the activist swallow the same poison hence losing the funding subsidy. To recover this, it will need a very big restructure in the firm for efficiency.

- Firm too-big-to-fail as Breakup protection- if a firm has a weakened incentive for internally generated spin-offs and breakups in one of its business, it plans to see it or just shut it out and the firm will then plan to retire the debt that was incurred in that business of misfit. The firm managers come up with ideas on how to tackle that loss or making up for the shortfall. But most of the time they do not even check or analyze the big to fail subsidy, they just come up with a conclusion that the spin-off is a bad deal for them. This is a critical decision for the firm and its effects on productivity.
- Too-big-to-fail as stumping the management divisional buyout, these managerial divisions sometimes is very badly done and poor fit with the firm. Forming small firms does not increase the profitability and managers sometimes compares the cost incurred in funding the divisions and the buyout, they find that they do not much hence find it more reasonable to fund their own superior efficiency. The required takeover premium – a premium is needed for the breakup of a firm or takeover, a larger too-big-to-fail subsidy would reduce the management incentive to continue with operationally profitable restructuring on behalf of the shareholders and the firm at large.

On examining the too-big-to-fail data, which looks how the big firms save on their borrowing due to lowering funding costs. Using percentages in the given data it shows clearly that estimates of financial crises led to too-big-to-fail subsidy increasing financial firm's profits for at least by a third from its previous stand and beyond what they would have expected. This motivates to restructure the firm and takeover premium is needed to motivate it. Also, to downsize the shareholders or the firm will not make sense, since large profits is being generated

Applying the concept of antitrust analysis of the cost of monopoly, it shows that the costs of too-big-to-fail can put a protective umbrella over a degraded organizational integrity, protecting it from pressures to mend it. For oligopoly, a protective umbrella can impede restructuring apart from too-big-to-fail umbrella, which is the same as too-big-to-fail analytically.

Other factors analyzed in this paper include examining the public policy implications, opportunities and difficulties focusing on how to fix them and their effects. It also considered looking the structure which a big firm will take without too-big-to-fail subsidy. He finds out that financial firms that are shareholders centered governance had a big financial crisis with weak and less shareholder orientation. It was expected to function better without the subsidy, but it turns out to be opposite. The policy implied shareholders had to reorient their thinking and incentives to reduce the distortions and hence makes them incentives be the same like that of the public. Lastly, there is a sketch out the deal making impact of the condition when the too-big firms' funding boost disappears. It shows that normal corporate process would press to restructure and downsize and the least efficient firms, and ending the subsidy or cutting up the big increase from the financial crisis should bring the right conditions of re sizing the corporations. Therefore, managerial incentives would best match the public goals, if the regulations would remove the large too-big-to-fail subsidies, and then this big firm would restructure themselves. The corporate governance incentive at the too-big-to-fail financial firms requires a better analysis. To ensure more profits and counter the external and internal pressures that affects the business.

17. Capital asset pricing model

The Capital Asset Pricing Model (CAPM) can be defined as the models that are used to describe the relationships between risks and the expected return. It is also employed in the pricing of the risky securities.

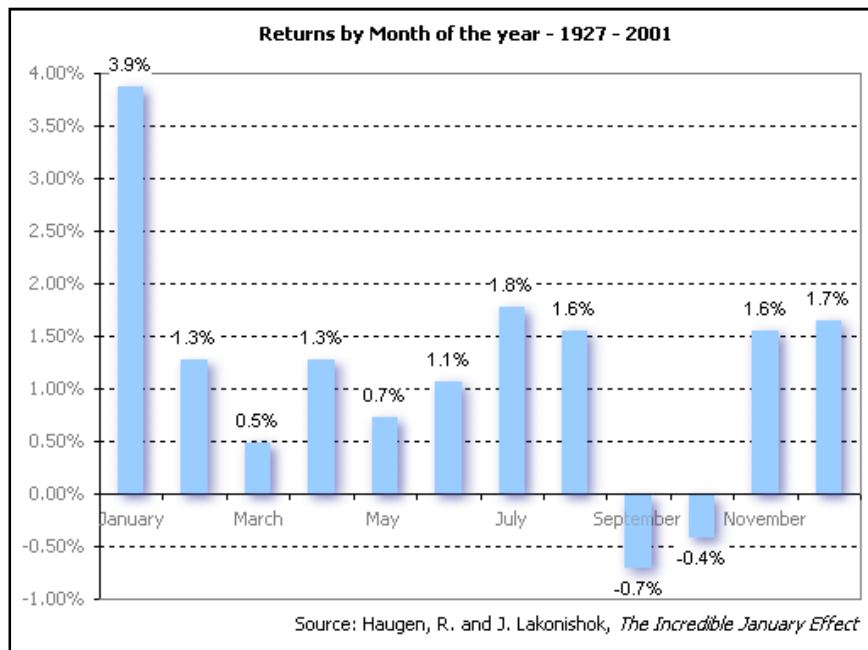


Figure 5: Representation of a capital asset pricing model monthly return graph

There are various assumptions that make these possible to the investors. They include;

- i. Asset qualities are given and are fixed, hence it aims at maximizing the economic utilities.
- ii. That all investors are rational and are risk averse and are ready to face the business risks.
- iii. Knows different investments and are broadly diversified in them.
- iv. That they cannot be affected by the prices.
- v. They can borrow or lend significant amounts under a free rate of risk of interests.
- vi. They trade without any taxation or transaction costs.
- vii. That all the assets are divisible and liquid.
- viii. That all the investors have the same expectations.
- ix. All the information needed by the investors are available at the same time to all of them.

The CAPM has several uses over other methods used in calculating there quire return. First of all, it considers given risk that is systematic, looking on the reality where most investors have different portfolios and at the same time the unsystematic risk has been eliminated. It also generates a theoretical relationship between the systematic risk and there quire return. It is also a better way of calculating the cost of equity than any other model and hence very useful and finally it is superior to the WACC in giving the discount rates.

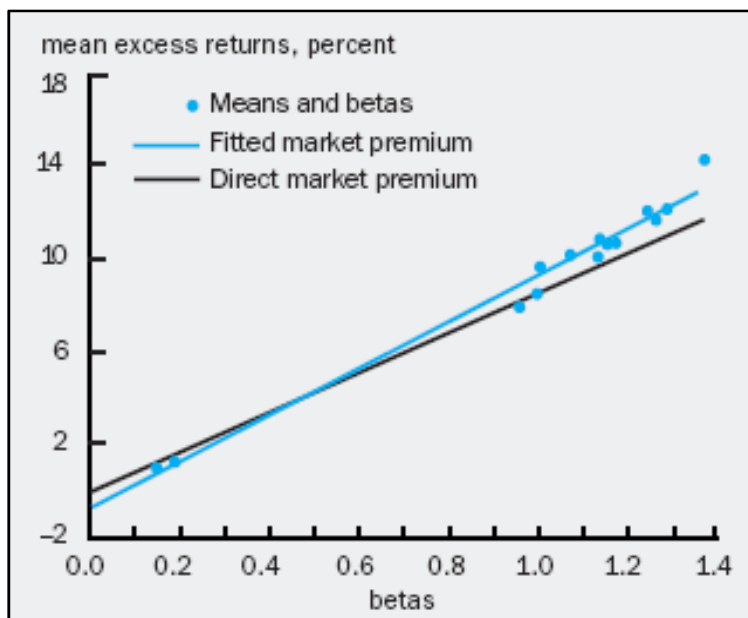


Figure 6: CAPM mean excess returns plotted against beta.

18. Ethical Considerations

This study was conducted under the ethical considerations of a research study, firstly by seeking the permission of relevant authorities. The literature review contains peer reviewed articles and books that have been consistently used for scholarly purposes. These texts have been referenced in the bibliography in order to conform to policy against plagiarism.

19. Challenges Encountered

This research study encountered challenges such as the possibility of the literature review not correlating with the findings of the modeling and empirical evidence. It was also time consuming to obtain the peer reviewed articles on the topic as researchers continue to explore the field of risk management and corporate governance. The sum total of these made the study take a considerably more time in its accomplishment.

20. Future Implications

International financial management has also of aspect joined together to ensure the effectiveness of managing finance on a broader perspective. Future research should try and focus on the specific requirement needed to ensure effective financial management as different regions in the world tend to require different financial management attributed that affect the international financial management. A guide that would recommend the best ways of undertaking international financial management should be developed through future research. Further studies on these domains of financial management will lead to development. The aim of the research was to analyse the importance of financial management as a tool in corporate governance and give recommendations on the most desirable model that can be adopted by these entities in their day to day activities. The aim was achieved by answering the research questions. It was found that having a financial management tool enhances corporate governance, and negative implications that can result in corporate governance failure are common in the absence of financial management in an organization. Financial management helps in the identification, assessment and prioritization of risks, which is indispensable in stopping, countering and managing of the finances within the organization. A financial management tool fosters corporate governance in organizations. The hypothesis; financial management as a tool helps in identifying, assessing and putting priority of the finances that the organization is likely to come across; and financial risk management helps in the stopping, management and the countering of finances were confirmed to be true.

The results under the financial management model above shows that management is important in the corporate governance of an organization. This is because it helps in the identification, assessment and the prioritization of the finances that the organization is likely to encounter and putting strategies on how to stop, manage or counter them. From the results it can be showed that management can help the organization to structure its processes so that they are consistent with the corporate strategy of the organization and possess the quality of integrity. This confirms the notion that management and corporate governance are interrelated in that they help organizations to implementation consistent internal control structures to manage the risks. In addition, having a functional management model has been shown to help in the coordination of the finances, ensuring of the consistency and the collation of the management processes. From this, the research confirms that a robust corporate governance structure is dependent on the management of risks as the information about risks within the organization can be acted upon promptly to maintain the efficacy of the systems and processes within the organization. The findings were compared and confirmed with available body of evidence.

21. Conclusion

This research study has shown that in practice, the identification and collation of finances in corporations can help in the realization of the corporate. This is because the coherent assessment of the risks that an organization is likely to meet or encounter helps it to steer clear of threats as they occur, before they occur and their management when they occur. Therefore, financial risk management is an integral part of an entity in that it ensures that there are appropriate corporate governance practices that are meant to propel the organization to better performance in terms of revenue, profitability and the reputation or the image.

Above all those usefulness, there have been various reasons why the CAPM has been criticized for years. Examples of there a sons are first it assumes that all investors get the same information in which it is not true. It assumes that there is no cost involved in transactions or taxation in which it affects the risks that affect the investors. It also assumes that all the assets are divisible to the share holders infinitely which are also a problem that has faced this model.

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