Functions of Business Finance

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Strength and soundness of business depends on the availability of finance and competency with which it is used. The abundance of finance can do wonders and its scarcity can ruin even a well established business. Finance increases the strength and viability of business. It increases the resistance capacity of a business to face losses and economic depression. It is just like a lubricant, the more it is applied to the business, the quickly the business will move. Following headings explain the importance of finance to business:

(1) Initiating Business: Finance is the first and fore most requirement of every business. It is the starting point of every business, industrial project etc. Whether you start a sole proprietary concern, a partnership firm, a company or a charity institution, you need ample amount of finance. It is equally important for profit seeking and non-profit activities. It is equally important for a multinational organization and for a free dispensary.

(2) Purchase of Assets: Finance is needed to purchase all sorts of assets. Even if credit is available some down payment is to be made. Mostly finance is needed at the start of business for the purchase of fixed assets. These fixed assets consume a large amount of initial investment of the entrepreneur, so he may face liquidity difficulty in running day to day affairs of the business.

(3) Initial Losses: No business attains high profit on the first day of commencement. Some losses are normal before the business reaches its full capacity and generate enough revenue to match cost. Finance is necessary so that these initial losses can be sustained and business can be allowed to progress gradually.

(4) Professional Services: Certain business need services of specialized personnel. Such personnel have rich experience in specialized fields and they can provide useful guidance to make business profitable. Nevertheless these services are costly. Finance is always needed so that services of such professional consultants can be hired.

(5) Development: Business is always exposed to change. New innovations and emergence of new technologies replaces old techniques out of market. So in order to remain in the market, it is needed to keep the business well equipped with all emerging tools and techniques. This required finance. New technology is always expensive as it is better than others. So finance is needed to purchase new equipment and keep the business running.

(6) Information Technology: Information technology has now changed the geography of the business battle field. The home markets have now extended virtually to other comers of the world. The whole world can be your customer or competitor. To face such a fierce competition, IT is needed. Skills and competency in IT can perform miracles. But finance is again the decisive factor. It is very much needed to incorporate expensive IT products in the business.

(7) Media War: The advertisement and promotion have now become a vital elements for the success of business. The way a businessman approaches a customer and convinces him to purchase his product has become more important than the quality of product. With advertisement on International media, a businessman can reach the minds of millions of people around the globe. However, advertisement is a luxury which every business can't afford. Huge finance is required to meet advertisement expenses.

(8) Resource Management: Finance is very essential for efficient resource management. Resources

here include capital and human resources. Maintenance of plant and equipment and training of employees all need finance. Establishment of new industrial units, expansion of plant capacity, hiring of well learned skilful laborers - all

these factors can lead to huge revenue but at the first place they need finance to start with.

(9) Stock Investments: These investments are those which are made to hold ample stock of raw materials in hand. Bulk purchase of raw materials is profitable in a sense that purchase discount can be attained and there is no danger of production halts. So companies most often hold huge amount of stocks and raw materials. But such an investment can be made only if a company has sufficient capital or finance to carry out its daily operation easily besides holding huge stock.

(10) Combating Risks: Everything is exposed to one or more risks. A business is also exposed to variety of risks. These risks include natural hazards, burden of any huge liability, loss of market or brand name etc. Finance is needed to make business powerful, so that it can sustain occasional losses and liabilities.

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