CHAPTER 3

The Concept of Financial Management in Institution of Higher Learning

Concept and importance of financial reporting system

3.1 Introduction:-

Educational institutions usually are organized and managed with philanthropic objects. The purpose of this institution is to promote and developed and enhance the quality of educational services. As educational institution are not organized and managed for profits. The financial aspects of this often remain neglected. Even today we presume that these are the institutes for charities. As such, they did not have a sound system of financial management. For such institute finance should be a secondary aspect of management. Development of sound financial management system however being neglected. It affected institute’s development. Many good educational institutions having an objective of development often could not expand properly resulting in loss to the society. It is necessary that institution with quality standard must grow and other variety of services to every concern section. This requires rational and purposive growth. It also requires sufficient and adequate funds to meet infrastructure and other development needs. Therefore a systematic and efficient financial management service is a need for every institute whether for profit or not for profit.

Educational institute often do not have adequate sources of funds, balance between receipts and payment are hardly matched. Often the dearth of funds is major constrain in development of these institutions. The need for efficient financial management arises due to resources scarcity, inadequacy of funds and limited sources of revenue. Therefore every educational institute must go for efficient and systematic financial management.
3.2 Purpose of writing this Chapter

The present chapter is written with following purposes.

i) To understand the concept of financial management and its importance.

ii) To examine the need for financial management in educational institutions.

iii) To study the silent features of financial management of educational institutions.

iv) To understand the process and practices of financial management in educational institutions.

v) To know various financial systems implemented in the institutions.

vi) To enlist the limitations and weaknesses of prevailing financial system.

3.3 Order of writing the chapter

The chapter is written in following order

i) Concept of finance and financial management

ii) Need and importance of financial management

iii) Relevance and application of financial management in educational institutions.

iv) Prevailing system of finance in educational institutions.

v) To enlist the features of prevailing financial management system.

vi) To identify the limitations and weaknesses of financial system.

3.4 Financial Management in Educational Institutions

The term finance is indicated explaining importance of finance, funds and money in particular institution or for a particular activity. Nothing can be
simply achieved unless and until every institute works out for efficient financial management.

The function of finance is usually comprises of their basic activities;

These are:-

1. Acquisition
2. Allotment
3. Distribution of profit or surplus

1. **Acquisition** – Unless and until an institute acquires fund, it cannot allot it to any activity as we all know sources of funds are limited. Money surplus is restricted and no one can generate money at will. Acquisition of funds therefore is a tough and critical task. More the sources of finance better will be the scope of acquisition of funds. However, no institution can acquire finance and funds at will.

   The capacity to acquiring funds depends on following factors

   i)   Nature of the Institute / business

   ii)  Tenure of services

   iii) Reputation and credibility acquire

   iv)  Types of services offered

   v)   Cost of production and generation of services most likely set of users or beneficiaries

   vi)  Type and nature of steak holders

   vii) Willingness and ability of users and beneficiaries to pay for the services offer

   viii) Continuity or perpetually of demands for services
ix) Internal strength of institute to generate its own funds

x) Patronage or benevolent assistance available

The acquisition of fund is also determined by certain other features such as

i) Philosophy of the institute

ii) Vision, mission and goals of the institute

iii) Regulatory from work

iv) Competitive environment

The concept of acquisition thus has many dimensions. It will be difficult to rely on own particular factor to decide the sources of finances or mode of acquisition of funds.

2. Allotment of Fund

Educational institution and even other institute not working for profit find it difficult to make a rational, judicious and adequate allotment of funds to variety of activities. There are many constraint and factors that restrict proper allotment of funds. The tangible factors restricting allotment of funds are

i) Nature of activity undertaking

ii) Revenue and capital aspects of expenditure

iii) Needs for various departments or services

iv) Availability of funds

v) Requirement and expectation of beneficiaries and users

vi) Regulatory requirements

vii) Managerial requirements

viii) Necessary expenses for effective organization and working of the system.
3. **Distribution of Funds**

It is one of the important aspects of financial management. The institute has to be rationale while distributing its profit and surplus. It is especially for institute not working for profit because such institute usually has limited sources of earnings. These institutes cannot sustain the pressure of shortage or scarcity of funds. These institutes have selective priorities which they need to satisfy in order to sustain or grow. Therefore these institutions have to design their strategies for survival and development.

Educational institutions have to be more cautious and judicious while distributing of funds. Following are the determinants that decide the distribution aspect of financial management.

i) The educational institutions usually do not have sustainable long term financial sources. Often they have to depend upon earning on certain revenue sources. As such, their choice of earnings is restricted.

ii) The sources of revenue are determinant and specific. It is very difficult for educational institutions to change these sources.

iii) The heads of earnings are often regulatory system. Therefore educational institutions have limited heads to enhance the earning sources.

iv) The heads of expenditure are also predetermined. Educational institutions cannot reduce expenses on certain basic areas of activities. This is also restricting their freedom of distribution.

v) The volume of surplus of educational institution is often very scanty; as such allocation of funds is definitely challenging issues.
vi) The margin of surplus has to be allocated to capital reserves and
genral reserves funds. Often the bylaws of such institution do not
permit distribution of funds unless and until the provision is made
for such reserve.

vii) Though educational institute do not pay a part of profit to their
stake holders in form of dividend or share of profit. However,
there is a limited surplus available even for general welfare.

viii) For educational institution distribution of funds or welfare and
general development or expansion is one option. However, there
are limited chances for diversification and expansion of
educational activities.

3.5 Finance function in Educational Institutions

The concept of finance in educational institution is much different than
conventional business or profit making organization. The educational
institution looks at finance from a different point of view. They consider
financial functions as a basic activity to manage funds for development and
maintenance of institute. The growth and profit making approach in the
finance function of the educational institution. Following are the
characteristics of finance function in educational institution.

i. Finance function is focused at systematic acquisition and development
of funds

ii. The purpose of finance function is stabilization of financial position.

iii. Sources of finance in educational institution are restricted by nature. It
is because of regulatory frame work for governance the educational
institute.

iv. The principle source of revenue for educational institute are related
with fees and certain other sources like grant in aid, donations etc.

v. The fees are defined by the regulatory institution. As such the education
institution cannot change fees more than as what is guided by
regulatory institute or bylaws of institute. It is not the discretion of the institute to revise the fees at will. Educational institution cannot take unspecified fees without prior permission of the regulatory bodies. Especially fees like capitation fees or fees based on donation or donation related objectives. Often it is not permitted by regulatory authority without prior sanctioned. Other fees and sources of revenue like grants are decided a formula set by the government. The grants are offered for the specific purpose and cannot use for the purpose other than specified purpose.

3.6 Financial Environment in Educational Institution

Every institute whether profit or non-profit unit works with the help of finance, unless and until there is an adequacy of funds. The institute cannot survive. The level and availability of funds is determined by financial environment. For educational institution financial environment means external and internal factors influencing the sources and application of finance.

The silent features of financial environment in educational institution can be identified as follows

i) Educational institution usually works out for profits. This non profit motive of educational institution changes their finance. As such, their approach towards finance is very narrow and restricted.

ii) As these institutes do not work for profit, the fund management system do not focused on higher revenue generation or generation of extra surplus.

iii) There is no owner’s equity and concept of profit sharing in a conventional manner in educational institution or public charity institute. Therefore generation of revenue is not the prime function of these institutes.

iv) The concept of finance is driven by resource utilization and not by resource generation. The concept of wealth maximization is not also
implemented in large scale because maximization of wealth is not the prime motive of these institutes.

v) The conventional educational institution also does not give priority to rapid or large scale expansion. Often most of the institute continues with same scale and mode of functioning.

vi) Retention of earnings and creating of reserves has also a limited scope.

vii) The type of financial information required by this institute is very limited because of low dimensions and limited flexibility in approach.

viii) The stake holders are diversified in nature and have different ends to meet. However, none of the stake holders have any financial purpose to perceive.

3.7 Stake holders to Educational Institutions

There are different types of stake holders in educational institutions. The set of stake holders is quite diversified and multiform in nature. The stake holders do not have contradictory approach to perceive. Now everywhere there is limited interaction and cohesiveness in the activities of these stake holders.

The important stake holders in educations are enlisted as follows

i) The management

ii) Administrators and managers of governing bodies.

iii) Teachers

iv) Non teaching staff

v) Students

vi) Parents

vii) Potentials employees

viii) Society
i) **The management** – It is the principle stake holders in educational institutions without lead role of management or its representation educational institution do not come in to existence. Management can be group of person from same or different walks of life which comes forward to establish the institute with particular motive, cause or purpose. The stake holders – Management are pioneer for establishing of institute, trust or body.

The principle purpose for establishing an educational institute by the management is to perceive a cause promote and justify or expand the scope of educational activity for particular class or mass.

ii) **Administrators and Managers of governing bodies** – Any institute whether it may be educational or other are organized, administered or managed by people who administrated these institutes with the help of certain select skills and abilities. The administration includes Principal, Registrar, Officers or all those who are involved in governance of these institutes. Administrators usually are people who set policy and procedures and programs for the development of healthy educational culture.

iii) **Teachers** – Teachers can be rightly known as backbone of educational institutions. They offer their skills, ability and talent as well as work for a particular educational cause. No educational institute can be imagining without teachers. It helps in development of curriculum, education system, activities and programs.

iv) **Non Teaching Staff** – It includes officers, clerks and support staff that work for implementation of policies of educational institutes. Institute cannot run effectively and efficiently without proper contribution of non – teaching staff. It is a crux to maintain discipline and order. Most of the policy regarding planning, governance and achievement of goals are effectively deployed only through administrative staff.

v) **Students** – The sole purpose of educational institution is to help and served the student. It is the focal point of entire education system. The
whole system revolved around him. He is the principle stake holder of the entire system. Education system works for promotion, development and advancement of education culture which ultimately enriches the quality of the learners. Hence, principle purpose of educational institute is to develop a learner friendly plan.

vi) **Parents** – Parents are the intermediate beneficiaries. They are indirectly benefited through development of their wards. Educational development of children leads to their concern and personally enhancement, which in term enhance their chances of success in life. Therefore every person as parents wants his wards to take good education.

vii) **Potential employees** – Getting quality persons as employees is the key issue before every employer unless and until the employers get trained educated employees or potential employees. They cannot maintain efficiency of the unit, providing skilled and caliber employees is the one of the principle purpose of educational institute. From this view employees are major stake holders of educational institute.

viii) **Society** – society has the great stake in educational institute. Building of good citizenship cannot do with appropriate and quality education. Society needs citizen with character, competitance and society cannot grow without good citizenship competent employee’s caliber like scientist, engineers, architects, farmers and workers, artisans. Hence, society has a great stake in educational institutions.

**3.8 Financial Information required by educational institution**

Each institute requires a variety of financial information. This information is collected from different sources to meet the current and future requirements of the institute. Financial information is not a static. It is a dynamic that required on a continuous basis. Therefore every institute has to generate and used this information on a perpetual basis. The institute that does not create appropriate set of financial information cannot survive for long. They often face challenge in decision making process. In many cases they fell to meet the challenge of
contemporary situation. Well managed institute avoided this dilemma of want of appropriate financial information and survival in a competitive economy. Their success depends on swiftness, acumen prudence ability to acquire and used financial information. In true sense well managed educational institution are the institute that maintained right set of required financial information.

Getting desired, necessary and timely information is the principle challenge before most of educational institution. The roll of finance department in acquiring this information is very critical unless and until educational institute acquire this financial information, their survival cannot be ensured.

Following are the various types of financial information required by educational institute.

i) Information regarding financial challenges happening in economy at large.

ii) Information regarding various rules and regulations influencing functioning of financial information.

iii) Deciding the right sources to procure financial information.

iv) Ascertaining the accuracy and reliability of financial information.

v) Deciding the utility and application of information so procure.

vi) Establishing appropriate system of information processing setting.

vii) Establishing right procedure of management reporting system.

viii) Identifying the important information required by management and providing necessary data inputs.

ix) Benefiting the information to meet regulatory requirement and developing suitable reports as well as formats.

3.9 Sources of Financial Information

There are different sources of financial information used by educational institute. These sources are
i) Directives, circulars, notifications, government resolutions and other orders issued government agencies from time to time.

ii) Directives and reports of the educational department.

iii) Published annual reports and other financial data of the educational institute.

iv) Internally generated financial report receipts, pay statements and other financial statement.

v) Observation, reports and articles published in journals related with education.

vi) Guidelines issued by UGC and other apex educational institute.

3.10 Financial Management of Educational Institute

Financial management is the core aspect of the management. Educational institute acquire funds from certain select and define sources. These sources cannot be modified and enhanced with each case. On the contrary there are still many limitations on procurement of funds. Whereas educational institute are expected to provide multiple educational services for which huge amount of funds is required, this cannot be rightly meet. Thus there is a significant gap between sources of finance and their application in educational institute which demands a more systematic and rational concept of financial management.
Following are the silent features of financial management in educational institute

i) Anticipating financial needs – To estimate financial requirements

ii) Acquiring financial resources – To procure funds through select sources of receipts.

iii) Allocating funds in business – To ascertain requirements and allot funds.

iv) Administrating the allocation of funds – To maintain control of process, fund utilization.

v) Analyzing the performance of funds – To measure the extent of achievements of goals.

vi) Accounting and reporting to management – To justify the fund utilization and supplies the report of the same.
3.11 Functional aspect of financial management

Financial management is a process, discipline and techniques of effective fund utilization. As such financial management covers a large number of functional areas related with different activities of the institute.

Following diagram explain the functional areas of financial management

i) Determining financial needs – Ascertain various purposes for which funds will be utilized.

ii) Determining sources of funds – Identifying the sources like fees, donation, grants etc.

iii) Financial analysis – Ascertain areas where funds shall be deployed.

iv) Optional capital structure – To design suitable capital structure that meets current as well as future requirements of institute.

v) Fixed assets management – To identify various equipments and their effective utilization.
vi) Capital budgeting – To decide long term requirements of the funds.

3.12 Financial decision process in educational institute

The process of financial decision making in educational institute is also very well define and regulated by certain laws, rules and procedures. There are define system for decision making and every decision has to go through the same system. The authorities and bodies are controlled by select set of procedures and every decision passes through same set of decision making steps.

Following are the financial decision taken by educational institutes

i) Financial requirement decision – These are the decision related with sources of funds, mode of procurement and extent of funds to be procure.

ii) Investment decision – These are the decision related with deployment of funds for various revenue and capital activities.

iii) Regulatory decision – These are the decisions regarding monitoring and maintenance of effective control on fund utilization.

iv) Appropriation decision – These are the decisions related with appropriation of funds and distribution of surplus to various financial purposes.

One of the most important aspects of financial management of educational institute is systematic financial planning. Availability of sufficient funds is not the only condition. There are many other issues associated with systematic utilization of funds. The major problem before educational institute is not only availability of funds but at the same time how to plan for these funds. In most of the cases educational institute do not have proclivity of funds but is want of situation and effective planning which mars their change of success of growth. The reasons for proper financial of educational institute can be attributed as follows
i) Educational institutions have very narrow approach towards financial system. Often there is a misconception that finance is not the prime domain of activities of educational institution and therefore they need not work for efficient management funds.

ii) Requisite skills and competence are not often available with educational institute for efficient manage of finance.

iii) Most of the educational institute looks at finance as a secondary function and therefore they are unwilling to devote requisite time for utilization of fund.

3.13 Importance of financial planning in educational institute

Educational institute need to perform will and they are the backbone of modern society. For efficient and perpetual good performance, it is necessary that educational institute must maintained financial soundness. This is not possible without having a good successful financial planning.

Good educational institute develop appropriate provisions for systematic fund management. This requires proper understanding of funds and utilization of funds. Educational institute cannot maintain the health and strength, it the funds are scarcity and therefore these institutes need to work for development of a suitable financial planning.

Financial planning can be addressed many challenges before educational institute Features of sound financial planning for educational institute.

Though financial planning is required an essential by every educational institutions. However, it must be based on sound principles and appropriate policy. A soundness and appropriateness of financial system of planning depends upon variety of factors. The principle features of good financial planning in educational institute can be identified as follows.

Steps in financial planning

i) Deciding the philosophical basis of financial management.

iii) Policy formulation.

iv) Forecasting

v) Developing appropriate procedures.

i) **Philosophical basis of financial management** – Every organization works with a particular philosophy and set of principles. Educational institutions are not exception to it. They usually established and work with philosophy of service towards society. Profit making is not the criterion.

ii) **Estimating objectives** – It is another critical area. It is estimating goals and objectives. Every financial function has to have certain goals. These goals are tune in philosophy of the organization. It goals gives a direction to the functioning of the organization and its approaches to address functional and operational products.

iii) **Policy formulation** – Finance is a matter of perpetual monitoring and performance, as such it is necessary. It is that policy be formulated to execute the decision.

iv) **Forecasting** - This involves estimation of demands, fund requirement and management in which the funds shall be utilized. Forecasting minimize risk and gap in demand for funds.

v) **Development of procedures** – functional aspect cannot be rightly executed without efficient, systematic and well-defined procedures. That is now the financial function is rightly performed.