Supporting a Corporate´s Strategy

Corporate Finance deals with a corporate´s funding and capital structure. Its concepts aim to support the implementation of a firm´s intended strategy.

Corporate Finance describes a whole spectrum of concepts, tools and instruments dealing with the appropriate allocation of capital, with most of them developed during the last decades only. If properly applied, Corporate Finance-related techniques assist in finding a fair balance between assumed risks and achievable returns. Hence, its tools should also facilitate matching pools of savings with investment opportunities: Or, in other words, connecting those who have capital (e.g. financial institutions, retail and institutional investors) with those in need of capital (i.e. corporates). It is Corporate Finance´s role to:

- Support in identifying and implementing an optimal funding structure for a firm´s activities and projects through borrowing and investment, and
- Enable prioritisation as well as a rational distribution of financial resources.

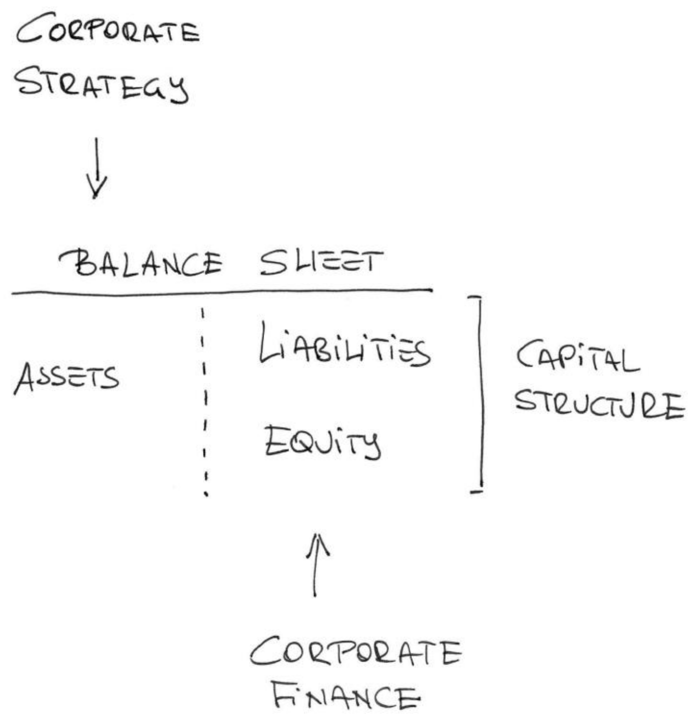
Corporate management is confronted with the ongoing challenge which financial sources to access in funding a firm´s operations, short-term as well as long-term, and to justify actions taken. Often, this challenge is approached either task-related (e.g. capital budgeting, cash and working capital management) or transactional (e.g. IPOs, mergers & acquisitions, restructurings, bond offerings, credit ratings). Whereby a key question arises in this context: Is it the ultimate purpose of Corporate Finance to help maximizing the value of a business? – Not always and not necessarily, it seems to be.

To start with, each corporate strategy is unique and continuously adapted over time: Empirical research suggests that the longevity of a corporate foremost depends on its culture, its ability to adapt to an ever-changing environment. Hence, a unique market position, an innovative product, the ownership of licenses, patents, or market-leading technologies, leave alone the identification of an "optimal" capital structure won´t be of much help long-term. Instead, Corporate Finance makes tools available which can be applied depending upon the stage of the life cycle a company is in to optimally support its underlying business.

Therefore, a company's capital structure is a crucial tactical element. Whereby the ratio between a firm's debt burden and its equity cushion will determine whether funding is efficient, competitive and appropriate in view of a firm´s assumed business risk. For example, a company´s aggressive capital structure (i.e. relying heavily on debt) may - first sight – seem inappropriate. However, its level of leverage could be entirely justified, if advanced, mature stages of the life cycle have been reached.

The core themes addressed in Corporate Finance are therefore:

- Assessing the viability of investment opportunities
    - Financial analysis of required capital expenditures as well as anticipated cash flows and risk-/return-profiles provide a basis to decide whether to pursue an investment opportunity or not.
- Identifying an optimal funding mix
    - Determining feasible funding alternatives after having narrowed down an ideal capital structure.
- Accessing appropriate funding pools with investor expectations in mind
    - For assuming a certain degree of risk, investors expect, among others, rewards in form of interest, earnings participation, perhaps gains at capital redemption, as well as exit opportunities in primary or secondary markets. A corporate, on the other hand, may prefer retaining capital and / or earnings to further grow a business, make it more sustainable, or entirely reinvent itself.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