

Supporting a Corporate's Strategy

Corporate Finance deals with a corporate's funding and its capital structure. Applying the discipline's tools and instruments shall support a firm in running its day-to-day operations and in implementing its medium- and long-term strategy.

Corporate Finance describes a whole spectrum of concepts, tools and instruments all dealing with the appropriate allocation of capital, with many of them developed and formalized over the last decades only. If properly applied, Corporate Finance-related techniques and methodologies assist in finding a fair balance between assumed risks and achievable returns. Hence, its tools 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:

- Provide 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.

Any corporate management is confronted with the ongoing challenge which types and pools of financial sources to access when funding a firm's operations, short- as well as long-term, and to justify actions taken: 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 assist in maximizing the value of a business? – Not necessarily, it seems to be.

To start with, each corporate strategy is unique and requires constant adaptation. Empirical research suggests that the longevity of a corporate foremost depends on its culture: Hence, its ability to adapt to an ever-changing environment. Therefore, 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 in the long-term. However, Corporate Finance can add value: With its focus on funding and capital allocation, the discipline provides insights and tools to support a company's underlying business, and in each stage of its life cycle.

As a matter of fact, a company's capital structure is a key tactical element: The ratio between a firm's debt burden and its equity cushion will determine whether funding is efficient, competitive and appropriate in view of the assumed business risk. For instance, a company's aggressive capital structure (i.e. relying heavily on debt) may - first sight – seem inappropriate. However, a relatively higher level of leverage could be entirely justified, if the firm had already reached an advanced, mature stage of its life cycle.

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 to retain capital and / or earnings to be in a position to further grow a business, make it more sustainable, or to entirely reinvent itself.

CORPORATE
STRATEGY



BALANCE SHEET

ASSETS

LIABILITIES

EQUITY

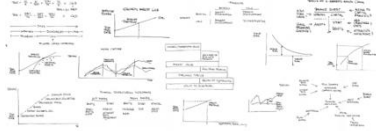
CAPITAL
STRUCTURE



CORPORATE
FINANCE

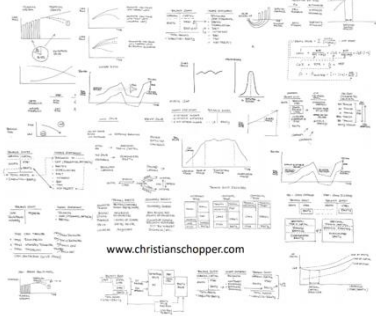
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