

Preface

Coverage of financial issues by the press and media increases almost daily in both volume and complexity. It includes topics such as stock market performance, investment and growth, mergers and acquisitions, venture capitalists and private equity, derivatives, debt, interest rates, foreign currency exchange rates, and corporate financial fraud. Each of these topics is in some way concerned with the risks faced by government organisations, and individuals, financial institutions, banks, manufacturing and service companies, and their shareholders and lenders, and the corresponding cash returns that they expect to receive in reward for acceptance of such risks.

Corporate finance is concerned with all these financial issues, which impact on us all in one way or another and are forever changing in their composition and focus. The discipline of corporate finance is about:

- the way in which financial resources are acquired
- how these resources are most effectively used
- the control of these activities.

The topicality and critical importance of these topics therefore makes their study exciting and very relevant to a better understanding of the performance of countries' economies, and businesses, and the decisions and problems they face.

This new textbook is called *Strategic Corporate Finance* because it includes not only the theory and key areas of corporate finance and the range of techniques that may be used and applied in practice, but also the appropriate financial strategies that may be adopted in order to optimise the use of the scarce resource of money (or cash flow).

One of the main objectives in writing this book was to produce a clear and user-friendly text, which embraces both the core principles and practice of corporate finance and also financial strategy. This book uses a comprehensive set of learning features, illustrative worked examples, and assessment material to support and reinforce your study. It is aimed primarily at students who are undertaking a degree or diploma in accounting, finance, economics, or business management, which includes a course in corporate finance or financial strategy, or both. It is also aimed at students undertaking postgraduate finance and business masters degrees, MBA students, and students pursuing professional accounting and finance courses.

Content and structure

The content and structure of the text have been carefully researched to follow closely the typical requirements of most introductory corporate finance and financial strategy courses at both the undergraduate and postgraduate level. This text assumes no prior knowledge of the subject: we start at square one and take you step by step through the concepts and application of techniques, with clear explanations and numerous examples.

The text comprises 18 chapters, and is structured into two parts: corporate finance, and financial strategy.

Corporate finance is broadly concerned with the effective acquisition and use of financial resources in creating corporate value, and its translation into shareholder value. It includes a wide range of strategic financial management techniques and decision-making relating to capital investment; capital structure; working capital; the management of financial risk; financial planning; international operations and investment. It also covers accountability of company directors and their relationships with shareholders and other stakeholders.

Financial strategy decisions in general relate to the levels of:

- investment in the assets of the business, and the choice of types of asset
- most appropriate methods of funding – debt or equity
- profit retention
- profit distribution
- gearing, or capital structure of the business and
- management of financial risk

with the aim of maximisation of shareholder wealth.

Financial strategy is concerned with the creation of corporate value, but also how this is then reflected in increased shareholder wealth through creation of shareholder value consistent with levels of perceived risk and the returns required by investors.

Each of these areas and their component chapters are outlined in the introductory section to each part of the text.

A further key objective in writing this text was to provide a flexible study resource. There is a linkage between each of the chapters, which follow a structure that has been designed to facilitate effective learning of the subject in a progressive way. However, each chapter may also be used on a stand-alone basis; equally, chapters may be excluded from study if they relate to subjects that are not essential for a specific course. Therefore, the text is intended to be suitable for modules of either one or two semesters' duration.

Each chapter aims to help students understand the broader context and relevance of corporate finance and financial strategy in the business environment, and how they may assist in improving both corporate value and shareholder value. To put each topic in context we have provided numerous examples and commentary on company activity within each chapter, including at least one cutting from the press and financial media; companies featured include BSKyB, Samsung, Enron, Matalan, Umbro, and Marks & Spencer. In addition, the book includes extracts and analysis of the actual Report and Accounts 2007 of Johnson Matthey, a major UK plc.

Using this book

To support your study and reinforce the topics covered, we have included a comprehensive range of learning features and assessment material in each chapter, including:

- learning objectives
- introduction
- highlighted key terms
- fully-worked examples
- integrated progress checks
- key points summary

- glossary of key terms
- questions
- discussion points
- exercises

Within each chapter we have also included numerous diagrams and charts that illustrate and reinforce important concepts and ideas. The Guided Tour that follows overleaf summarises the purpose of these learning features and the chapter-end assessment material. To gain maximum benefit from this text and to help you succeed in your study and exams, you are encouraged to familiarise yourself with these elements now, before you start the first chapter.

It is easy, but mistaken, to read on cruise control, highlighting the odd sentence and gliding through the worked examples, progress checks, and chapter-end questions and exercises. Active learning needs to be interactive: if you haven't followed a topic or an example, go back and work through it again; try to think of other examples to which particular topics may be applied. The only way to check you have a comprehensive understanding of things is to attempt all the integrated progress checks and worked examples, and the chapter-end assessment material, and then to compare with the text and answers provided. Fully-worked solutions are given immediately after each example, and solutions to around 45% of the chapter-end exercises (those with their numbers in colour) are provided in Appendix 2. Additional self-assessment material is available in the student centre of the book's accompanying website (see page xxiii).

Case studies

Throughout the book there are six case studies that may be tackled either individually or as a team. The case studies are a little more weighty than the chapter-end exercises and integrate many of the topics covered in the book. Each case study therefore gives you an opportunity to apply the knowledge and techniques gained, and to develop these together with the analytical skills, judgement, and strategic approach required to deal with real-life business problems. Additional cases are provided on the accompanying website.

We hope this textbook will enhance your interest, understanding and skills. Above all, relax, learn, and enjoy!