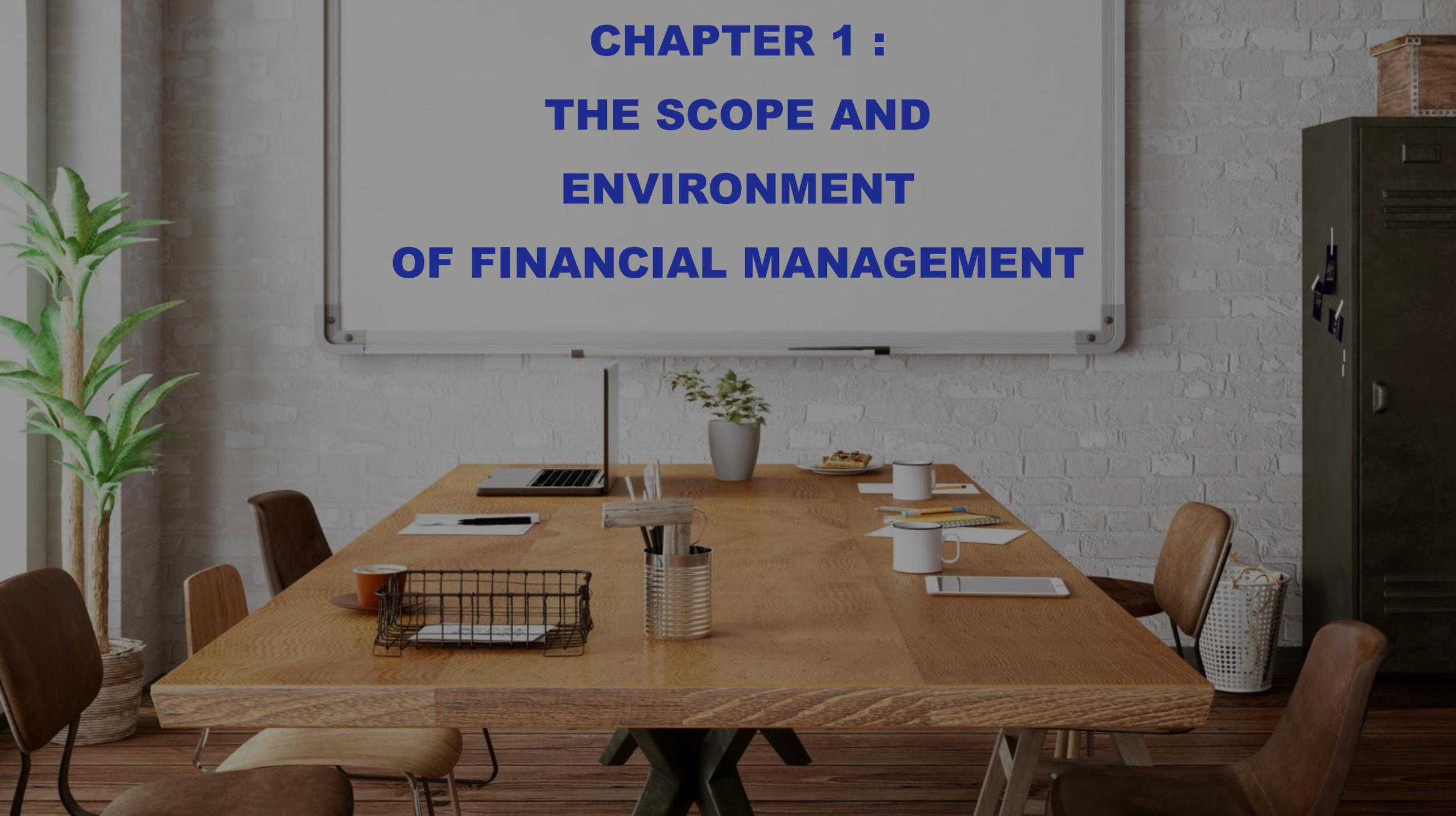


**CHAPTER 1 :**  
**THE SCOPE AND**  
**ENVIRONMENT**  
**OF FINANCIAL MANAGEMENT**



# INTRODUCTION TO THE BUSINESS FINANCE

- The Goals of the Firm
- The Role of Finance in Business
- The Legal Forms of Business Organization
- Finance and the Multinational Firm : The New Role
- Summary

# THE GOALS OF THE FIRM

The fundamental goal of business is to create value for the company's owners /shareholders. This goal is frequently stated as "**maximization of shareholder wealth**"

# MAXIMIZATION OF SHAREHOLDER WEALTH

- Annual Revenue Growth
- Control risk and get high return
  - Meet to maximize profit
    - Suitable for dividend payout ratio
  - Maximizing the market value of the existing shareholders' Common Stock

# FIVE PRINCIPLES THAT FORM THE FOUNDATIONS OF FINANCE

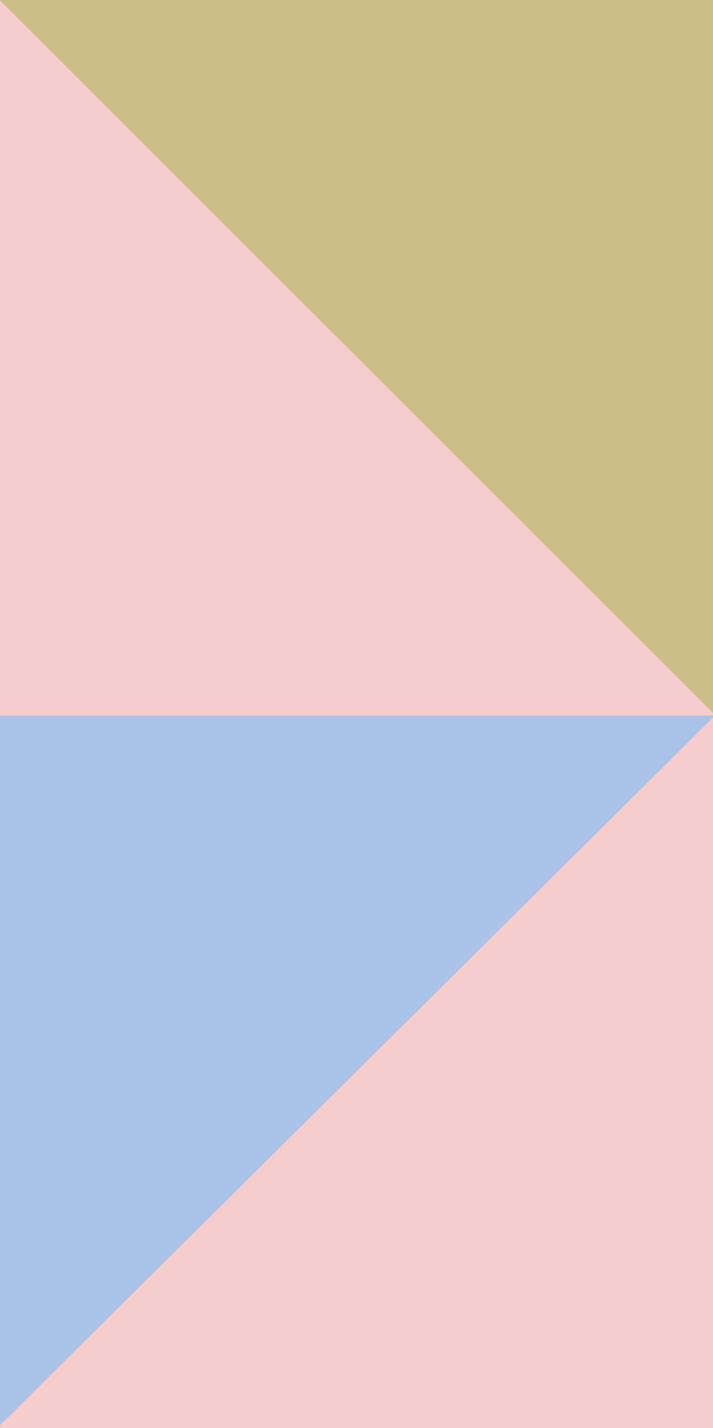
- **Cash Flow is what matters**
  - ✘ *..focusing on earnings instead of cash flow*
- **Money has a Time Value**
  - ✘ *..focusing on the short run*
- **Risk requires a Reward**
  - ✘ *..excessive risk taking due to underestimation of risk*
- **Market Prices are generally right**
  - ✘ *..ignoring the efficiency of financial market*
- **Conflicts of Interest cause agency problems**
  - ✘ *..unchecked agency problems in the economic crisis and problems with executive compensation*

# **THE ROLE OF FINANCE IN BUSINESS**

- **Financing Decision**
- **Investment Decision**
- **Dividend Decision**

# THE LEGAL FORMS OF BUSINESS ORGANIZATION

- **Sole Proprietorships :**  
*a business owned by individual*
- **Partnership :**
  - **General Partnerships :** *each partner is fully responsible for the liabilities incurred by the partnership*
  - **Limited Partnership :** *one or more of the partner to have limited liability, restricted to the amount of capital invested in the partnership*
- **Corporations :**  
*All shareholder to have limited liability, restricted to the amount of capital invested in the corporation*



# **FINANCE AND THE MULTINATIONAL FIRM : THE NEW ROLE**

8

- **Foreign Exchange rate risk**
- **Foreign Exchange Management**
- **Funding and Investment across international borders**
- **International Monetary System**
- **Etc.**

# SUMMARY

The Scope of financial function are funding, investment, and dividend policy decision based on the goals of the firm in financial management . It is necessary to consider risks and rewards to achieve shareholder wealth.