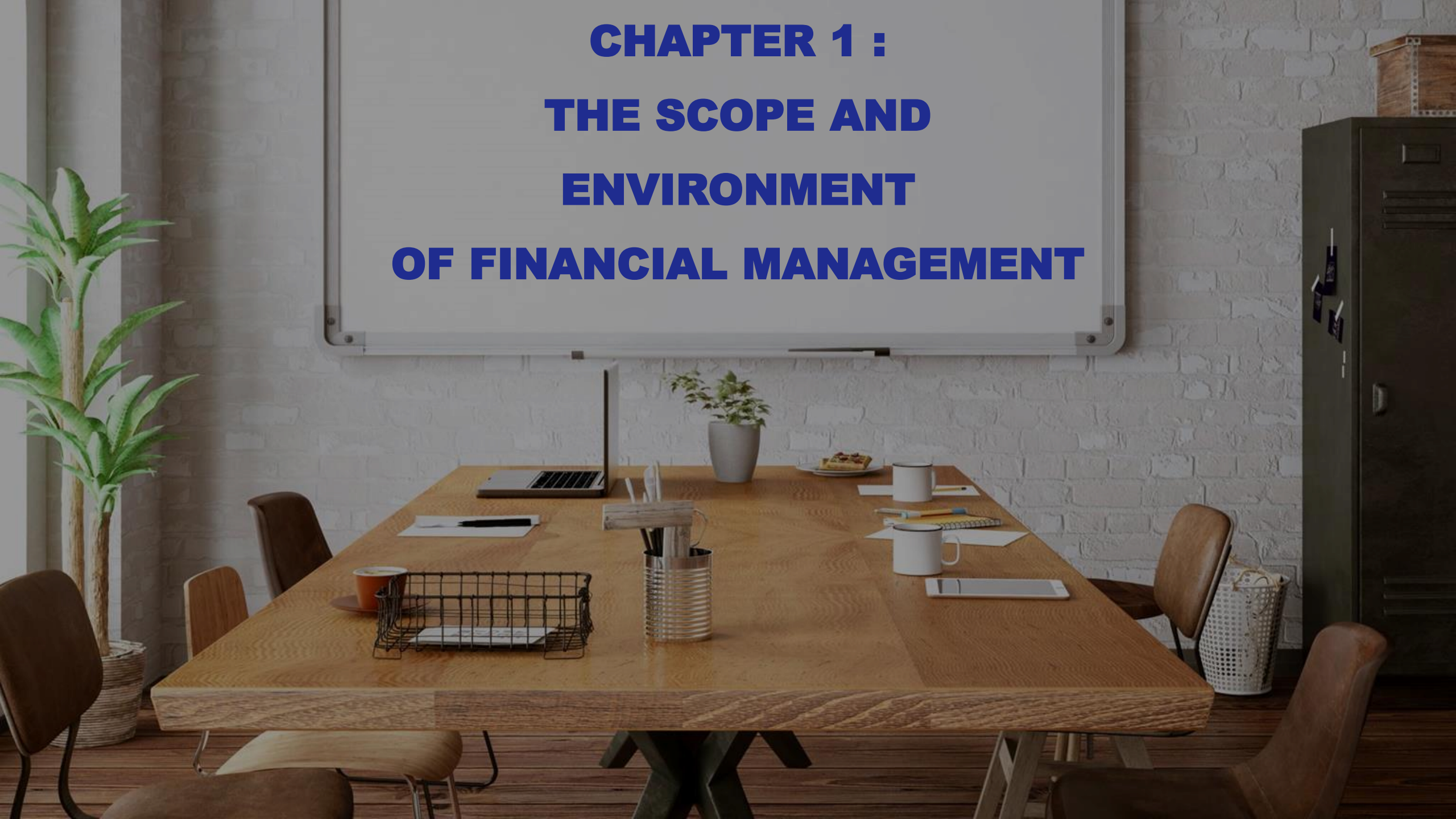


CHAPTER 1 : THE SCOPE AND ENVIRONMENT OF FINANCIAL MANAGEMENT



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

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- **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.