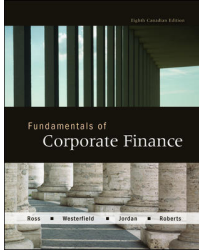



Finance for Management and Organizational Studies
MOS 2310
Chapter 1
Overview of Corporate Finance




Danny L. Morrison, M.B.A. CPA, CMA



Chapter Outline

- Corporate Finance and the Financial Manager
- Forms of Business Organization
- The Goal of Financial Management
- The Agency Problem and Control of the Corporation
- Financial Markets and the Corporation
- Financial Institutions
- Trends in Financial Markets and Financial Management
- Outline of the Text



Attributes of Successful Companies

Like a stool needs all three legs to stand, a successful business relies on:


- Skilled people
- Strong external relationship
- Sufficient capital

Source: Nelson Education Ltd.



Characteristics of Business Organizations

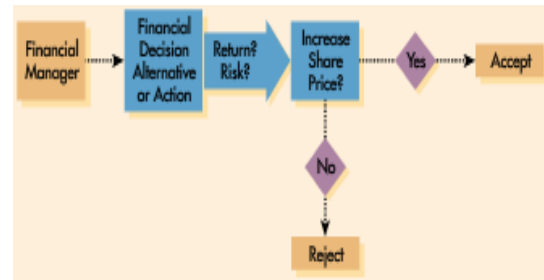
	Sole Proprietorship	Partnership	Corporation
Who owns the business?	Manager	Partners	Shareholders
Managers & Owners separate?	No	No	Usually
What is the owner's liability?	Unlimited	Unlimited	Limited
Are the owner and business taxed separately?	No	No	Yes



Maximizing Stockholder Wealth Is Achieved by...

- Maximizing the size of cash inflows
- Speeding up (delaying) the timing of cash inflows (outflows)
- Effectively dealing with the risk of cash flows

Share Price Maximization



Source: Lawrence J. Gitman, Principles of Corporate Finance, 2nd Cdn Ed.,

"My job as a businessman is to be a profit center and to maximize return to the shareholder."

Jeffrey Skilling, former CEO of Enron



Factors Affecting Cashflows and Wealth Maximization

Factors affecting a firm's cash flows and, thus, stockholder wealth maximization as determined by the financial markets include:

- Inflation, industrial demand, and other environmental factors beyond management control
- Strategic and policy decisions controlled by management

Strategic and Policy Decisions Controlled by Management

- Type of products or services offered
- Marketing and production systems
- Investment policy
- Amount of debt used

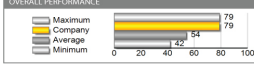




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Corporate Social Responsibility

OVERALL PERFORMANCE



RANKING

1 out of 87

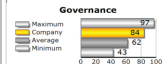
TOTAL SCORE

79

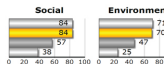
Rank	Company	Score
1	Nexen Inc.	79
2	Talisman Energy Inc.	76
3	Hess Corporation	73
4	Suncoor Energy Inc.	72
5	ARC Resources Ltd.	69

PERFORMANCE PER THEME


Governance



Social

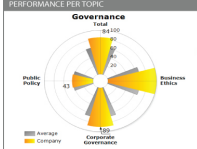


Environment

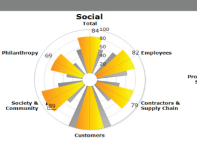


PERFORMANCE PER TOPIC

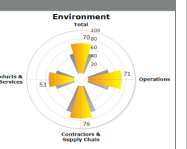
Governance




Social

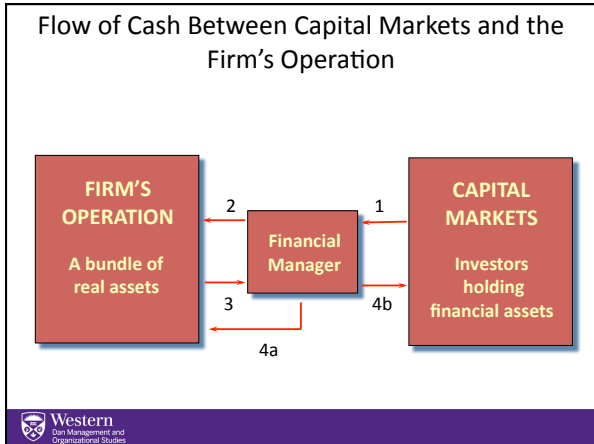


Environment






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Decision Making

- Capital budgeting
 - What long-term investments or projects should the business take on?
- Capital structure
 - How should we pay for our assets?
 - Should we use debt or equity?
- Working capital management
 - How do we manage the day-to-day finances of the firm?



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"You only get rich if you invest money at a higher rate of return than the cost of that money to you."

Source: Lawrence J. Gitman, Principles of Corporate Finance, 2nd Cdn Ed.

The Canadian Financial System

Financial market: total market for financial instruments

Primary market: the sale of initial issues (new securities) by corporations to buyers

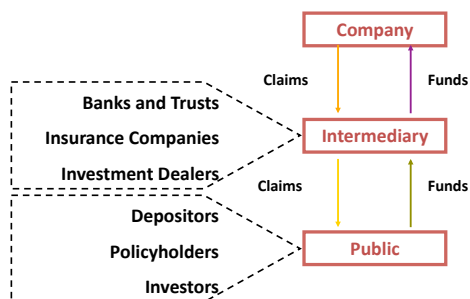
Secondary market: trading of previously issued (seasoned) securities are traded among investors

Fixed-income market: debt securities

Capital market: for long-term financing

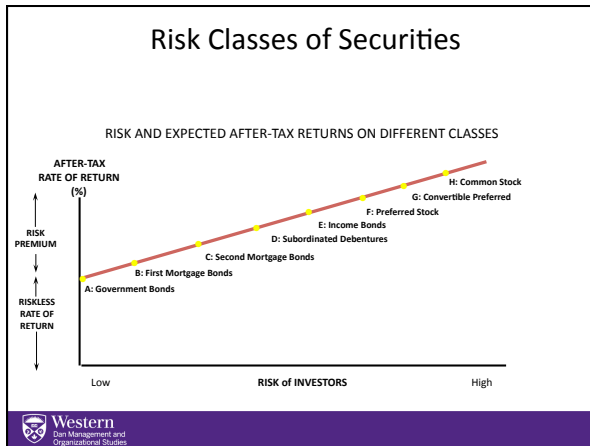
Money market: short-term financing <1 year

Financial Intermediaries



Functions of Financial Markets and Intermediaries

- Transporting cash across time
 - Offering liquidity and flexibility
 - Creating a payment mechanism
 - Reducing (spreading) risk
 - Opportunity cost of capital
- Information (expertise) provided by Financial Markets:
- Commodity Prices
 - Interest Rates
 - Company Value



Trends in Financial Markets & Management

- Financial Engineering
- Derivative Securities
- Advances in Technology – i.e. E-business
- Deregulation
- Corporate Governance Reform
- Hedge Funds
- Sub-prime Market

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