MODERN BUSINESS

Corporation Corporation

Grolier

CORPORATION FINANCE

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PREFACE

Every businessman should have a broad understanding of the financial problems a company faces and the methods available for solving them. For this reason, the text, *Corporation Finance*, is basic and one of the most important in the Institute's series.

The primary job of financial management is to provide money. But this job has many aspects to it, such as providing for cash needs, maintaining adequate working capital, planning capital expenditures, maximizing profits, establishing financial controls, determining dividend policy, handling mergers and recapitalizations, and taking charge of stockholder relations. There are many business policies, such as those relating to credit, purchasing, depreciation and taxes, where financial considerations play a major role and where the financial executive has a vital share in decision-making.

This text provides a panoramic view of the subject of finance, detailing the principles and techniques necessary for sound financial management. Its author, Steven S. Anreder, is associate editor of *Barron's National Business and Financial Weekly*, published by Dow Jones & Company. He has been writing for this publication since 1959.

Before joining *Barron's*, Mr. Anreder was a financial and business writer for the *New York Journal American*.

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Mr. Anreder received a BS degree cum laude from New York University and an MA in economics from New York University Graduate School of Arts and Science. He is a member of Kappa Tau Alpha, honorary journalism society and the national honorary business fraternity, Beta Gamma Sigma.

EDITOR-IN-CHIEF

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FINANCIAL MANAGEMENT

The Indispensable Ingredient

Henry Ford once remarked: "Money is like an arm or a leg. You either use it or lose it."

A great deal has changed since the days of the Model T. Styles are a lot different. Events as well as things move swifter nowadays. But in business, the role of money has hardly altered. As in Mr. Ford's day, the enterprise that hopes to succeed must be wise about the way it handles its finances.

A budding concern has need of many things. Among others, it requires management with drive, imagination, foresight and know-how. Its product or service, of course, has got to be right for the market it will attempt to sell.

But regardless of what the company turns out, or who it has running it, it's going to need funds to get started, to operate and to grow.

One writer put it this way: "A firm's success and even survival, its ability and willingness to maintain production, and to invest in fixed or working capital, are to a considerable extent determined by its financial policies . . ."

Every Business Needs Profits

In a sense, the objective of every business firm is the same: to show a profit. The profit motive, after all, is the keystone of a free enterprise economy, such as found in the United States and Canada. Besides, profits serve as a valuable yardstick, to measure both a company's health and its progress. A firm that is profitable is able to generate the wherewithal to thrive. It is better equipped to deal with adversity, to remain competitive, and to keep pace with changing technology.

Consequently, a business that hopes to prosper must remain financially sound. There are many reasons why businesses fail. But high on the list is lack of sufficient capital, or the indiscriminate use of what capital the enterprise has. How to obtain and fruitfully employ capital is the job of financial management.

The Meaning of Financing

Sound business financing may be defined as the allocation of a concern's liquid assets to assure their most productive use. In other words, the limited supply of capital available to any business, whether we are talking about a corner drug store or a steel mill, must, if the business is going to be successful, be used in a way in which it can do the most good in terms of profitability.

The individual charged with making financial decisions must weigh a variety of alternatives. Should the money go into research or into hiring additional personnel? Perhaps a larger sum should be spent on advertising.