Meaning, Importance, scope and objectives of Corporate Finance

Role	Name	Affiliation
Principal Investigator	Dr.Gyanendra Kumar sahu	Asst.Professor Utkal University
Content Reviewer	Dr.Gyanendra Kumar sahu	Asst.Professor Utkal University

Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Corporate Finance
Module Name /Title	Meaning, Nature, Scope and objective of Corporate Finance
Module No.	I

Meaning, Nature, scope and objectives of Corporate Finance

Objective: After reading this module, the learners will have a clear picture of :

(i) The primary goal of corporate finance is to maximize or increase shareholder.

Learning Outcomes:

Corporate finance is the study of capital, financial and investment decision making with the main aim of maximising capital market shares value and returns for shareholders entailing greater capital accumulation and greater capital formation generally resulting in greater wealth for the corporate entity.

Introduction:

Meaning of Finance:

1. **Science of Money**. Finance been called as the science of Money management. Observation or Understanding of the money management.

2. **Control of Money:** It studies the principles and the method of obtaining Control of Money.
3. **Decision:** The decision made by Business firm for production, Marketing, Finance and personal depends up on the economic therefore finance is one of the aspect of economic body. Circulatory system of the economic body.
4. **Conversion:** Finance is the process of conversion of accumulates funds to productive use.
5. **Definition:** Finance may be defined as the administrative area or set of administrative functions in an organization which relate with the arrangement of cash and credit so that the organization may have the means to carry out its objective as satisfactorily as possible.
6. **Financial Planning:** The successful administration of the finances of any organization comprise financial planning, raising the needed funds financial analysis and control.

7. **Classification of Finance:** Finance divided into two fold(i) Public Finance and(ii) Business Finance
8. **Public Finance:** Raising capital and Administration of Public fund by the Government.
9. **Private Finance:** Securing money for private Business and the administration of this money by individuals, company and corporation etc.
10. **Objective of Public Finance:** will invest for welfare of the public and society. ex: all Revenue
11. **Objective of business Finance:** Getting maximum return irrespective of its effect on public welfare.

12. **Classification of Business Finance** :(:i) Personal Finance (ii) Partnership Finance(iii)Corporation or Company Finance.

13. **Corporate :**It is an association of persons together for a common object to carry on some business for profit or promote the art,science,education and charitable purpose.

14. **Corporate:** A Corporate enterprises may be defined as an organization sanctioned by government to carry on some specific and clearly defined undertaking(.i)it is Separate from its member, Separate Property, sue and be sued, effecting agency for raising of Capital.
15. **Raising Capital** (i) The division of capital into small units in the form of shares or bonds to attract funds from people. (ii)Division of Shares and debentures reduce the risk to the minimum.(iii)easy transferability through organized stock exchanges (iii)The principle of Limited liability required vast amount of capital..(iv)The large aggregation of capital provides stability and face competitive strength.(v) Small and scattered savings are mobilized for producing and distributing goods on a large scale.
16. **Pulse:** Corporate undertaking is the economic pulse of the nation. and It reflects the economic progress of a country.
17. **Classification of Corporate:** Corporate classified into two groups (i) Public Corporations which are generally established under special act like LIC,IFCI,Damodora Valley Corporation etc.
    (ii)Private Corporation: which are engaged in commerce industry and finance

Definition and Scope Corporate Finance:

Corporate finance is the area of finance dealing with the sources of funding and the capital of corporations and the actions that managers take to increase the value of the firm to the shareholders, as well as the tools and analysis used to allocate financial resources. The primary goal of corporate finance is to maximize or increase shareholder.

1. Corporate Finance broadly speaking business finance can be defined as the activity concerned with the raising and administering of funds used in business.
2. **Precedents:** Corporate finance deals with precedents, practice and policies based or experience, accident or anticipation,
3. **Financial Problem:** Corporate finance deals with the financial problems of corporate. Also deal with distinction between capital and Income.
4. **Capital required:** It examine the extent form of Capital required by Corporate.
5. **Income:** It scrutinizes the practice and policies of administering corporate Income.
6. **Dividend:** It looks into propriety of Dividend, Depreciation and reserve policies of the companies.
7. **Financial Institution:** It studies the importance of financial institutions Insurance, stock exchanges, investment bankers etc.
8. **Role of State:** It examine the role of state in regulating and controlling the financial Practices and policies of Corporate.
9. **Divorce ownership and Management:** Management is provided with a number of opportunities to manipulate the financial statements. Corporate finance separate between ownership and management.
10. **Protector of share holders:** Corporate finance is likely to stand as a protector of shareholders.

The Objective of Corporate Finance:

Objective of Corporate Finance: A firm is a group of claimants of share holders, creditors, suppliers, customers and employees. The shareholders appoint a Board of directors to see the functioning and directing the company. The directors will act in the interest of the claimant not act in their own interest. In corporate finance theory generally agrees that the objective of a firm is to maximize the profit and wealth maximization. Wealth maximization rules require managers to work towards a sustainable increase in the price of the firm's stock.

Van Horne: we assume that the objective of the firm is to maximize its value to its stockholders"

Brealey & Myers: "Success is usually judged by value: The secret of success in financial management is to increase value."

In traditional corporate finance, the objective in decision making is to maximize the value of the firm.

Employees are often stockholders in many firms ¤ - Firms that maximize stock price generally are profitable firms that can afford to treat employees well.

There are three principal in modern wealth maximization rule namely i.Profit maximization ii Social welfare iii growth.

I Profit maximization: Profit is the excess of revenue over expenses. Profit maximization requires manager to keep low expenses.
ii. Social welfare: Business persons are supposed to be socially responsible.
Iii Corporate Growth:

A corporation is seen as a legal entity that has assets and liabilities as an individual and can be directly sued aside from its ownership. Corporate finance therefore deals with legal financial matter of these corporations in a general sense. However, it deal more specifically with financial investment and capital investment decisions, maximize shareholder value, and working capital investment decisions. Many corporations therefore in corporate finance ensure maximization of profits.
Further it aims at discussing the management-shareholder problems often referred to in management as agent-principle conflict regarding wealth maximization/capital formation maximisation and profit maximisation/ financial returns to investments.
Corporate finance is the study of capital, financial and investment decision making with the main aim of maximising capital market shares value and returns for shareholders entailing greater capital accumulation and greater capital formation generally resulting in greater wealth for the corporate entity.
Wealth maximization therefore implies ensuring that the corporation's capital investments and business operations expands, stocks value increase, and financial market performance is increased. profit maximisation however is the increase in the returns to investment of shareholders are proprietors not necessarily resulting from business expansion. Profit maximisation therefore is a short term business objective while wealth maximisationis long term as it may sacrifice profits for wealth accumulation and wealth formation

Wealth-profit argument
Wealth maximisation according to the business dictionary b(2013) is a process thatincreases the current net value of business or shareholder capital gains, with theobjective of bringing in the highest possible return.While profit maximisation is the ability for company to achieve a maximum profit with low operating expenses. The wealth maximization strategy generally involves making sound financial investment decisions which take into consideration any risk factors that would compromise or outweigh the anticipated benefits while the profit maximisation strategy is cost reduction.

Wealth maximisation entails corporate benefit while profit maximization entails owners benefit. Wealth maximisation has long term financial and capital market benefits while profit maximisation has short term gains in immediate returns to investment. It is argued that management is really smart and intelligent and knows what is good and what is

bad for the business however self-interest also drives management to maximize short-term profits even if that is detrimental to the long-term goal as they know that their salary and bonuses will be based on these short-term profits only. Wealth maximisation therefore ensures a more stable, larger market share, greater financial market performance in terms of value of stocks, more long term financial benefits for stock holders this therefore makes wealth maximisation of greater benefits compared to profit maximisation.

The importance of corporate finance can be classified as follows:

- **Decision Making:** There are several decisions that have to be done on the basis of available capital and limited resources. If an organization has to start a new project, then it has to consider whether it would be financially viable and if it would yield profits. So while investing in a new project or a new venture, a company has to consider several things like availability of finances, the time taken for its completion, etc. and then makes decisions accordingly.
- **Research and Development:** In order to survive in a volatile market for a long duration, a business organization needs to continuously research the market and develop new products to appeal the consumers. It may even have to upgrade its old products to compete with new vendors in the market. Some companies employ people to conduct market surveys on a large scale; prepare questionnaire for consumers; do market analysis, while other may outsource this work to others. All these activities would require financial support.
- **Fulfilling Long Term and Short Term Goals:** Every organization has several long term goals in order to survive in the market. The short term goals may include paying the salaries of employees, managing the short term assets, acquiring corporate finances like bank drafts, trade credit from suppliers, purchase of raw materials for production etc. Some long term goals would include acquiring bank loans and paying them off; increasing the customer base for the company etc.
- **Depreciation of Assets:** When you invest in a new software or a new equipment, you would require to keep aside some amount to maintain it and upgrade it in the long run. Only then you could be assured that it would yield good results over a period of time. In the fast changing times of today, if this is not done, you might end up losing business if you do not have finances for it.

- **Minimizing Cost of Production:** Corporate finance helps in minimizing the cost of production. With the rising cost of prices of raw materials and labor, the management has to come up with innovative measures to minimize the cost of production. In many organizations that spend a lot of money on large scale production, deploy professionals for this purpose. These people tend to buy quality products from vendors who offer it at lowest possible rates. For example, a products based software company might buy software from a vendor that sells it at a lower rate than an internationally acclaimed company selling the same thing.
- **Raising capital:** When an organization has to invest in a new venture, it is very important that it has to raise capital. This cab be done by selling bonds and debentures, stocks of the company taking loans from the banks etc. All this can be done only by managing corporate finances in a proper manner.
- **Optimum Utilization of Resources:** The resources available to organizations may be limited. But if they are utilized efficiently, they can yield good results. For example, a business organization needs to know the amount of money it can spend on its employees and how much hike should be given to them. The proper management of corporate finance would also help in utilizing its profits in such a manner that would help in increasing them; for example, investing in government bonds, keeping up with the latest technology trends to increase efficiency.
- **Efficient Functioning:** A smooth flow of corporate finance would enable businesses to function in a proper manner. The salaries of employees would be paid on time, loans would be cleared in time, purchase raw materials can be done when required, sales and promotion for existing products and launch of new products, etc.
- **Expansion and Diversification:** Before an organization decides to expand or diversify in to a new arena, it has to consider various aspects like the capital available, risks involved, the amount to be invested for purchase of new equipment etc. All this can be done by experts and this would be very beneficial for the organization.
- **Meeting Contingencies:** Running a business involves talking several risks. Not all risks can be foreseen. Although you can transfer some of these risks to third parties by buying an insurance policy, you cannot have every contingency covered by your insurer. You would have to keep some amount aside to tide over these situations.

Corporate finance plays a very important role in the overall functioning, growth and development of a business. In India, finance advisors help entrepreneurs and businesses by providing them with vital information through market research and analysis. This helps then to make decisions, expand their business, and survive in a competitive market in the long run. Therefore, the management of corporate finance is very important for profitable as well as non-profitable organizations.