CORPORATE FINANCE: STRATEGIC FINANCIAL MANAGEMENT FOR BUSINESSES

Marta Hernandez, University of Valencia

ABSTRACT

Corporate finance encompasses the financial decisions and strategies that corporations utilize to achieve their financial objectives and maximize shareholder value. This article provides an overview of key concepts in corporate finance, including capital budgeting, capital structure, and financial risk management. It explores how corporations raise capital through debt and equity financing, manage their cash flows, and make investment decisions. Additionally, the article discusses the role of financial analysis, corporate governance, and regulatory considerations in shaping corporate financial policies and practices.

Keywords: Corporate Finance, Financial Management, Capital Budgeting, Capital Structure, Debt Financing, Equity Financing.

INTRODUCTION

Corporate finance serves as the backbone of strategic financial management within businesses, guiding decisions that impact profitability, growth, and sustainability (Zutter & Smart, 2019). This article explores the fundamental principles, tools, and strategies in corporate finance that corporations employ to optimize their financial performance and achieve long-term success (Jordan, 2003).

Key Concepts in Corporate Finance

Involves evaluating and selecting investment projects that yield positive returns and contribute to the firm's strategic objectives. Techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period aid in assessing project profitability and risk (Kim, 2009).

Refers to the mix of debt and equity financing used by corporations to fund their operations and investments. Balancing the cost of debt against the benefits of financial leverage and maintaining an optimal capital structure are critical considerations (Marney & Tarbert, 2011).

Corporations raise capital through debt (e.g., bonds, loans) and equity (e.g., stocks, retained earnings). The choice between debt and equity financing influences financial flexibility, risk exposure, and shareholder value (Pettit, 2007).

Involves identifying, assessing, and mitigating financial risks such as interest rate risk, currency risk, and operational risk. Hedging strategies, derivatives, and risk management frameworks help corporations safeguard against adverse financial outcomes (Parrino, 2011).

Financial Analysis and Performance

Analyzing financial statements—such as balance sheets, income statements, and cash flow statements—provides insights into a company's financial health, profitability, and liquidity (Shapiro, 2008).

Citation Information: Hernandez, M., (2024). Corporate finance: Strategic financial management for businesses. *Academy of Accounting and Financial Studies Journal, 28*(5), 1-2.

Techniques like Discounted Cash Flow (DCF) analysis and Comparable Company Analysis (CCA) are used to determine the intrinsic value of a company, guiding investment decisions and corporate strategy (Tirole, 2010).

Corporate Governance and Regulatory Considerations

Principles and practices that guide the decision-making processes within corporations, ensuring accountability, transparency, and ethical conduct. Effective corporate governance enhances investor confidence and supports long-term value creation (Van, 2002).

Corporations must adhere to regulatory requirements set by governmental authorities and regulatory bodies. Compliance with financial reporting standards, disclosure requirements, and corporate laws is essential for maintaining legal and reputational integrity (Vishwanath, 2007).

CONCLUSION

Corporate finance is integral to the strategic management of financial resources within corporations, influencing decisions that impact profitability, growth, and shareholder value. By employing sound financial management practices, leveraging financial analysis tools, and adhering to corporate governance principles, businesses can navigate economic challenges, capitalize on growth opportunities, and achieve sustainable financial success.

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Received: 08-July-2024, Manuscript No. AAFSJ-24-15065; **Editor assigned:** 10-July-2024, Pre QC No. AAFSJ-24-15065 (PQ); **Reviewed:** 20-July -2024, QC No. AAFSJ-24-15065; **Revised:** 25-July-2024, Manuscript No. AAFSJ-24-15065(R); **Published:** 30-July-2024

Citation Information: Hernandez, M., (2024). Corporate finance: Strategic financial management for businesses. *Academy of Accounting and Financial Studies Journal, 28*(5), 1-2.