

Part 01

The aim of a company is to create value for its shareholders. Although other stakeholders are important, the shareholder is the principal stakeholder, and creation of sustainable shareholder value is the main objective. In order to create this value, the company has to create a competitive advantage to exploit inconsistencies in the markets in which it operates – both its trading environment and its financial environment.

An understanding of corporate value is impossible without addressing the issues of perceived risk and required return.

1/ Definition of Financial Strategy

A finance strategy is a comprehensive plan that outlines how a business or organization will manage its financial resources to achieve its objectives. It involves a detailed analysis and decision-making process related to the acquisition, allocation, and management of financial assets and liabilities to maximize value for stakeholders.

The core components of a corporate finance strategy are:

- Resource allocation
- Capital structure
- Investment decisions
- Risk management
- Financial forecasting and planning
- Liquidity management

we define financial strategy as having two components:

- (1) the raising of funds needed by an organization in the most appropriate manner
- (2) managing the employment of those funds within the organization, including the decision to reinvest or distribute any subsequent profits generated.

We examine the relationship between these factors; note that different stakeholders may have different risk perceptions; and define ‘ value ’ as relating to returns generated in excess of the required return. This latter point means that value is only created by investments generating a positive net present value (NPV). Following from this, three metrics of value calculation are introduced; two relating to ‘ internal ’ value of the business, and one which shows value to the investor.

2/ Goals of a Financial Strategy

The goals of a financial strategy revolve around optimizing a company’s [financial performance](#) and ensuring it can both achieve and sustain long-term growth. A robust financial strategy aims to create a stable foundation from which a business can operate, innovate, and expand.

Common financial strategic objectives that underline those goals include:

- **Maximizing shareholder value** through [profit maximization](#) and sound capital management
- **Achieving sustainable growth** by investing in assets, projects, and products that generate long-term value
- **Maintaining financial stability** through effective risk management and financial planning

- **Managing the ratio of debt to equity** to minimize the cost of capital and balance the company's risk and return on investment
- **Identifying and mitigating financial risks** such as market fluctuations, credit risk, and operational risks are essential to protect earnings and capital
- **Controlling and reducing costs** without compromising the quality or value of the product or service offered
- **Ensuring all financial operations are compliant** with relevant laws, regulations, and standards to avoid legal penalties and damage to reputation
- **Maintaining creditworthiness and operational efficiency** through effective liquidity management