

FINANCIAL MANAGEMENT IN PRACTICE

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How do I finance my enterprise?

RUDY AERNOUDT

Second edition



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THE IMPORTANCE OF FINANCIAL MANAGEMENT

The funding gap which entrepreneurs encounter is often attributed to the lack of supply. In reality lenders (banks) and investors (business angels, venture capital funds) do have funds. The problem lies in their unwillingness to make these funds available to entrepreneurs. This, in turn, is attributed to information asymmetries. Although it is true that suppliers finance can never know as much about the entrepreneur as the entrepreneur knows about him- or herself, it can be suggested that part of the information gap can be bridged through a better understanding of each party's goals.

This information gap results in a “dialogue of the deaf” which leads to the frequent failure of enterprises to obtain the most appropriate form of financing. Either they do not obtain sufficient funds, or the conditions in terms of cost, form of financing or guarantees are not optimal. This is not only a significant obstacle to starting a business; it is also one of the biggest obstacles, which prevent firms from scaling-up. It is also a major cause of bankruptcies. Indeed, inappropriate financing, combined with inadequate financial management skills, are the biggest cause of bankruptcy whereas surviving a crisis is closely related to optimal financing.

Financing is therefore not simply about raising sufficient cash. It is also about determining what is the optimal financing for the business at that particular stage in its development.

The clear implication is that a basic knowledge of finance and financial management is crucial for any entrepreneur. This is even more true in the aftermath of the economic crisis, in which good financial management was essential for the survival of companies. International banking regulations, also known as the Basel Accords, also require entrepreneurs to have a sound understanding of finances. But the financial management ‘tomes’ that an entrepreneur might consult are aimed at specialists in financial management and are typically dominated by theory and complex mathematical formulas. They are of little value in assisting an entrepreneur in his or her daily management role, or for students wanting to acquire basic and practical knowledge of financial management.

This book therefore fills an important gap. In contrast to the rather academic approach taken by other authors, Professor Aernoudt opts for an approach based on practice, with

cases and exercises to enhance understanding of various theoretical approaches. Hence the title of this book: *Financial Management in Practice*. He is eminently qualified for this task. As a former credit manager at an international major bank, he has experience of the bank side of corporate financing at close quarters. In addition, he has also advised many companies in determining their most appropriate form of financing. He has also been the chief financial officer (CFO) in a non-governmental organisation and a spin-off of MIT. And as a professor of Corporate Finance, he strives to impart this practical experience to his students. This book provides a vehicle through which he can share this knowledge with financial officers of small and medium-sized enterprises to guide them through financial management and, amongst other things, assist them in their negotiations with various financiers.

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