

even banks do not. For example, The Money Store—which made more than 1,700 loans worth \$635 million in fiscal year 1996—offers loans to entrepreneurs looking to take ownership of a franchise, an option that is not available at all banks. But as *Entrepreneur's* Cynthia Griffin noted, “in addition to the mega players, the commercial finance industry is populated by hundreds of smaller firms.” These firms generally make asset-based loans, providing services to small business owners who are unable to secure loans from their banks.

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*Hillstrom, Northern Lights
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FINANCE AND FINANCIAL MANAGEMENT

Finance and financial management encompass numerous business and governmental activities. In the most basic sense, the term *finance* can be used to describe the activities of a firm attempting to raise capital through the sale of stocks, bonds, or other promissory notes. Similarly, *public finance* is a term used to describe government capital-raising activities through the issuance of bonds or the imposition of taxes. Financial management can be defined as those business activities undertaken with the goal of maximizing shareholder wealth, utilizing the principles of the time value of money, leverage, diversification, and an investment's expected rate of return versus its risk.

Within the discipline of finance, there are three basic components. First, there are financial instruments. These instruments—stocks and bonds—are recorded evidence of obligations on which exchanges of resources are founded. Effective investment management of these financial

instruments is a vital part of any organization's financing activities. Second, there are financial markets, which are the mechanisms used to trade the financial instruments. Finally, there are banking and financial institutions, which facilitate the transfer of resources among those buying and selling the financial instruments.

In today's business environment, corporate finance addresses issues relating to individual firms. Specifically, the field of corporate finance seeks to determine the optimal investments that firms should make, the best methods of paying for those investments, and the best ways of managing daily financial activities to ensure that firms have adequate cash flow. Financial management influences all segments of corporate activity, for both profit-oriented firms and non-profit firms. Through the acquisition of funds, the allocation of resources, and the tracking of financial performance, financial management provides a vital function for any organization's activities. Furthermore, finance provides stockholders and other interested parties a tool with which to assess management activities.

Large corporations usually employ managers who specialize in finance as treasurers, controllers, and/or a chief financial officer (CFO). In a small business, many of the functions that would be performed by these specialists fall upon the small business owner or manager. He or she is usually responsible for obtaining financing, maintaining the company's relationship with banks and other financial institutions, ensuring that the company meets its obligations to investors and creditors, analyzing and deciding upon capital investment projects, and conducting overall financial policymaking and planning. For this reason, a basic understanding of financial management can be very helpful for a small business owner.

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