Corporate Financial Management Option (FCFM)

Corporate finance involves using financial tools and analyses to increase profits, grow value, and improve the returns of businesses, as well as raise and allocate capital, and reduce financial risks. Most corporate finance professionals work for corporations and businesses. In addition, these same skills are also applicable in the government sector, investment banking, consulting and for entrepreneurs starting up and growing businesses.

Corporate Finance

Corporate Finance is a term used to describe the array of finance functions that exist within a company. Finance professionals are found throughout a company, and their goal is to figure out ways to increase the corporation's profits, as well as ways in which the corporation can reduce its financial risks and improve the return on its capital. Many finance professionals in a corporation report up through the corporation's Treasurer to the Chief Financial Officer. In addition, finance professionals are also located throughout a company's various operating divisions, where they are embedded within the businesses in a variety of functions.

A career in corporate finance is an excellent way to learn how businesses function and, more importantly, how they generate income and returns for their shareholders. Corporate finance may also be a pathway to the upper management of companies. Many companies put their new finance employees through formal training programs, which provide new graduates with an excellent transition from the university setting to full-time employment. Other companies also have rotational programs, in which new employees spend their first few years rotating through a variety of business units and roles. The rotational programs are ideal for new graduates, because they provide the opportunity to learn about the key aspects of the business and functional areas of the company and how they are interrelated.

Key skills required in corporate finance include analytical skills, communication skills (written and verbal), accounting skills, and teamwork skills. We recommend that students who are interested in pursuing a career in corporate finance select the Corporate Financial Management Option. This option provides students with coursework in a broad range of topics related to corporate finance, including international finance, valuation. corporate governance, capital raising, risk hedging and mergers and acquisitions. However, students should keep in mind that there are some specific areas of the corporate finance career path for which other tracks and course options can also be helpful. An example is budgeting and forecasting, for which the Financial Accounting Option also provides excellent preparation.

The material below covers different potential career paths for the Corporate Financial Management Option (FCFM).

Business Development - Analyzing potential acquisitions and sales of businesses

Business Development is a group within a corporation that analyzes acquisitions, joint ventures, strategic alliances, and other new business relationships as potential methods to accelerate growth. Finance professionals in this group work with investment bankers, lawyers, accountants and other consultants. They perform detailed financial analyses, including projection modeling and valuation to determine how much to pay for a new opportunity, how to structure the deal, as well as how to finance it. In addition, they look at a wide variety of other factors to analyze the quality and desirability of a potential acquisition or joint venture partner and its management team. These include the target business' market and market position, the quality of its products and facilities, laws and regulations that impact its business, it's management's track record and reputation, technology and intellectual property issues, and the geographic areas in which the target does business and their future outlooks. All of this is summarized into reports that are presented to the top management (and often the board of directors) of the corporation, who must make the final decision regarding whether to proceed with a deal. As a result, business development is a very high-profile job within a corporation. It is usually not a job that is performed by new finance graduates, but instead by finance professionals who have previous experience in investment banking, commercial banking or corporate finance. The Finance Department's Venture Capital and Investment Banking Course offers students an introduction to the acquisition and divestiture processes tackled in this career path.

Business Unit Financial Analysis - Analyzing businesses to find ways to improve profitability and return on investment

Corporations are constantly trying to increase their profits by either growing their revenues or reducing their costs (or both). One way to accomplish this goal is by pursuing large capital projects, such as new manufacturing or distribution facilities, as well as expanding or modernizing existing facilities. Finance professionals play a key role in this process, by analyzing the costs and benefits of potential projects to determine whether they will provide a sufficiently high return on the capital required to fund them. The goal of a financially successful project is to achieve a return on investment that exceeds the business' cost of capital. These project analyses are critical to a company's success since projects often involve a large capital outlay. This large capital investment may significantly impact the company's financial results for years into the future. Well educated and trained financial analysts can help a company to avoid projects with poor financial returns and therefore more effectively allocate its capital to grow the value of the company.

Capital Budgeting - Analyzing proposed projects to determine if they are worth doing from a financial standpoint

Large corporations are extremely complex entities with operations in multiple locations (and often multiple countries). One of the biggest risks to a business is running out of liquidity (cash and the ability to borrow more cash from its banks). If a business runs out of liquidity, then it will not be able to purchase supplies or pay its workers and suppliers, which can quickly cause major difficulties and even bankruptcy. A key role of a company's Treasury Department is to ensure that all company business units (as well as its headquarters) have sufficient cash as well as bank credit facilities from which they can borrow additional funds when needed. Another aspect of cash management is making sure that excess cash is not sitting idle in portions of the corporation. Unused, idle cash is a drag on a company's return on investment because it is not earning an active return (interest). This cash could have been invested in new projects or acquisitions to grow the company's business.

Effective cash management in a corporation involves moving cash around a corporation to make sure that it is always optimally invested, in either growing the business or in investments such as bonds. A final aspect of cash management involves optimizing the timing of collections of cash from customers and payments to suppliers. Optimizing timing is important to the business because the needs of the company's customers (who often don't want to pay quickly) and suppliers (who do want to be paid quickly) must be balanced against the company's day-to-day cash needs.

In order to accomplish the goals discussed in the previous paragraphs, the finance professionals involved in cash management must establish healthy relationships with banks and other lenders in the various places where the company does business. In addition, the company must have solid systems and procedures in place to monitor cash balances, collections, payments, and bank borrowing capacity throughout its various business units and locations.

Contract Analysis - Analyzing and helping to structure and negotiate major contracts

Many companies have businesses that involve large, multi-year, multi-million-dollar contracts. Examples include defense contractors, auto part suppliers, commercial aircraft manufacturers, oil field service companies, and airport concession operators. In these businesses, it is critical to correctly price contracts in order to maximize profits and mitigate future potential losses. In order to price contracts correctly, a detailed financial analysis must be performed. These analyses incorporate the initial capital requirements ($ cash) as well as the ongoing revenues and costs associated with the contract. In addition, once a contract has begun, ongoing analysis must be done every year to ensure performance and to re-evaluate to see if modifications are necessary.

Financial Planning and Analysis - Preparing financial forecasts and projections to determine future budgets, profitability and capital needs

Most corporations have groups that put together and update the financial plans and budgets for the corporation and its various business units. These plans and budgets are usually updated at least once per year but may be modified more frequently to adjust to changes in the business, its markets, and the economy. A corporation's financial plan is a projection model of its operating results and financial statements for period of 1-5 years into the future. These are usual done in detail, often on a month-by-month basis, with numbers built up from each of the company's operating units and product lines. Once these numbers have been projected for future years, the company can then prepare its detailed operating budgets for the coming year. The company may also determine how much additional funding each of its businesses will need (or how much cash they will generate) in future periods. This function is very important to the corporation because it serves as the basis for several decisions, including hiring plans, resource allocation, capital spending, the setting of management goals and bonus criteria, and whether additional capital needs to be raised. The professionals who work in this area need to be proficient not only with finance, but also with accounting.

In many companies, these financial planning and budgeting groups are a feeder for upper management positions. Senior managers of a corporation must understand the business' financial results, details, plans and budgets, as well as the factors that drive them. They must also understand how the business makes money and be able to devise ways to make it more profitable and grow shareholder value, without taking undue financial risks. Both the Corporate Finance Management Option and the Financial Accounting Option prepare students for this career path.

Investor Relations – Managing communications and relationships with the company's stockholders and bondholders to provide them with financial information and updates about the company

Investor Relations is an important group within a company, particularly for corporations with publicly owned shares and bonds, because it serves as the key point of contact between a company and its investors (shareholders and bondholders). The investor relations group is charged with making sure that the company's shareholders and bondholders always have sufficient information to make informed investment decisions as required by federal law for public companies. This information is delivered through the company's website, its annual report, press releases, webcasts and presentations. In addition to the preparation and release of these materials, the investor relations personnel are expected to respond to questions that arise from shareholders, bondholders and potential investors.

An investor relations group within a company almost always includes finance professionals to be able to adequately and intelligently respond to investor questions and concerns. A well-run investor relations group will make the company's story more attractive to investors. It may also help calm investor fears when things go wrong, limiting the damage to the company's share price and ability to raise new funds. Investor relations professionals must have excellent written and verbal communications skills in order to be effective. It is also very important investor relations personnel to have a firm understanding of the stock and bond markets as it is their role to speak with investors from those markets. The Fixed Income Securities (FIN 4224) and Equity Securities (4274) electives provide that background knowledge.

Risk Management - Analyzing and hedging risks (currencies, raw material prices, interest rates, etc.)

All corporations face various types of risks, and finance professionals play a key role in evaluating those risks, monitoring them, and mitigating them through various types of hedging activities. Types of risks that finance professionals typically try to monitor and mitigate include currency risk, financing risk, interest rate risk, commodity price risk, and customer and supplier credit risk. If these risks are not properly identified, analyzed and mitigated, a company's earning may be highly unstable and may also be sharply reduced (or even eliminated).

The analysis of risks involves a number of finance skills, including financial statement analysis to analyze credit risk, the understanding of markets and financing products (loans, bonds, etc.) to understand financing risks, international finance to understand currency risk, and understanding monetary policy and bond markets to understand interest rate risk. Finance professionals must not only assess each type of risk, but they must also estimate the impact on a company's financial results and cash flows from various scenarios. In addition to assessing and analyzing risk, finance professionals must also devise and execute strategies to mitigate and hedge the various types of risk. An example is using futures and options to hedge against currency or commodity price risk. The finance professional must determine which types of financial products are the optimal ones to use in a hedging strategy. They must also calculate the dollar amounts of each product required, and they must execute the trades to put the hedge in place. Once the hedges are in place, they must be monitored, optimized and liquidated at the appropriate times.

Professionals involved in this area should have a thorough understanding of financial derivatives (options, etc.) and other financial products. They should also be highly quantitative and be interested in the fixed income, currency and commodity markets.

Treasury - Overseeing the management of a company bank accounts and cash, maintaining relationships with lenders and other major creditors, and working with lenders and investment bankers to raise capital and refinance debt

Finance professionals within a corporation's Treasury group periodically work on the raising of new capital through the issuance of new shares of stock, new bonds or commercial paper (a type of short-term debt). The funds could be required for a variety of uses, including repaying existing debt or funding acquisitions, new projects or capital required to grow the business. The funds may also be used to repurchase existing shares of stock from investors who want to sell them. Finance professionals work with investment bankers and lawyers to structure the transactions, prepare the necessary documents for investors and regulators, and help market the transactions to potential investors. In some corporations that frequently raise capital, this may be a full-time job, while at most companies, this is done as needed by finance professionals within a corporation's Treasury group who have other duties as well. Because of the size and importance of these transactions, they are usually overseen by more experienced finance professionals, although they may have more recent graduates on the team in supporting roles.

Most companies have at least one bank loan or credit line, and larger multinational corporations often have multiple bank loans. Because of the importance of always having sufficient liquidity (the ability to borrow), it is critical for a company to have a competent group of finance professionals who oversee the company's relationships with its banks, as well as the various loans that are outstanding. These professionals monitor the company's loans and credit lines, keeping track of when each loan must be refinanced, how much has been borrowed, when payments are due (and who must be paid how much), and the company's compliance with covenants and other restrictions in the various loan agreements. These professionals also work with the banks to solve any problems that arise with existing loans, and to find ways for the company to borrow additional funds from existing lenders or new lenders. The Bank Management and Financial Services (FIN 4254) is an elective course offered by the Finance Department that offers students preparation for this type of activity.

Government Finance

The Corporate Financial Management Option provides students with excellent preparation for a variety of finance jobs in the government sector whether it be federal, state or local governmental agencies. Within these agencies, there are a wide variety of finance roles that require a variety of skills and strengths. Some jobs are project-oriented, with a constant stream of new things to learn and experience, while others are more predictable day-to-day. Due to the large variety of government jobs, career paths and employers, we can only attempt to provide a broad overview of the opportunities available to finance majors with various federal, state and local governments and agencies. The following paragraphs outline some of the more common career paths and job opportunities available to finance majors in the government sector.

Budgeting and Planning

Every government agency requires finance professionals to deal with the financial issues involved in running the agency. For example, every government agency (including the military) requires professionals to prepare and monitor budgets and financial forecasts. In addition, governmental agencies require finance professionals who are able to evaluate large capital spending projects, such as expenditures for buildings and a myriad of equipment and supplies. They also require professionals capable of collecting and analyzing financial data on an ongoing basis to help make their operations more efficient.

Financing

Many government agencies issue bonds to provide funding for their operations. At the Federal level, the U.S. Treasury Department is the largest issuer of government bonds. In addition, state and local governments issue billions of dollars in bonds every year along with agencies affiliated with the U.S. Government, such as the Tennessee Valley Authority and the Federal Home Loan Banks. Professionals within these agencies work with investment banks to structure and market the bond issuances. They also put together and provide financial information to investors who purchase the bonds, and they continue to provide information to bondholders over the life of the bonds.

Law Enforcement Agencies

With the growth of financial transactions over the internet and the expansion of global financial transactions, there has been an increased emphasis on fighting financial crimes such as money laundering, bank fraud, securities fraud, tax evasion and Ponzi schemes, as well as cybercrimes such as phishing and identity theft related to bank accounts and credit cards. The investigations of many of these crimes by law enforcement agencies such as state police and the FBI often require significant financial expertise and analysis, which finance majors can provide. The IRS and state and local tax agencies also require finance professionals for analytical and investigative work.

International

Both the State Department and the federal intelligence agencies utilize finance experts as part of the U.S. Government's international activities. The State Department has officers who promote trade and improved economic relations with countries around the world. These professionals need to have strong business skills, including the ability to analyze data about economies, markets and companies. The intelligence agencies have professionals who analyze the economies of individual countries and the impact of various policies and world events. Many of these professionals are based in the countries that they are dealing with, with assignments often changing every few years. International government jobs are ideal for graduates who want to see the world and learn about different countries and cultures. A key success factor (in addition to finance skills) is the ability to learn languages and quickly adapt to different cultures. These jobs are often excellent preparation for careers with multinational corporations. Downsides associated with these career paths include the need to relocate frequently and the security risks associated with residing in risky countries. Students seeking international careers should consider pursuing the International Business Minor.

Additional Careers in Finance

Entrepreneurship

A career as an entrepreneur is ideal for individuals who have the ambition to create their own future, be their own employer, and be willing to assume the risk associated with being self-employed. Another positive aspect of an entrepreneurial career is that it enables you to use a broad variety of business skills in addition to finance. As an entrepreneur, you will need to manage people, produce and/or source products, market your business, and set up information and accounting systems. While this is one of the riskiest financial career paths, it is also the one that may provide significant potential returns. Students desiring a career as an entrepreneur need to be aware that a high percentage of new businesses ultimately do not suceed and an understanding of the risk involved is paramount. In addition, starting a business is also very time-consuming. Expect to work long hours with a minimal salary in the initial stages of starting and building the business.

An alternative to starting a business yourself is to be the finance person on a team that is starting or growing a business. Many entrepreneurs, particularly those with technical backgrounds, need help with finance and accounting, in this case they will add a team member with expertise in those areas. In addition, many companies have opportunities to participate in the startup of a business within the larger company. These internal startups provide the experience of starting up a business without directly taking large financial risks yourself.

In addition to a Finance major, students who are interested in becoming entrepreneurs should also pursue the Entrepreneurship minor, which adds additional coursework that is relevant to entrepreneurs.

Virginia Tech also has many student groups and learning communities for students interested in entrepreneurship.

The Innovate living/learning community is designed to immerse students in entrepreneurship by having them live in a dorm with other students who are interested in entrepreneurship. In addition, students in Innovate take a series of courses that expose them to the basics of entrepreneurship.

The Entrepreneur Club ("E-Club") is a club for students who are interested in entrepreneurship. The E-Club includes students who are trying to start and grow businesses as well as students who are just want to learn more about entrepreneurship.

Additional information for students interested in Entrepreneurship at Virginia Tech is available through Pamplin's Center for Innovation and Entrepreneurship and at the following web pages:

- http://www.apex.vt.edu/
- http://www.vteclub.org/
- http://www.entrepreneurship.vt.edu/
- https://www.apex.vt.edu/innovate-living-learning-community/