

P R E F A C E



The fifth edition of *Practical Financial Management* is the latest milestone in a 35-year journey in education that began when I was a corporate executive teaching finance as an adjunct professor.

Not long after starting down that road I realized that I might be able to improve on the approach taken by most finance texts. It was true then, and it's still true today, that most finance texts are harder for students to understand than they should be. The issue is relatively unique to the field. No other business discipline seems to have finance's reputation for unfathomable reading material.

I eventually came to the conclusion that the problem lies in the fact that textbook presentations are inconsistent with the background knowledge and abilities of typical business students. That isn't to say that the texts are poorly done. By and large, finance texts are good books. They're logical, well written, and comprehensive. But they're consistently off target in several key areas with respect to the students who read them.

The first problem has to do with student background. Texts tend to introduce topics using a voice that assumes the student already has some grounding in the area to be studied. Even bright students are confused and intimidated by this practice, because most don't know anything about the subject area when they start a chapter.

The second issue relates to quantitative material. A great deal of finance is grounded in math and statistics, so students have to take prerequisite courses in those areas. But most business students aren't really comfortable with quantitative methods, even after they've had the courses. This leads to the biggest pedagogical problem we have. Textbooks assume business students are better at math than they are. As a result, most readers can't follow textbook presentations of quantitative material without an inordinate amount of time and study.

Finally, there is a troubling lack of practicality in much of this literature. For example, texts present techniques like NPV and IRR implying hair-splitting accuracy that doesn't exist in the real world, where results often depend on biased and uncertain inputs. Textbooks are also silent on the behavioral problems that financial managers deal with every day. For example, the conflict between sales and finance over receivables can tear a company apart, but it is rarely mentioned in textbooks.

The result of all this has been that finance professors don't get much help from textbooks in teaching introductory courses. We develop classroom approaches that get the ideas across, but spend a great deal of time explaining the text rather than using it to support our teaching.

Over a period of years, I developed ways around these problems that eventually evolved into *Practical Financial Management*. I began by writing expositions on subjects that gave students the most trouble, starting with time value and portfolio theory. Those explanations really worked! Time value is a good example. Students have difficulties even though they've generally seen it before. After reading my material, students would come in saying, "I never really understood time value when I had it in accounting and math, but now I do!" As you can imagine, that felt pretty good.

Fifteen years later, after serving in a number of corporate financial positions including chief financial officer (CFO), I changed careers, becoming a full-time educator in order to pursue my first loves: teaching and writing. One of the results is *Practical Financial Management* (PFM), now in its fifth edition. PFM is unique because of its

approach to teaching finance. That approach is the result of a combination of classroom and practical experience. The theme is easy to summarize.

We begin every area of study by presenting the heart of the business problem or issue. We start from scratch, assuming students know nothing about the area. That's critical—we bring readers up from absolute zero so there is no confusion and they know exactly where they're going and why. Look at the beginning of Chapter 9 on portfolio theory for an example (pages 369–370). We begin the chapter by explaining why we study “risk and return” in the first place. We also define the investor's goals right away using terms beginning students can understand. After that, key theories are explained clearly and are quickly backed up with practical examples.

Next, wherever math is involved we explain the physical and business relationships between variables before developing or using equations. We discuss what each aspect of a relationship means as we put it together. That gives the equations substance and meaning to students who are less than comfortable in quantitative areas. See the development of IRR in Chapter 10 as an example (pages 430–431).

Then, when we do use math or complex procedures, we carefully explain what we're doing step by step. We assume students have the basic tools of algebra or accounting or statistics, but we don't assume they know that material well. This is another crucial point. Most students aren't really skilled in those areas. But because our systematic presentation recognizes that, students don't get lost or stuck. *PFM* is a resource students can use by themselves as well as under supervision. They can read whole chapters on their own and come to class better prepared than ever before. Look at the first pages in the development of the time value of money in Chapter 6 as an example (pages 223–224). Also see the development of the statement of cash flows in Chapter 3 for the same idea in the context of difficult accounting material rather than math (pages 75–79).

Finally, I've drawn on my years as a financial executive and CFO to present some insights into how things really work. You'll find these explanations throughout the book, identified by a “From the CFO” icon in the margin. A prime example deals with the problems associated with estimating cash flows for capital budgeting projects, which is found in Chapter 11 (see Example 11.2, pages 469–472—the people who propose capital projects are usually biased toward acceptance).

PFM's end-of-chapter Business Analysis exercises are another important practical feature. They are mini-cases designed to open students' eyes to the realities of applying financial principles in actual business situations. The questions at the end of Chapter 11 on cash flow estimation are good examples (pages 473–475).

Throughout, I've tried to write this book in a way that's easy to read, enjoyable, and unintimidating. The word that sums that up is “accessible.” I think I've been successful, because reviewers have been unanimous in their praise of the work's conversational style and easy readability.

Thank you for using *Practical Financial Management*. I'm absolutely sure you and your students will be pleased with the learning experience they'll have as a result.

CHANGES TO THIS EDITION

We've made a number of exciting changes in the fifth edition that will please professors and students alike. The following is a brief summary.

Reorganization Emphasizing Financial Planning

We've reorganized the text by moving the financial planning chapter forward into Part One from its earlier position near the end of the book. There's a twofold rationale for this move. First, treating planning in the fundamentals section is meant to emphasize

the ever increasing importance of planning and forecasting in today's business environment. Indeed it's very likely that young professionals, whether in finance or another department, will be involved in a planning exercise within their first year in business. This implies that coming into the workplace with a grounding in the philosophy behind planning as well as an understanding of its real world techniques will be invaluable to their early career development. In other words, we feel that an exposure to planning is likely to make students better managers and executives sooner. Hence we've moved the planning chapter to the forefront of the text where it's more likely to be included in a one semester fundamentals course, which may be the only exposure to finance that non-majors get.

Second, the new placement makes pedagogical sense. Planning is now covered in Chapter 4, immediately following Chapter 3's treatment of ratio analysis and Chapter 2's review of accounting and financial statements. Since planning involves projecting financial statements and uses ratios as a forecasting tool, it's a good idea to study the subject while those concepts are fresh in students' minds.

Having said that, we recognize that some professors will still prefer to defer or omit coverage of financial planning. That's not a problem because the chapter can be skipped without loss of continuity.

Comprehensive Treatment of Executive Ethics and the Sarbanes-Oxley Act

In the early 2000s the world discovered that an unprecedented fraud had been perpetrated on the investing community by a significant number of corporate executives in the 1990s. Exposure of the wrongdoing resulted in investment losses in the hundreds of billions if not trillions of dollars. The federal government responded with the Sarbanes-Oxley Act (SOX), legislation that forever changed the governance of public corporations and the public accounting industry. Surprisingly, corporate finance texts have been slow to include discussions of the Sarbanes-Oxley Act, its roots, or its implications.

We've addressed that omission in the fifth edition by adding a section on SOX to our coverage of the financial system in Chapter 5. We begin by explaining how stock based incentives create a moral hazard for executives who can influence financial reporting. From there we describe how the financial and auditing systems were supposed to protect investors and how they failed to do so. Only after that foundation is laid, do we get into the provisions of the Act, what it's designed to do, and its impact on the business and financial world. The result will be students who understand what went wrong, why it happened, how the legislative fix is working, and how it has changed the financial world.

Issues in International Finance—Globalization

The explosion in international business going on today is part of the globalization phenomenon, which has created a number of high profile financial and economic issues. These include free trade (versus protectionism), outsourcing, legal and illegal labor migration, and the inconvertibility of China's currency. Here again finance texts have been slow to treat these developing issues although they profoundly affect the international business and financial environment.

The fifth edition of *Practical Financial Management* adds a discussion of globalization in the international finance chapter. Once again we begin with the basics, developing the idea of comparative advantage and showing how it leads to a conflict between free trade and protectionist policies. With that background we discuss the current globalization trend and outline both its positive and negative implications.

The treatment then focuses on specific problem areas such as job and labor migration, immigration, outsourcing, and the balance of trade with China. In summary, the added section quickly brings students into the current world of international business and trade relations.

Additional End-of-Chapter Problems

Several new problems, developed by the author and Dianne Morrison (University of Wisconsin—La Crosse) have been added at the end of every chapter. The new problems vary in difficulty and have been dispersed among the existing problems.

New INSIGHTS Boxes

PFM's successful series of thought-provoking INSIGHTS boxes have been updated and enhanced with the addition of several new articles. The Ethics series highlights moral or ethical dilemmas faced by financial executives, the Practical Finance series applies chapter concepts to real and hypothetical problems, and Real Applications focuses on applications involving large, well-known companies.

CONTINUING UNIQUE AND IMPORTANT FEATURES

The following special features have been retained from earlier editions.

From the CFO

This feature highlights material that's based on the author's experience as a CFO. These comments deal with finance in actual practice and offer tips and insights grounded in real-world experience. "From the CFO" material appears throughout the text and is identified by a logo in the margin and italicized print.

Margin Notes

PFM's summarizing margin notes are particularly complete and thorough. They provide students with a convenient summary/outline of the textual material rather than just a list of key words.

Internet Notes and Exercises

Internet addresses and descriptions are included in the margins to direct students to Web sites that expand upon the material being presented. Internet exercises are also included in end-of-chapter material.

INSIGHTS: Practical Finance

PFM's Practical Finance boxes provide analysis and understanding of financial principles as applied in practice alongside textual presentations of the underlying concepts.

INSIGHTS: Ethics

Our ethics features delve into the moral dilemmas faced by financial managers every day. The issues are presented alongside relevant subject matter and focus on the ethical problems constantly in today's news.

INSIGHTS: Real Applications

The Real Applications features provide real world examples that show how chapter subject matter impacts large, well-known companies.

BUSINESS ANALYSIS Exercises

A thought provoking series of exercises has been placed at the end of each chapter. Basically qualitative in nature, Business Analysis scenarios are mini-cases that place students in delicate organizational or political situations and ask them to develop reasonable solutions.

SUPPLEMENTS

Practical Financial Management comes with a full set of supplements, which are available in print and/or on the text Web site, or by online purchase.

Thomson ONE—Business School Edition: Use the Thomson ONE academic online database to work chapter Thomson ONE problems. Thomson ONE combines a full range of fundamental financials, earnings estimates, and market data for hundreds of real-world companies. This is an academic version of the same tools used by Wall Street analysts every day. Access to Thomson ONE—Business School Edition is provided by registering a unique serial number that comes with each new book.

ThomsonNOW: ThomsonNOW provides students with a robust set of additional online learning tools, and is available in both Blackboard and WebCT. Here is a tour through some of the study support features found in ThomsonNOW for Lasher:

- *Personalized Learning Path:* Each chapter includes a personalized learning path that allows students to take a pre-test to assess their prior knowledge of the material and then based on the results of that pre-test, establishes a Learning Path that focuses the student's studies on the material where he or she needs the most work. The study materials presented here include the appropriate section of the ebook, video elements, and other multimedia learning objects. A post-test is then available to assess a student's progress after using the Personalized Learning Path.
- *Ebook:* Every ThomsonNow product includes a complete ebook version of the textbook for easy electronic access.
- *Homework:* ThomsonNow includes end-of-chapter problems that instructors can assign as homework or include in electronically graded quizzes and tests.
- *Test Bank:* The complete Test Bank for this product is also included so that instructors can create tests and exams directly in ThomsonNow and assign them to students for automatic grading and results.

Product Support Web Site. PFM's Web site at <http://thomsonedu.com/finance/lasher> contains student resources, instructor resources, Internet updates and links, spreadsheet software, and other useful features. Students can go directly to the text Web site to link to the Internet addresses in the text margins and to work the end-of-chapter Internet exercises. The Web site also provides instructors and students with access to unique features such as "NewsWire: Finance in the News," "NewsEdge," "Finance Interactive," as well as customer service information and links to book-related Web sites. Learn about valuable products and services to help with your finance studies, contact the finance editors, and more.

Spreadsheet Software. PFM contains two types of computer problems in the end-of-chapter material. Some problems use spreadsheet templates, while others require students to create their own spreadsheet software. The templates, developed

by the author and Leonard W. Gajewski of Nichols College, are available on the text Web site and through ThomsonNOW to both students and instructors.

PowerPoint Lecture Slides. PowerPoint slides, revised for this edition by the author and Patricia M. Bernson of County College of Morris, are available to instructors. These slides are designed for classroom presentation, with most illustrative examples summarized, providing a useful lecture tool.

Instructor's Manual. The Instructor's Manual is written and maintained by the text's author, with the help of Dianne Morrison of the University of Wisconsin, LaCrosse. It contains chapter-by-chapter focus statements, pedagogical tips, and teaching objectives. All of the discussion questions are answered in detail, and solutions to the problems are fully worked out. The Instructor's Manual is available in book form and on the instructor's Web site, where it is password-protected for instructor use only.

Test Bank. The text author personally edits the test bank, ensuring that all questions are consistent with the text's style and notation and that all are clear, readable, and appropriate for students' abilities. This edition is revised by Tom Arnold of the University of Richmond and the text author, and contains over 2,500 insightful questions categorized by topic area. The questions include multiple choice, true/false, fill-in, essays, and problems.

ExamView. The ExamView computerized testing program contains all of the questions in the printed test bank. ExamView is easy-to-use test creation software that's compatible with Microsoft Windows. In making up tests, instructors can edit questions, add their own questions or instructions, and print out answer sheets. Questions can be selected by number, randomly or through an on-screen preview. Instructors can also create and administer quizzes online, using the Internet, local-area networks, or wide-area networks.

Cases. The Finance Online Case Library includes more than 100 cases from which instructors can create their own course-specific casebook. Visit <http://www.textchoice.com> or contact your Thomson Learning sales representative for details.

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ABOUT THE AUTHOR

Professor Lasher has a unique background that includes extensive experience as an educator and as a corporate financial executive. Prior to entering full-time academics, he worked for Texas Instruments, Harris Corporation, and the Pacific Telesis organization. During those years, he served as a corporate financial planner, a controller, and as a subsidiary CFO. While working in industry he taught graduate and undergraduate finance and economics as an adjunct professor at the University of Dallas, the University of Texas at Dallas, and Golden Gate University in San Francisco. He moved into education full time in 1988 when he joined the faculty at Nichols College in Massachusetts.

Professor Lasher has a B.S. and an M.B.A from Columbia University, received his Ph.D. from Southern Methodist University, holds a J.D. from the New England School of Law, and has earned a Certified Public Accountant designation. He has also published books on business planning, franchising, and the strategic management of small firms.