

financial management in Focus

Carlos Correia talks about the history behind Juta's *Financial Management*

The book, *Financial Management* has been very successful for over 25 years. What do you ascribe this to?

Although the book has been around for a long time, the book has constantly evolved to reflect the significant changes that have occurred in financial markets, financial theory, and the teaching of corporate finance. The 7th edition published in 2011 was written in line with SAICA's Competency Framework, which added about 300 pages to the book. To be successful, you need to have a passion for corporate finance, which we think is reflected in our commitment to the book. In relation to how the book is written, our approach has been less formal as we view writing as a series of conversations with our readers.

How did the book come about?

David Flynn, Enrico Uliana and Michael Wormald (the co-authors) and I got together and over a few glasses of fine wine (from Enrico's cellar) we decided that we should write a textbook specifically geared for South Africa. Although the American and British textbooks were of a high standard, we believed that there was a need for a book that met the needs of South African students. The rand had also fallen significantly at the time and we wanted to offer students value for money when purchasing a finance textbook. Over the years, the increasing professional demands on my co-authors required that I assume a greater role in the book, which I have done for the 6th and 7th editions.

***Financial Management* is prescribed at 21 universities in South Africa and the book has been a major force in the teaching of corporate finance and financial management. Why is this?**

We tried to understand the needs of lecturers and students as well as practitioners. We have focused on South African financial markets, how South African tax legislation impacts on finance, and have included questions that are aligned to SAICA's final qualifying examination. This essentially makes it easier for students and lecturers to deal with the complex and ever-changing requirements of practice and the profession. We have tried to write simply and have used examples extensively to explain financial theory.

Is the book aimed only at students or also at practitioners?

We find that the book has become a reference work for practitioners as well. So, we always include real-world applications and data that may assist practitioners to apply finance theory. For example, we include a section on how to estimate the CAPM parameters in South Africa, as well as how to use Excel financial models to assist in decision-making. We also ensure that we are up to date with the latest changes in industry and how these affect corporate finance decisions.

What have been the most dramatic changes in finance over the last 10 years?

The practice of financial risk management and use of derivatives have become pervasive in corporate finance. For example, about 20% of SABMiller's total asset value is in the form of derivatives. We have significantly expanded the section on financial risk management, the valuation of options and futures, interest rate swaps, currency forward contracts, duration, floors caps and collars and securitisation. These issues can be complex, so we have used clear explanations and simple examples in the text.

The global financial crisis significantly affected working capital policies, dividend policies, the cost of capital and capital structure policies of South African companies. For example, we examine Anglo American's decision to not pay a dividend for the first time since World War II and Sasol's decision to raise its cost of capital following on from the global financial crisis.

The use of financial modelling is now widespread and each chapter includes Excel financial models. We have included a separate chapter on business planning and financial modelling. There is greater market volatility and there have been significant changes in long-term interest rates. At the same time, Warren Buffett retains an iconic presence and has become more influential over time. So we have included sections on what Warren Buffett thinks in the book.

What would you regard to be the enduring impact of the book?

South Africa is an emerging market with significant challenges. It is imperative that we focus on education to ensure transformation of our society. If the book helps with ensuring that more South Africans understand the theory and practice of finance, then we feel that we have played a worthwhile role. It is a competitive environment, but we believe that South African students should have the best and most relevant textbook to ensure that their education in financial management is given the greatest chance of success. Anything less would be unethical and unfair to our students.



About Carlos:

Carlos Correia, B.Com (Hons) M.Com (Cape Town) CA(SA), completed Articles with Deloitte and is currently a Professor at the University of Cape Town. Correia was Head of the Managerial Accounting and Finance division of the Department of Accounting at UCT for many years. He is currently co-convenor of the Masters in Finance programme at UCT. Carlos has published widely and consults on valuations and cost of capital to major corporations.