

Co-Authors

Robert Patterson is an emerging market SME financial adviser and an accounting/finance trainer. He graduated from Queen's University (Kingston, Ontario) in business (undergraduate) and economics (graduate). In Canada, Bob articulated with the auditing firm of Price Waterhouse and qualified as a member of the Institute of Chartered Accountants of Ontario. He was then a commercial banker with the Toronto Dominion Bank in Toronto and the National Bank of Canada in Calgary and Toronto. He is a member of the Institute of Canadian Bankers. He also holds certificates in *SME Finance* from the Frankfurt School of Finance and in *Commercial Credit* from Moody's Analytics. When he first settled in Poland in 1994, Robert worked with Coopers & Lybrand's management consulting practice. Since 1998 he has been a free-lance emerging market SME finance adviser with assignments in over 25 countries in Eastern Europe, former CIS, Middle East, Asia and Africa. He has published several books on finance-related topics in Poland. Robert is an Honorary Lecturer at the Warsaw University of Technology Business School where he has taught Executive MBAs in finance and accounting since 1995. He now also teaches finance topics at UMCS, Lublin nearby his home in Nałęczów.

Dr Mariusz Kicia is an assistant professor at the Maria Curie-Skłodowska University in Lublin, Poland (MCSU). He graduated from MCSU in economics (Masters degree, 1997) and mathematics (Masters degree, 1998). He received his Ph.D. in economics (financial markets) from MCSU in 2004. Since 1997 employed at MCSU's Faculty of Economics, Department of Banking. His fields of interest cover dynamics of financial markets with behavioural foundations, capital investment, portfolio and risk management, macro-economics. Since 2007 he holds CEO position at Account Economic Advisory LLC developing his professional background in capital markets (M&A, private equity, venture capital, business angels, IPO, company valuation) and strategic development (implementing Balanced Scorecard projects). He assisted domestic and international transactions valued over USD 500m, including private and public equity placements to the Warsaw Stock Exchange (WSE), equity financing of start-ups and innovative spin-off companies from biotechnology and ITC industries. He has been an active WSE investor since 1993. He is a member of the Polish Society of Finance and Banking, the Academic Society of Economic Psychology, the Society for the Study of Emerging Markets and Mensa Poland. He has published over 50 articles and books on financial market and economy. He serves as an economic expert to Polish media (TVP, the Radio Lublin).

Authors' Foreword

Banks are to money, or rather to capital, what railways are to people – the railway takes the passenger where he is wanted; the bank takes the capital where it is wanted. – Walter Bagehot

This is a textbook for students of the financial management of commercial enterprises. Its title – getting “capital to where it is wanted” – could be a rather charming way¹ to express the task at hand. Where exactly is capital wanted? Because it is scarce, capital insists on earning a return commensurate with its risks. In enterprises, financial management’s task can be thought of – at least in the abstract – as working with the risks and rewards inherent in the value creation process. When done well, the result will be capital that is productively employed for the benefit of shareholders, investors, employees and for society at large. There are all sorts of winners. When poorly executed, value is destroyed, competitiveness is lost and perhaps obligations will be defaulted upon. There are many losers. In all, the stakes are very real indeed.

This is why it makes addressing the key principles of financial management a worthy subject of business study. Such principles will certainly need to be grasped early on by students aspiring to the lofty heights of becoming a finance director (FD) or a chief financial officer (CFO). But the key principles should also merit attention from anybody working in a business enterprise, regardless of their function or seniority level. We believe that financial management principles should be at work everywhere and need to be appreciated by both specialists and generalists as part of a healthy corporate culture of shareholder value creation. Otherwise, firms lose their commercial instincts and fall prey to bureaucratization.

¹ Walter Bagehot (1826–77) was a Victorian banker with a distinguished career as a journalist (editor of “The Economist” newspaper of London) and writer of several ‘great works’ (*The English Constitution* and *Lombard Street*). He is also credited with “inventing” central banking in the sense of articulating its legitimate role and creating the treasury bill, both 19th century innovations still very much with us today. Quote is from the ‘Introduction’ to *Lombard Street* in *The Collected Works of Walter Bagehot*, “The Economist”, London, 1978, Volume IX, p. 18.

The financial management of enterprise needs to answer some ‘mission critical’ questions for any firm. How to create value for shareholders by investing wisely? How to minimize the firm’s cost of capital so that the most projects can be undertaken? How to access capital from cautious banks, discriminating investors and impersonal capital markets? How to handle day-to-day operations through the proper management of cash, accounts receivable, inventory and supplier credit? How to manage the firm’s risks so that its existence is not threatened by nasty surprises, especially solvency or liquidity problems? How to gauge what the firm is worth and whether it is succeeding in creating value? All these things bear careful attention by business decision-makers.

The financial management know-how we address has been well covered by others before us. The “value added” (borrowing an important financial management concept) we seek in this textbook is clarity of explanation as a learning tool. We also believe that it is in the vibrant small and medium enterprise (SME) sector that financial management can be the most ‘mission critical’. For large, sophisticated enterprises, finance is seldom a constraint. It is the robust SME sector (where most of an economy’s jobs are created) that is exposed to the ‘do or die’ hazards of competitive growth and is often denied access to capital. SME finance can thus present the greatest challenges to the financial manager.

By design, this book puts a premium on relevance to everyday business practices. Hence we title it “a practitioner’s guide”. This means keeping things as simple as we can get away with. We are more inclined to reference the financial press (Bagehot once being its editor, our favourite is “The Economist”) rather than an academic journal. Our experience in providing advisory services in the financial arts has taught us that most financial managers or entrepreneurs do not crave particularly sophisticated, ‘cutting edge’ methods in financial management. Rather, they want a solid foundation in the basics and practical applications, not theoretical constructs. Most of the principles discussed have a universal application that should work in any market economy. That said, Poland has some distinctive dynamics due to its emerging market growth and/or transition from central planning. We’ve tried to incorporate this local business reality into the discussion.

This book is written with some very specific readers in mind. We believe that the most common path into finance is increasingly via an internationally recognized professional qualification. ACCA (Association of Chartered Certified Accountants) comes to mind to name one example of several. World-wide, ACCA has 162,000 members and 428,000 students with Poland’s share in 2016 being 1,455 and 3,600 respectively. As well, 2,000 Polish students are enrolled amongst 20 ACCA-accredited study programs at 10 Polish universities². With such a solid and growing

² Source: <http://www.accapolska.pl/>.

presence, we decided to anchor the book's topic coverage on ACCA's financial management syllabus³. If this book can help exam candidates pass it would be 'proof in the pudding' of its value. Other readers could include university students studying courses in accounting, finance and general business management. Finally, we hope that SME owner-managers can benefit from what is covered here. Since SMEs are typically too small to justify a full-time finance function, generalists need a sound grounding in finance principles.

This book is a collaboration of a practitioner and academic. Our hope is that there are valuable synergies in combining these two perspectives. It is also a bilingual textbook in both English and Polish. This is because many Polish finance professionals are working in two languages, especially if they are employed with a multi-national enterprise. As well, many Polish students are pursuing an international professional qualification in English. Our expectation is that most readers will learn first in their own native language and then, once the financial concepts have been grasped, turn their attention to the English version to hone their language skills. The translation is equivalent in meaning but is not an exact word-for-word mirror image since a Canadian and a Pole both wanted to freely express themselves in their own native tongues⁴.

Many people have been generous with their time and contributions to this textbook. They are recognized in the Acknowledgements. We are sincerely grateful for their support.

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³ Specifically, ACCA papers F9 and P4; as well, topic coverage fits with CIMA (Chartered Institute of Management Accountants) papers F1-F3 ("Finance Pillar"); CFA (Chartered Financial Analyst) Level I paper "Corporate Finance" and the financial management syllabus within the Chartered Accountant ("Dyplomowany Księgowy") designation granted by the Association of Accountants in Poland (SKWP).

⁴ Another difference will be in the layouts of financial statement presentation. The English edition will follow the standard convention (liquid items up top) in the global community while the Polish edition uses the layout familiar to Polish readers (liquid items down below).