Johansson, Sven-Erik & Runsten, Mikael – The Profitability, Financing, and Growth of the Firm, *Studentlitteratur, 2014, [Business]* Grade ★★★★

This book is a Swedish institution that deserves wider international acclaim. It portrays the firm as a financial system with a number of inter-relationships between 1) the acquisition and generation of resources, 2) the capital needed for the ongoing business operations and for growth initiatives and 3) the corporate value that is generated by the system. The system is subject to various constraints mainly with regards to the level of leverage. Sven-Erik Johansson is a Professor in business administration at the Stockholm School of Economics and has served as chairman for several Swedish accounting bodies. Mikael Runsten holds a PhD from SSE and manages a financial education firm. The aim of the book is to explain accounting based measures and their relationships and further to demonstrate their importance in understanding and managing a company to business leaders.

Benjamin Graham's and David Dodd's all time classic *Security Analysis* started out as Professor Dodd's notes from Graham's class in value investing at Columbia and was published after Graham had taught the course for 6 years. Repetition and countless questions from students chiseled out what was important and what needed further explaining; logical gaps were filled. Time promotes clarity. *The Profitability, Financing, and Growth of the Firm* started out as notes and documentation for Johansson's class at SSE in accounting and managerial finance initiated in the early 1970s and was first published in the late 1980s. The class has by now been taught to countless generations of Swedish students.

The three core relationships that the book builds on are in the authors' parlor 1) the leverage relationship illustrating how the level of leverage and the cost of debt link ROA to ROE, 2) the DuPont relationship splitting ROA into a margin and a capital turnover and 3) the growth relationship showing the link between ROE plus financial policy to growth in equity. These relationships are greatly expanded on and the authors' show how they work when using ROCE and ROIC instead of ROA. Further, Johansson and Runsten with great clarity show how the measures tie into valuation methodologies like Gordon's growth model, discounted cash flow-models and excess profit models like economic value added, EVA.

This is an obvious textbook with continuous case study calculations on a sample company. The strength of the book is the coherent system it presents comprising the financing and operations of the firm and as such opening up for planning and scenario analysis. I appreciated the chapter on capital allocation between corporate divisions as I find it a neglected area for many in corporate managements. Apart from business leaders, analysts and investors can gain a deeper understanding of companies' strategic options through this text. Personally, I have also had a hard time remembering the differences between ROCE and ROIC. No more.

My main suggestion to the authors would be to complement the book with a web site providing the case study calculations in Excel format. The reader at times risk loosing himself in the many derived formulas with chapter 9 on financial growth and cash-flow as a case in point. The long list of definitions in the back of the book definitely helps. A web site would do so even more. Also, for an international audience some of the references to Swedish academic research and Swedish institutions might feel a bit exotic.

I will finish off by quoting our own site when nominating the best Swedish books in economics and business of all time *"This classic book on financial statement analysis, first published in 1987, is in our mind the best Swedish text book in business administration ever. It is easy to be impressed by how much knowledge the authors have managed to include […]. Complicated relationships are explained in a pedagogical way."* The reviewer hit the mark.

Mats Larsson, May 26, 2015