INTRO AND CHAPTER 1
AN OVERVIEW OF MANAGERIAL FINANCE

Welcome to BA300!

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Welcome to BA300!

- We will primarily use Moodle, email and CFIN5 online site to communicate
- Syllabus Overview
  - Participate/Cooperate & Graduate
  - Time intensive
  - Quant Intensive
  - Focus on General Concepts

Welcome to BA300!

- Textbook & Online Resources are critical
- YouTube Recorded Lectures/Live
  - No Guarantees – tech limited
  - No substitution for attendance
- Every Finance Problem is a Story
  - Think about issues
  - Use Common Sense
  - Have Fun & Engage

Learning Outcomes

LO.1 Explain what finance entails and why everyone should have an understanding of basic financial concepts.

LO.2 Identify different forms of business organization as well as the advantages and disadvantages of each.

Learning Outcomes (cont.)

LO.3 Identify major goal(s) that firms pursue and what a firm's primary goal should be.

LO.4 Explain the role ethics and good governance play in successful businesses.

LO.5 Describe how foreign firms differ from U.S. firms and identify factors that affect financial decisions in multinational firms.

What is Finance?

- Finance is concerned with decisions about money (cash flows)
- Finance decisions deal with how money is raised and used
- Everything else being equal:
  - More value is preferred to less.
  - The sooner cash is received, the more valuable it is.
  - Less risky assets are more valuable than (preferred to) riskier assets

Conway’s Maxim

“Money has a time value. Time has a money value”

-Dr. Paul Conway

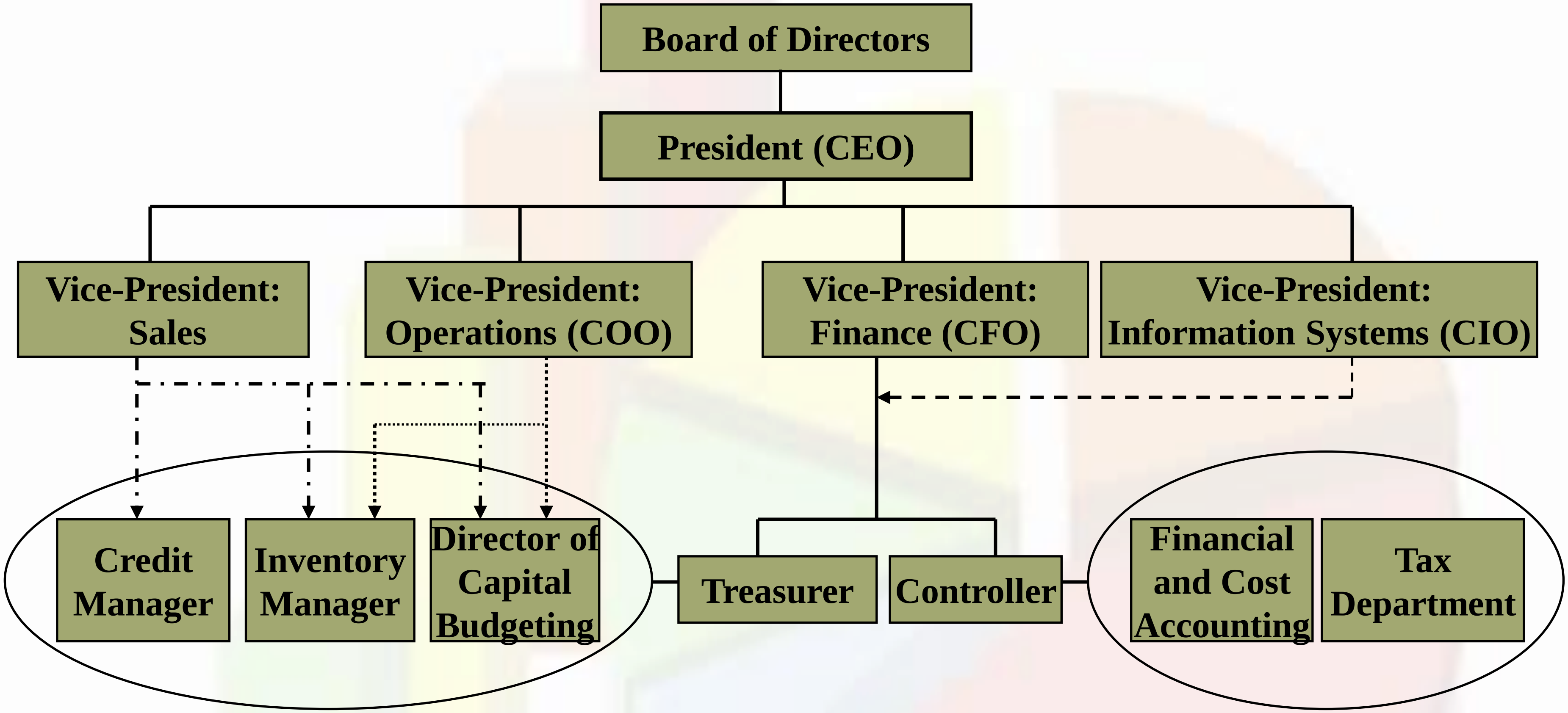
General Areas of finance

- Financial Markets and Institutions
- Investments
- Financial Services
- Managerial Finance

Finance in Non-Finance Areas

- All areas of business—marketing, management, accounting, production, information systems, and so forth—are affected by general finance concepts.

Finance in the Organizational Structure of the Firm



Primary Forms of Business Organization

- Proprietorship
- Partnership
- Corporation

Proprietorship

- Advantages:
  - Ease of formation
  - Subject to few government regulations
  - No double taxation
- Limitations:
  - Unlimited personal liability
  - Limited life
  - Transferring ownership is difficult
  - Difficult to raise large amounts of capital

Partnership

- Like a proprietorship, except two or more owners
- A partnership has roughly the same advantages and limitations as a proprietorship
- A partnership generally can raise more capital than a proprietorship, because there are more owners.

Corporation

- A legal entity
- Advantages:
  - Unlimited life
  - Easy transfer of ownership
  - Limited liability
  - Ease of raising capital—can issue stocks and bonds
- Disadvantages:
  - Cost of creating and report filing
  - Double taxation

Hybrid Forms of Business

- Limited Liability Partnership (LLP)
- Limited Liability Company (LLC)
- S Corporation—no more than 100 stockholders

Business Organized as a Corporation: Value Maximized

- Limited liability reduces risk, which increases market value
- Ease of raising capital allows corporations to take advantage of growth opportunities
- Ownership can be easily transferred (via stock transactions), thus investors are willing to pay more for a corporation

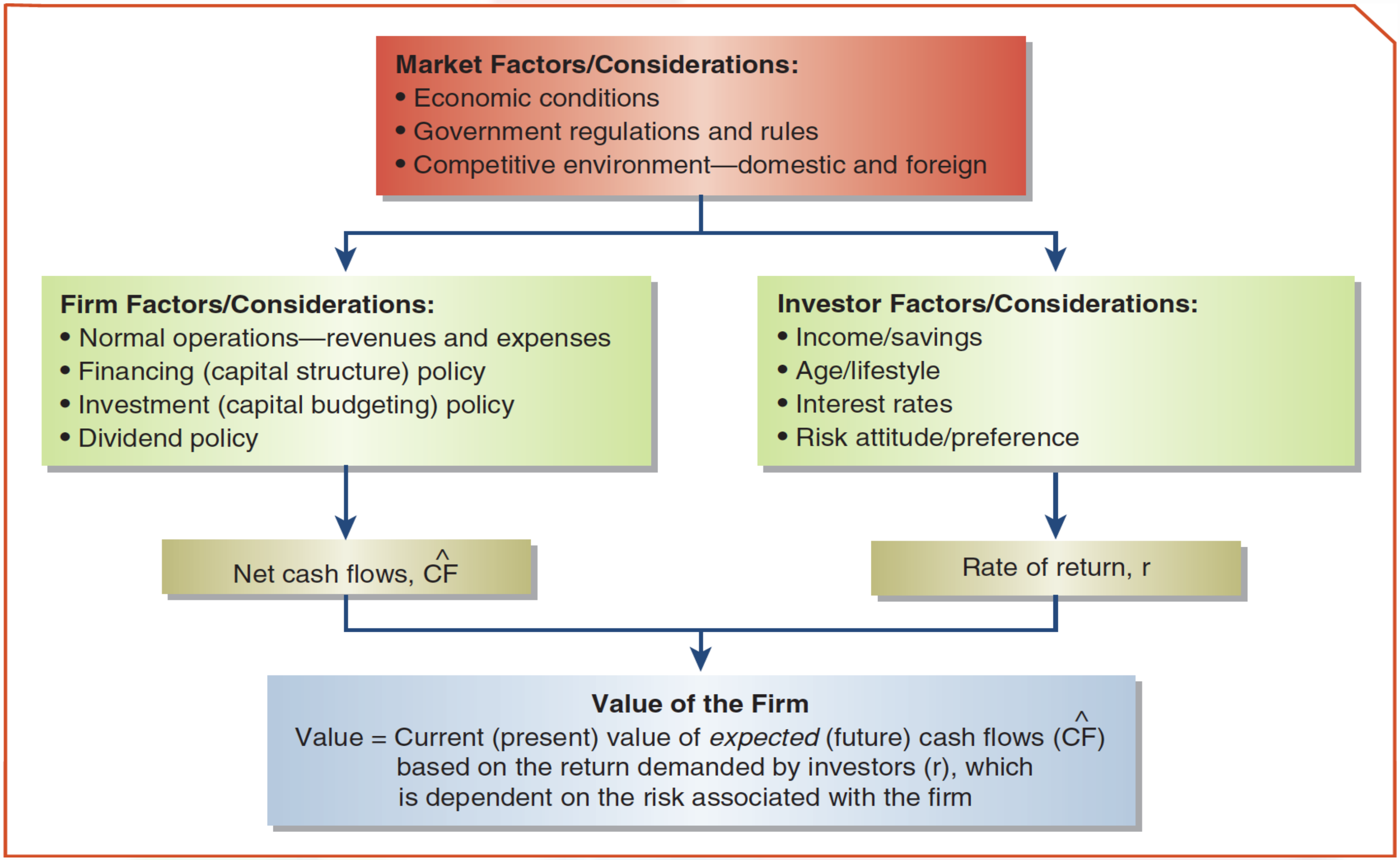
Goals of the Corporation

- Primary goal: stockholder wealth maximization, which is the same as maximizing the stock price.
- Managerial incentives
- Social responsibility

Managerial Actions to Maximize Stockholder Wealth

- Capital Structure Decisions
- Capital Budgeting Decisions
- Dividend Policy Decisions

Value of the Firm



Factors Influenced by Managers that Affect Stock Price

- Projected cash flows
- Timing of cash flow streams
- Risk of projected cash flows (earnings)
- Use of debt (capital structure)
- Dividend policy

Agency Relationships

- An agency relationship exists whenever a principal (an owner) hires an agent (management) to act on his or her behalf.
- An agency problem results when the agent (management) makes decisions that are not in the best interests of principals (owners).

Stockholders versus Managers

- Managers are naturally inclined to act in their own best interests.
- Mechanisms to motivate managers to act in shareholder's best interest
  - Managerial compensation (incentives)
  - Shareholder intervention
  - Threat of takeover

Business Ethics

- Dictionary: “A standard of conduct and moral behavior.”
- Business Ethics: A company’s attitude and conduct toward its employees, customers, community, and stockholders (i.e., the firm’s stakeholders).
- Law is the “floor” and ethics is everything above it.

Corporate Governance

- The “set of rules’ that a firm follows when conducting business
- As a result of the Sarbanes-Oxley Act of 2002, firms have sunstantially revised their corporate governance policies
- Good corporate governance generally generates higher returns to stockholders

Forms of Business in Other Countries

- Foreign firms have higher concentrations of ownership—i.e., fewer owners—than U.S. firms
- Foreign firms have much different relationships with financial institutions differs than do U.S. firms.

Multinational Corporations

- Five reasons firms “go international”:
  - To seek new markets
  - To seek raw materials
  - To seek new technology
  - To seek production efficiency
  - To avoid political and regulatory hurdles

Factors Distinguishing Domestic Firms from Multinational Firms

- Different currency denominations
- Economic and legal ramifications
- Language differences
- Cultural differences
- Roles of governments
- Political risk