

Chapter 1



The Corporate and The Financial Manager

Topics Covered

- ➡ The Role of the Financial Manager
- ➡ What is a Corporation?
- ➡ Who is the Financial Manager?
- ➡ Goals of the Corporation
- ➡ Cheers in Finance

The Role of the Financial Manager

⇒ Capital Budgeting Decision

- Decision to invest in tangible or intangible assets
- Buy assets that are worth more than they cost
- It is also called the investment decision

The Role of the Financial Manager

→ “Capital Budgeting”



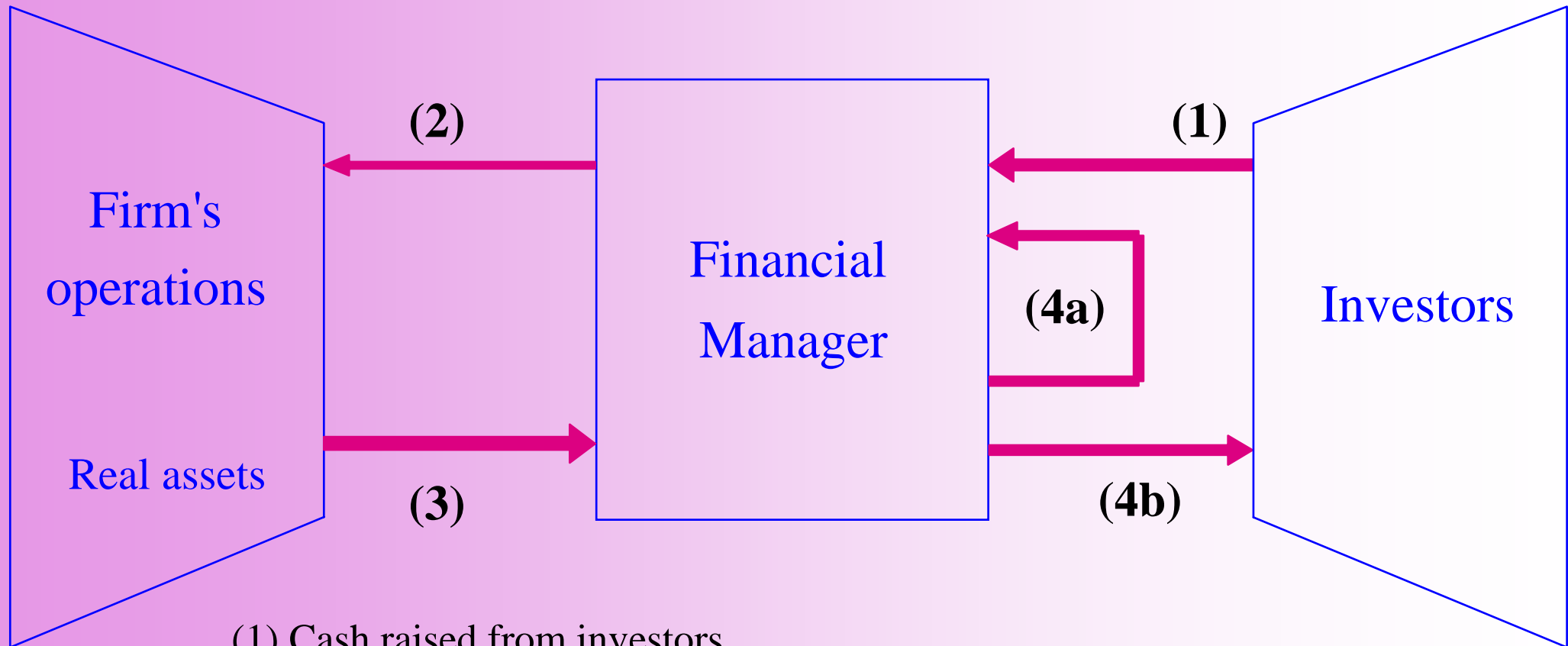
The Role of the Financial Manager

➡ Financing Decision

- ➔ Raising money that the firm needs for its investments and operations
- ➔ Capital Structure - the mix of long term debt and equity financing

➡ Examples of recent investment and financing decisions by major public companies (Table 1-1, p. 6)

The Role of the Financial Manager



(1) Cash raised from investors

(2) Cash invested in firm

(3) Cash generated by operations

(4a) Cash reinvested

(4b) Cash returned to investors

((2) and (3): capital budgeting decision)

((1) and (4): financing decision)

What is a Corporation?

⇒ Types of Business Organizations

→ Sole Proprietorships

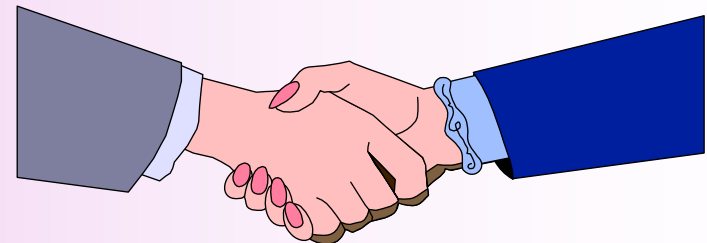
→ Partnerships

→ Hybrids

- Limited Partnerships (general vs. limited partners)
- Limited Liability Partnerships or Companies (all partners has limited liability)
- Professional Corporation (PC) (limited liability)

* The partnership form of organization does not work well when ownership is widespread and separation of ownership and management is essential

→ Corporations



What is a Corporation?

- ⇒ A corporation is a distinct, permanent legal entity
- ⇒ Types of Corporations
 - ➔ Public Companies
 - ➔ Private Corporations
 - ➔ Limited Liability Corporations (LLC)

What is a Corporation?

➡ 台灣公司的分類

➔ 無限公司

➔ 有限公司

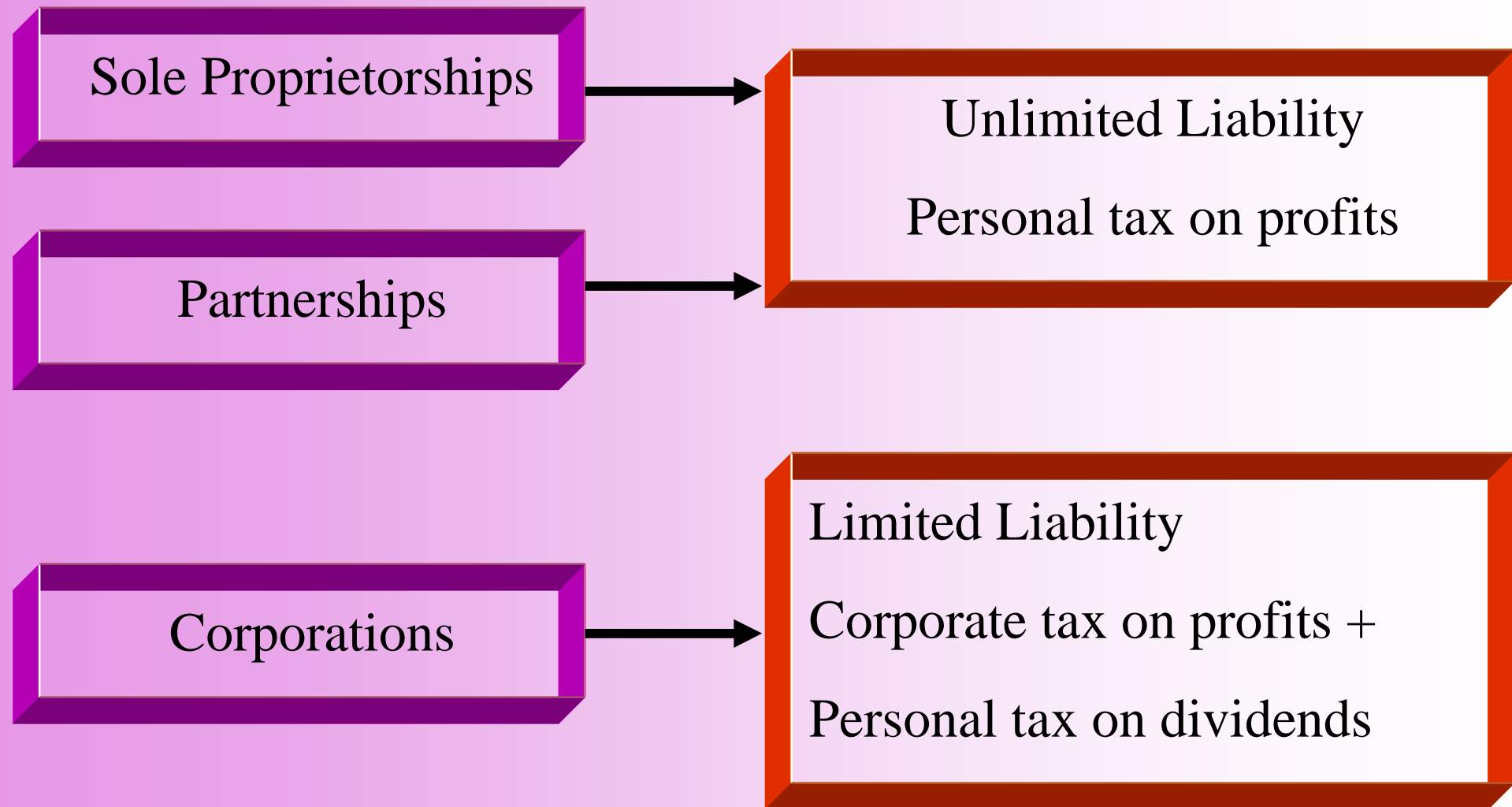
➔ 兩合公司 (一無限，一有限)

➔ 股份有限公司

What is a Corporation?

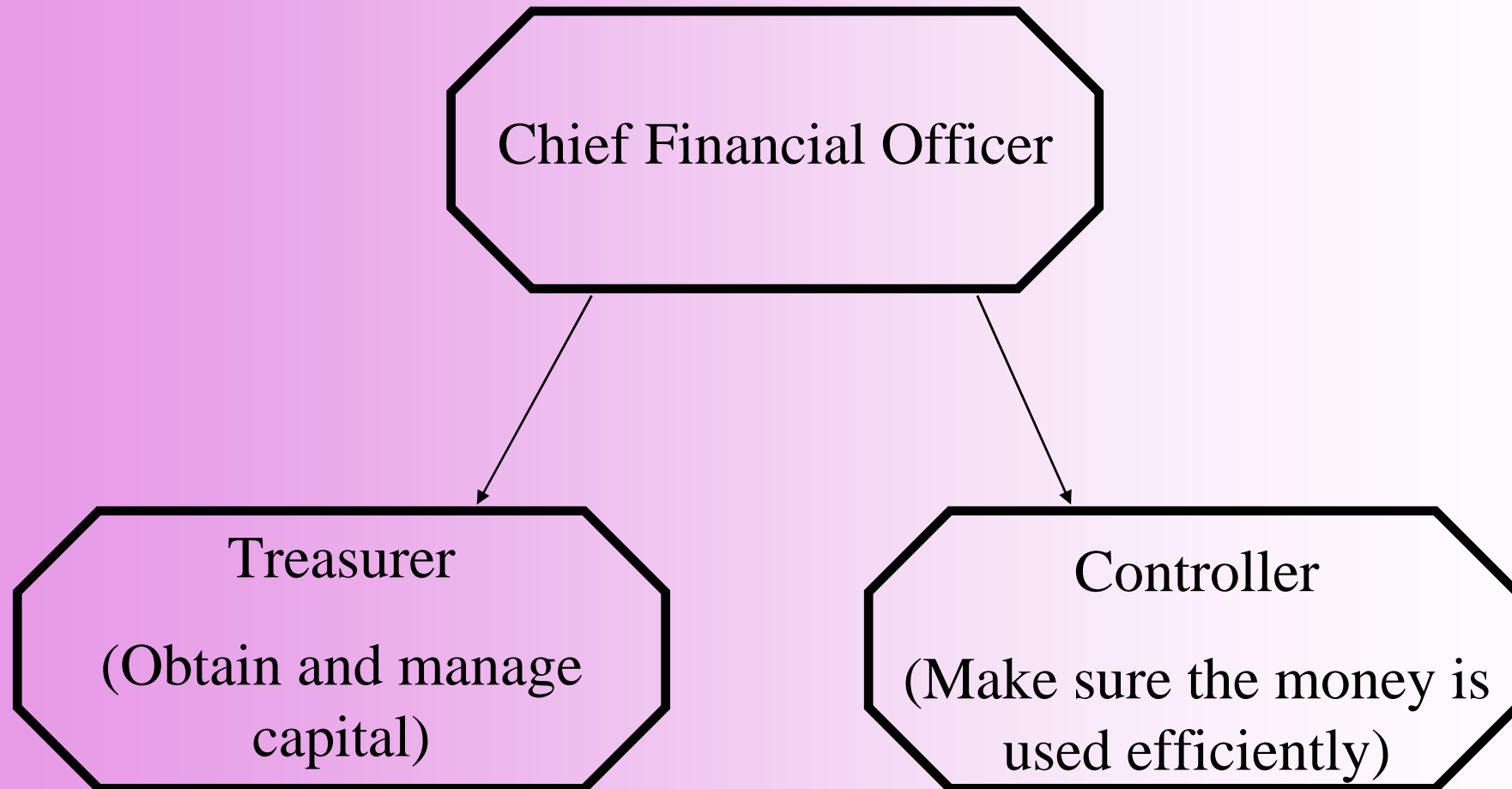
| | Sole Proprietorship | Partnership | Corporation |
|--|------------------------|-------------|--------------|
| Who owns the business? | The manager | Partners | Shareholders |
| Are managers and owners separate? | No | No | Usually |
| What is the owner's liability? | Unlimited | Unlimited | Limited |
| Are the owner & business taxed separately? | No | No | Yes |

Corporate Structure



*在台灣因為兩稅合一，所以不會有重複課稅之問題

Who is The Financial Manager?



Goals of The Corporation

- ⇒ Shareholders desire wealth maximization (maximize capital gain plus dividends)
- ⇒ Do managers maximize shareholder wealth?
- ⇒ Managers have many constituencies “stakeholders”
- ⇒ “Agency Problems” represent the conflict of interest between management and owners

Goals of The Corporation

Ethics & Management Objectives

- ➡ Does value maximization justify unethical behavior? (No)
- ➡ Enron example (2001, 作假帳)
- ➡ WorldCom example (2001, 作假帳)
- ➡ Salomon Brothers example (1991, 用客戶名義去下單而歸避對政府對公司之公債部位之限制)

Goals of The Corporation

Agency Problem Solutions

- 1 - Compensation plans
- 2 - Board of Directors (董事會開除表現不好的manager)
- 3 - Takeovers (被併購)
- 4 - Specialist Monitoring (股票分析師或債權銀行)
- 5 - Legal and Regulatory Requirements
 - ➔ The Securities and Exchange Commission (SEC) sets accounting and reporting standards for public companies
 - ➔ SEC also prohibits insider trading
 - ➔ Sarbanes-Oxley law requires corporations to have more independent directors

CEO Pay

CEO Compensation 2001 (\$ millions)

| CEO Name | Company | Total Earnings | Earnings from Stock Options |
|----------------|----------------------|----------------|-----------------------------|
| Philip Condit | Boeing | 2.90 | 0.00 |
| Sanford Weill | Citigroup | 34.60 | 15.90 |
| Gordon Bethune | Continental Airlines | 4.70 | 0.00 |
| Michael Dell | Dell Computer | 201.30 | 198.70 |
| Michael Eisner | Walt Disney | 1.00 | 0.00 |
| Lee Raymond | Exxon Mobil | 32.70 | 24.30 |
| Ray Irani | Occidental Petroleum | 10.90 | 1.70 |
| Robert Ulrich | Target | 6.60 | 2.20 |
| David Bernaner | Walgreen | 2.20 | 0.79 |
| Donald Graham | Washington Post | 1.10 | 0.00 |
| Steven Rogel | Weyerhaeuser | 2.10 | 0.00 |

source: www.forbes.com/ceos

Careers in Finance

| <u>Career</u> | <u>Annual Salary</u> |
|---|----------------------|
| Commercial Banking | |
| Loan Officer | \$ 60,000 + |
| Department Manager | \$ 100,000 + |
| Corporate Finance | |
| Financial Analyst | \$ 38 - 47,000 |
| Credit Manager | \$ 30 - 63,000 |
| Chief Financial Officer | \$ 232 - 295,000 |
| Investment Banking (bulge bracket) | |
| First Year Analyst | \$ 30 - 110,000 |
| First Year Associate | \$ 125 - 235,000 |
| Assistant Vice President | \$ 200 - 600,000 |
| Director/Principal | \$ 300k - 1.2 mil |
| Managing Director/Partner | \$ 400k - 20 mil |
| Department Head | \$ 750k - 70 mil |
| Money Management | |
| Portfolio Manager | \$ 500,000 + |
| Bank Trust Department | \$ 100,000 + |