

# Chapter 1

## The Corporation and the Financial Manager

# 全国迷你型MBA职业经理双证班

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# Objectives


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1. Give examples of the investment and financing decisions that financial managers make, and explain the responsibilities of the CFO, treasurer, and controller
2. Cite some of the advantages and disadvantages of organizing a business as a corporation
3. Explain why maximizing market value is the logical financial goal for the corporation
4. Understand why conflicts of interest arise, especially in large, public corporations
5. Explain how corporations mitigate conflicts and encourage ethical, cooperative behavior

# Content

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- Investment and financing decisions
- What is a corporation?
- Who is the financial manager?
- Goals of the corporation



Making good investment and financing decisions is the chief task of the financial manager.

# The Investment Decision

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- *Investment decision /capital budgeting decision:*  
decision to invest in tangible or intangible assets
- If a project's value is greater than its required investment, then the project is attractive financially

Investments in automobile plant  
Investments in research and development (R&D)

# The Financing Decision

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- *Financing decision*: the form and amount of financing of a firm's investment
- The choice between debt and equity financing is often called the *capital structure decision*

Issue shares of stock  
borrow from a bank



# Financing and investment decisions are connected

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- The amount of investment determines the amount of financing that has to be raised
- The investors who contribute financing today expect a return on that investment in the future
- Thus, the investments that the firm makes today have to generate future returns for payout to investors

Investment decision: 投资决策  
Financing decision: 筹资决策  
Capital budgeting decision: 资本预算决策  
Tangible assets: 有形资产  
Intangible assets: 无形资产  
Debt financing: 债务资金、债务筹资  
Equity financing: 权益资金、权益筹资  
Capital structure: 资本结构

# Content

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- Investment and financing decisions

- What is a corporation?

- Who is the financial manager?

- Goals of the corporation

# Corporation

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- *Corporation*: business organized as a separate legal entity owned by stockholders
  - A corporation is legally distinct from its owners, therefore confers limited liability
  - The separation of ownership and management is one distinctive feature
  - There is an important tax drawback: double taxation

Corporation: 公司  
Stockholder/shareholder: 股东  
Legal entity: 法人实体  
Limited liability: 有限责任  
The separation of ownership and management:  
所有权与经营权相分离

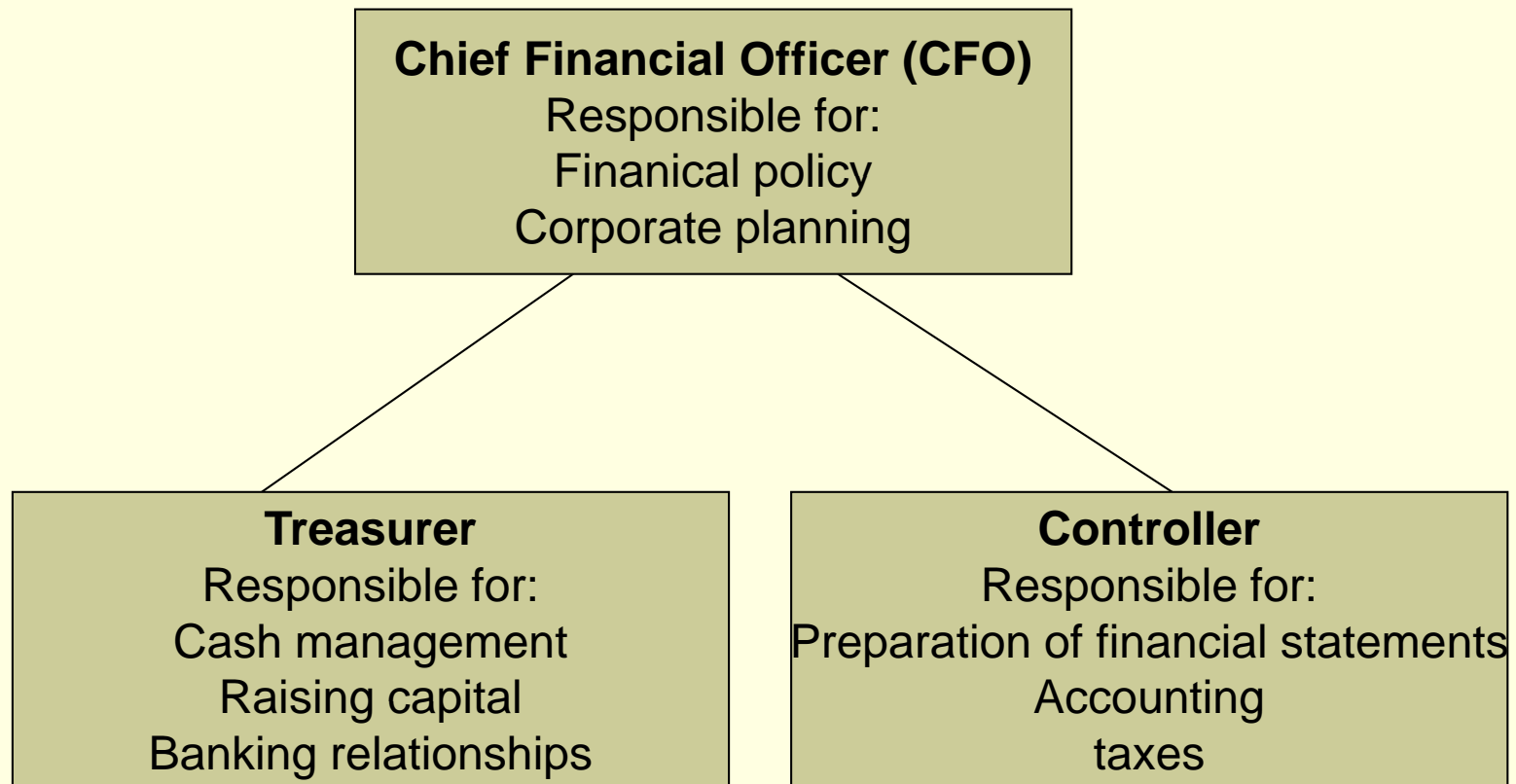
# Content

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- Investment and financing decisions
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# Financial managers in large corporations

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Chief Financial Officer (CFO): 财务总监  
Treasurer: 资金管理人员、司库人员  
Controller: 会计主管人员



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# Market value maximization

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- *Value maximization* is the natural financial goal of the firm
- Maximizing value maximizes the wealth of the firm's owners, its shareholders
- Shareholders can invest or consume that wealth as they wish

Profit maximization

# Ethics and value maximization

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- Modern finance does not condone attempts to pump up stock price by unethical means
- The surest route to maximum value starts with products and services that satisfy customers
- A good reputation with customers, employees, and other stakeholders is also important for the firm's long-run profitability and value



Shareholders want managers  
to maximize market value.

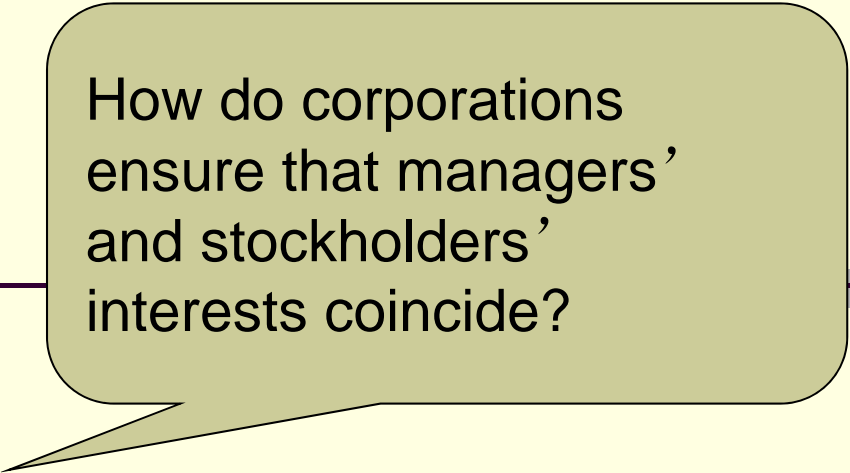
Do managers really maximize  
value?

# Agency problem

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- Owner-managers have no conflicts of interest in their management of the business.
- In most large corporations, the managers are not the owners, and so managers may act in ways that are not in the best interests of shareholders. (*agency problem*)

Stakeholders



How do corporations ensure that managers' and stockholders' interests coincide?

- Compensation plan: link the well-being of employees to that of the firm
- Monitoring of management by the board of directors, security analysts, and creditors
- Threat of takeover

Value maximization: 价值最大化

Shareholders: 股东

Stakeholders: 利益相关者

Profit maximization: 利润最大化

Owner-manager: 业主经理人

Agency problem: 代理问题

Compensation plan: 薪酬计划

Board of directors: 董事会

Security analyst: 证券分析师

Creditor: 债权人

Takeover: 接管



# The End!