Lecture 1 - Course Intro & Admin

A. Course Admin and Outline of IS2218

- to **follow** most up-to-date course material and course policy on **Canvas** as there are small changes from time-to-time.

The Course: Digital Platforms for Business (not only Platforms)

- Platforms
- Various underlying Business Fundamentals (to acquire some basic Business Acumen)
    - even software engineers must understand the business to be able to grow in their own companies.
    - being able to understand business newspapers (i.e. Wall Street Journal)

Key Questions (looking at things from a business perspective)

- What are the financials like?
- Where is the money coming from, what is the background of the company? $\implies$ having a big picture understanding of the company (learning a lot of basic business concepts)
- Being able to interpret company financials (income statements and balance sheets)
- How is the competition doing?

Weeks 3 and 4: Fundamentals of Accounting

- 3h for 40 hours worth of content

Weeks 5 and 6: Financial Statement Analysis

- how to analyze financial statements, in preparation for the midterm test

Weeks 8 and 9: Time Value of Money

- i.e. using the principles of compounding and discounting, taking loans etc.
- "practical investment advice" from a business perspectives

Week 10: Platform Business Models

- what makes certain platforms different from others (and how do platforms differentiate themselves)

Weeks 11 and 12: Marketing

- marketing and pricing (condense 40 h of content into 3 hours)

Tentative Course Schedule (subject to change):

Session	Date	Topic	Others
1	14 Jan	1. Course Introduction 2. Corporate Governance & Agency Problem (TB3: Chapter 1)	Online Module on Platforms (Assignment 1) Due: 4 Feb
3	21 Jan	Accounting Essentials (TB3: Chapter 3)	
4	4 Feb		
5	11 Feb	Financial Statement Analysis (TB3: Chapter 4)	
6	18 Feb		
7	4 Mar	Midterm Test	
8	11 Mar	Time Value of Money (TB3: Chapter 5)	
9	18 Mar		
10	25 Mar	Platform Business Models (TB1: Chapters 1, 2, 6, 9 & 12)	
10	1 Apr	Marketing 101 & Customer Lifetime Value (TB2: Chapter 1)	
11	8 Apr	Pricing (TB2: Chapters 10 & 11)	
12	15 Apr	Final Quiz	

B. Corporate Governance & the Agency Problem

Topic Coverage for this week

- Investment and Financial Decisions
- What is a Corporation; what are the goals of a corporation?
- Who is the Financial Manager?
- Agency Problems, Executive Compensation & Corporate Governance
- The Ethics of Maximizing Value

Investment and Financial Decisions

We make two kinds of decision in our lives -- financial and investment decisions
Example: the decision to spend four years in university to pursue a Bachelor's degree

- need some financials to fund this decision (loans etc.)
    - has parallels to the bread-and-butter of companies: have to finance their investment(s)

- cost of university education -- opportunity costs of the revenue or income through employment and also time spent

Companies have to deal with two kinds of problems -- investment decisions and financing decisions.

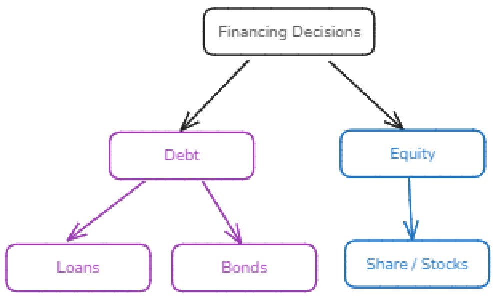
Investment Decision (a.k.a. CapEx or Capital Expenditure)

- we can **obtain either tangible or intangible assets**
    - we can touch and feel tangible (physical) assets versus cannot really feel intangible ones (i.e. R&D of products, know-how or patent)
    - e.g. investing in a plane, Moderna investing in mRNA research, decision to build a pipeline etc.
- also referred to as CAPEX decision or capital budgeting decision
- decision is made to invest in somewhere in order to gain the **highest conceivable returns**

Financing Decisions

- the decision on the **sources** and the **amount** of funding (w.r.t. some other investment)
    - i.e. airliner's way to raise funds to buy a plane
- Raising funds to support this decision (through **debt** or **equity**)

    - *debt financing:* we obtain a loan (person who provides money excepts a principal + interest)
        - using **bonds** (promise the person a certain amount of money), which are ***debt instruments*** which are sold in the market (and traded with a 3^{rd} party)
            - sort of like an "I owe you"
            - bonds have coupon payments (interest payment + final principal value of the bond)
            - issued by governments and corporations
            - owner of the bond is owed a portion of money
        - **loan** taken from banks, which *cannot be traded on the market*
    - *equity financing:* obtaining a cut on the person's company (i.e. 10%)
        - predominantly are through the means of issuing **shares** (also called stock)



Both in one example

- Expanding the Restaurant Business (by opening a new branch) is an investment decision
- Sourcing for funds to support the business expansion is a financing decision (
    - using a loan through debt financing
        - have to pay the principal + interest at the end of the loan term $\implies$ bank does not take on much risk (business performance does not affect loan repayment, since it has been previously guaranteed already).
    - issuance of shares (equity)
        - bring on new investors into the business, but they put themselves at risk if the business does not do well financially.
        - usually there is a guaranteed percentage cut that these investors or shareholders would get.

Types of Assets

1. Real Assets
   - are tangible in nature
   - used to produce goods and services
2. Financial Assets
   - claims to the income generated by the firm's real assets
   - examples: securities (i.e. stocks and bonds)

> *def:* A **Security** is any financial assets that can be traded in a public market.

What is a Corporation?

- is a distinct legal entity
- has a lot of shareholders $\implies$ any loss is capped by the amount the shareholder has invested into the corporation
- corporation has double taxation, whereas in a sole proprietor there is only a single tax stream
  - double taxation via income taxation for corporation and the taxes imposed when they give out bonds

2 types

- public -- can trade that stock in the stock market
- private -- it is privately held

Board of Directors is elected by shareholders to safeguard their interests in the company
Limited liability - cannot come after owners if company closes down

Who is the Financial Manager?

- cash returned to the investors is known as dividend

What are the goals of a corporation?

- need some metric to measure profit $\implies$ the share price of the company (which represents the profit potential of the company)
  - current market value of shareholder investment

1. Shareholders desire wealth accumulation

- maximise current market value of shareholder investment in the firm

2. Why not profit maximization?

Earning manipulation

- companies cutting costs (i.e. Boeing)
- doing illegal things to manipulate numbers etc.

Agency Problem: the CEO acts in their own personal interest or other interests instead of the shareholder?

- legal requirement: regulations governing
- activist shareholders (i.e. pension funds, which hold from 5 to 10% of a company)

Stock Option: benefits if the corporation's stock hits a certain price

Agency Problems, Executive Compensation & Corporate Governance

The Ethics of Maximizing value