

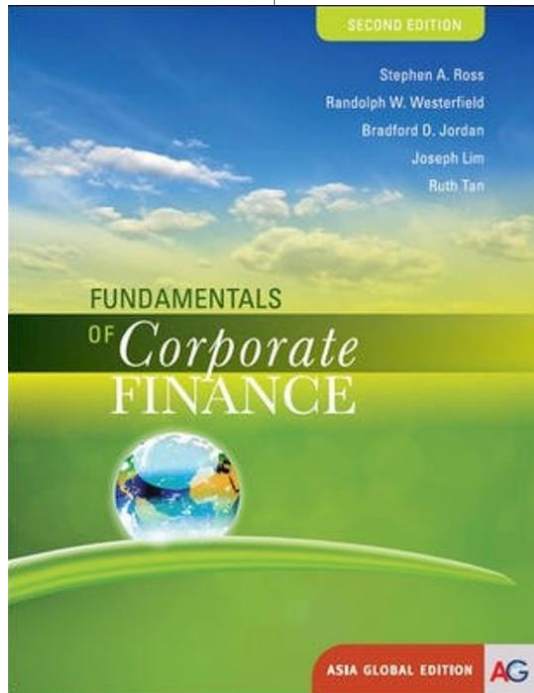


Chapter 1: Introduction of Corporate Finance

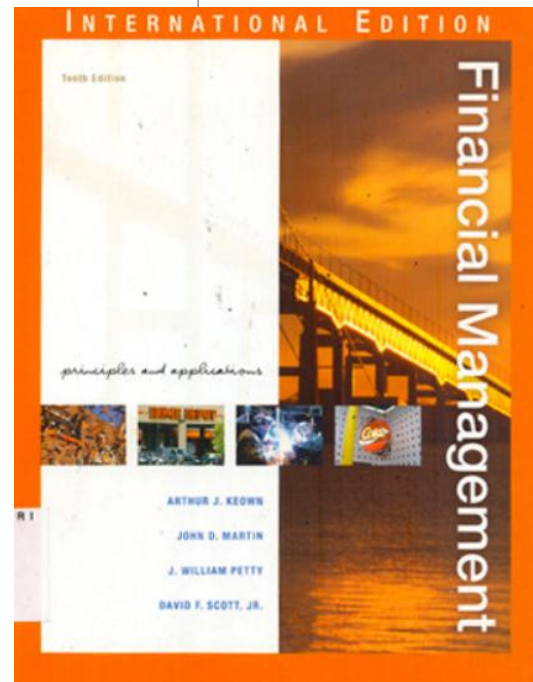


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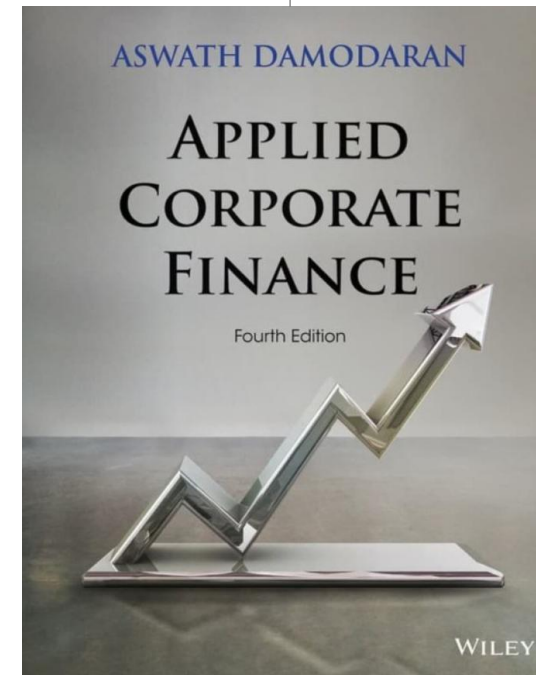
Even though you can use Youtube, **but these are the books that is suggested by the university** (and me)



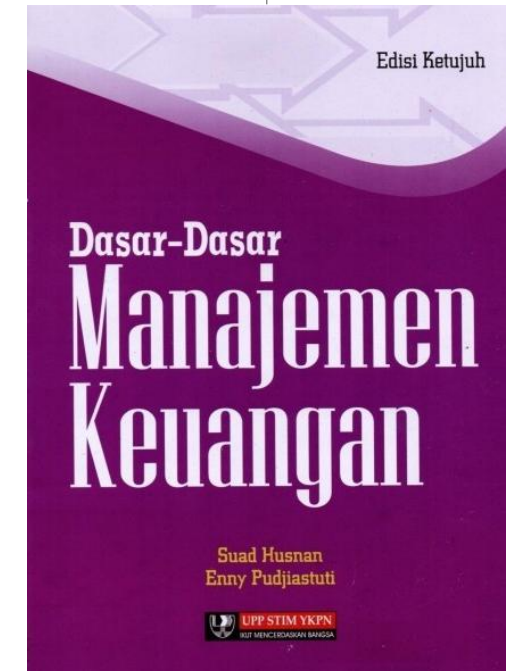
Ross, Stephen A.; Westerfield, Randolph W.; Jordan, Bradford D.; Lim, Joseph; dan Tan, Ruth. Fundamentals of Corporate Finance. Asia Global Edition, 2nd Edition. New York: McGraw-Hill Companies Inc. (2015).



Keown, Arthur J., John D. Martin., J. William Petty and David F. Scott, JR. Financial Management: Principles and Applications. 12th ed. Upper Saddle River, NJ: Pearson Prentice Hall. (2005)



Damodaran, Aswath. Applied Corporate Finance. United States: Wiley, 2014.



Learning Objectives

What are we about to learn during this chapter

The **role** of
financial manager
and the basic types
of **financial
decision making**

Goal of financial
management

The financial
implications of
**different forms of
business
organization**

The **conflict of
interest** that can
arise between
managers and
owners

**Financial market
and corporation**

Roles of Financial Manager

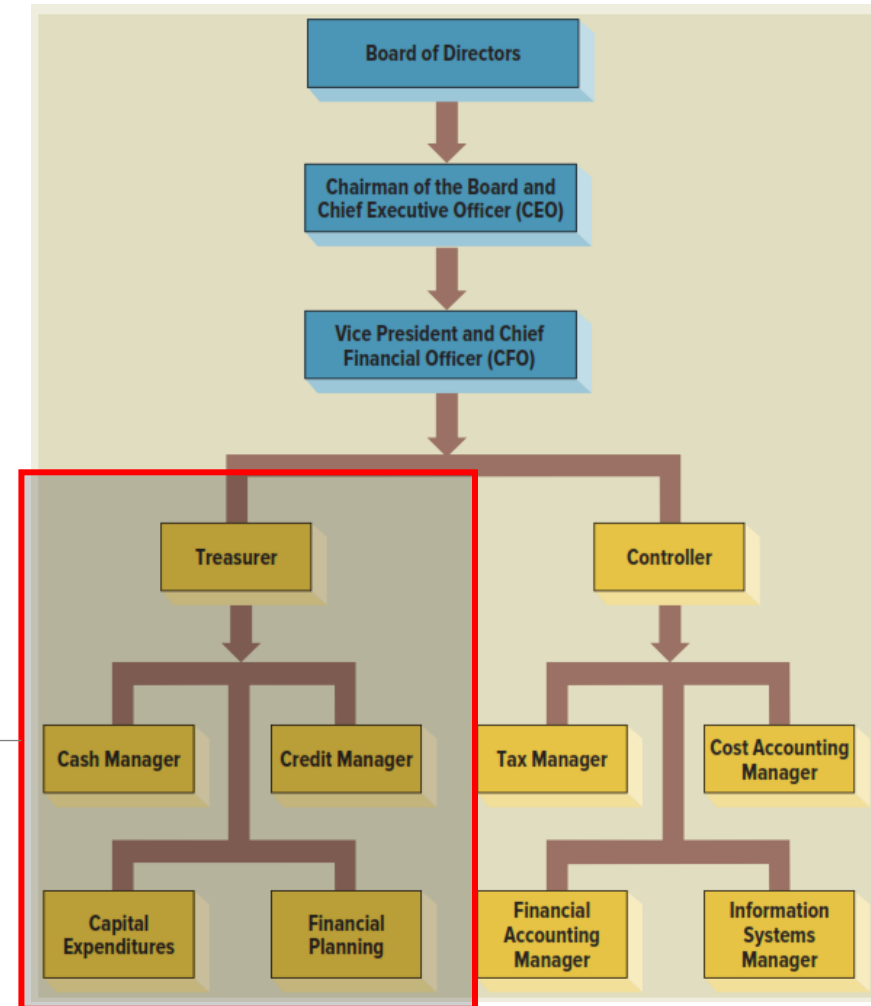
Chief Financial Officer (CFO) commonly has two function

as the controller

this function would be the domain of the accounting department

as the treasurer

Deal with the cash management, credit management, capital expenditure, and financial planning. This function would be our domain.

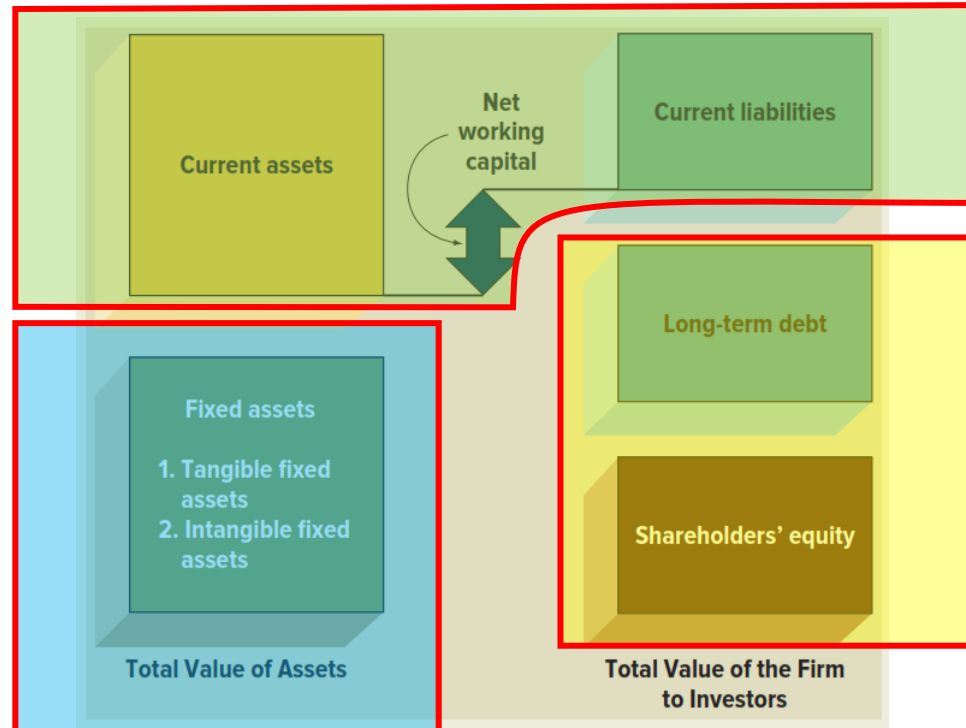


The Basic Types of Financial Management Decision

We could use **balance sheet model of the firm** to distinct three basic types of financial management decision

Capital budgeting

- Deal with **the planning and management of long term assets/investments**
- Evaluate the size, risk, and timing of future cash flows.
- Relevant concept: Valuation, discounted cash flow, NPV, IRR



Capital structure

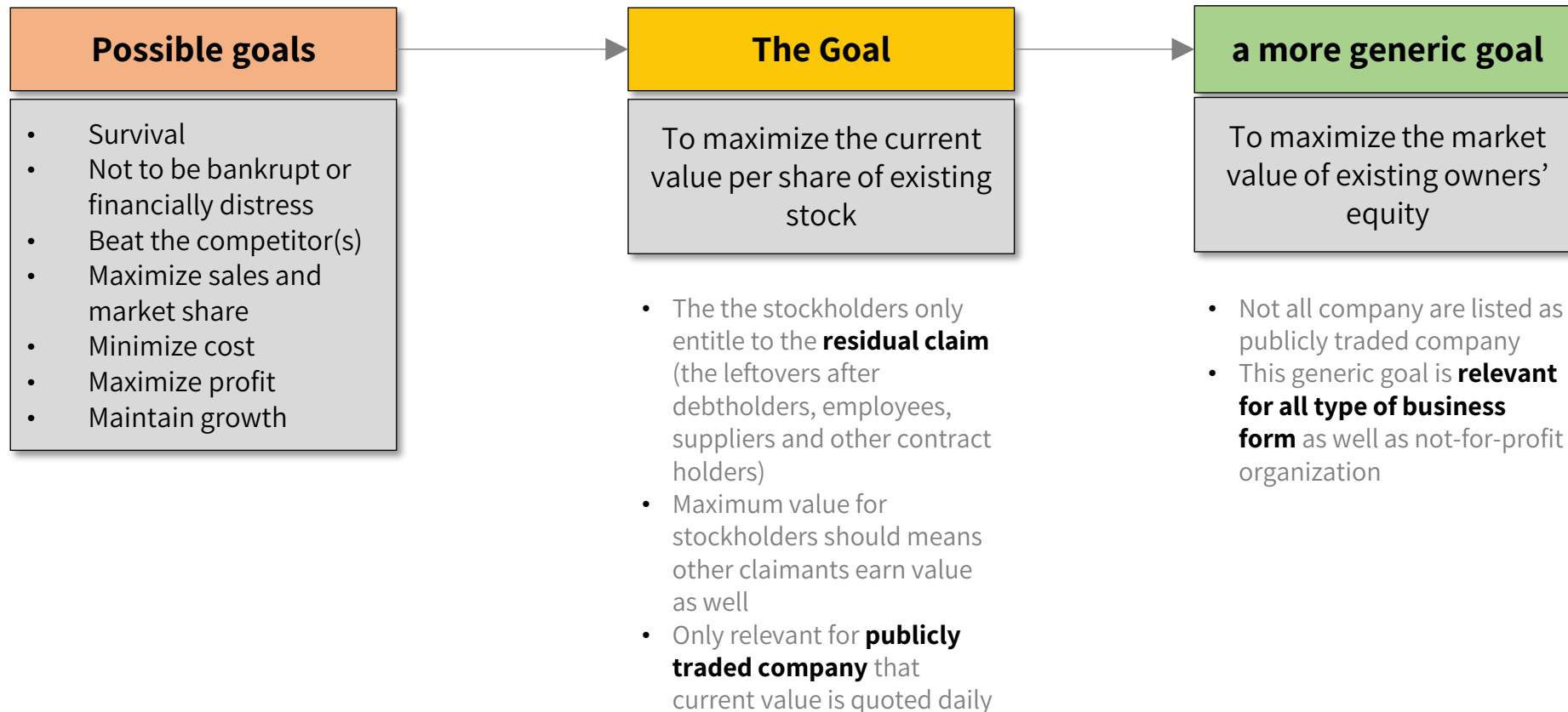
Deal with **the short term capital** comprise of short term assets and short term liabilities

Capital structure

Deal with **the mixture of debt and equity** to finance the firm operation

Source: RWJ

The Goal of Financial Management



Form of Business Organization & Their Economic Implications

We examine three different types of business organization according to their legal forms: Sole Proprietorship, Partnership, and Corporation

Features	Sole Proprietorship	Partnership	Corporation
Definition	A business that owned by a single individual	A business that formed by two or more individuals or entities	A business that created as distinct legal entity composed of one or more individuals or entities
Life span	Limited to the life of the owner	Lide ends if one partner dies or sells his/her stakes	Unlimited life
Liability	Unlimited liability	Unlimited liability unless the partner is a limited partner	Limited
Liquidity	Difficult to transfer ownership	Difficult to transfer ownership	Easier to transfer ownership
Financial resources	Difficult to raise capital	Relatively difficult to raise capital	Relatively easier to raise capital
Example	Usaha perseorangan	Firma, persekutuan komanditer (CV)	Perseroan Terbatas (PT)

The Agency Relationship, Agency Problem, and Agency Cost



→ The separation between owners and management should raise problems →

Agency Relationship

The owners (principal) hire other people (agent) to run the company and representing the owners' interest

It is relevant to ask whether the agent will necessarily act in the best interest of the principal?

Agency Problem

The conflict that the interest of agent (manager) is different to the interest of principal (owner) of the company.

A typical corporate situation due to disagreements between shareholders and managers

Agency Cost

The cost of the agency problem. The cost incurred to resolve the conflict and maintain a cordial relationship is known as agency cost

Direct Agency Cost

- The corporate expenditure that benefit management but costs the stakeholders
- The expense arises from the need to monitor management actions

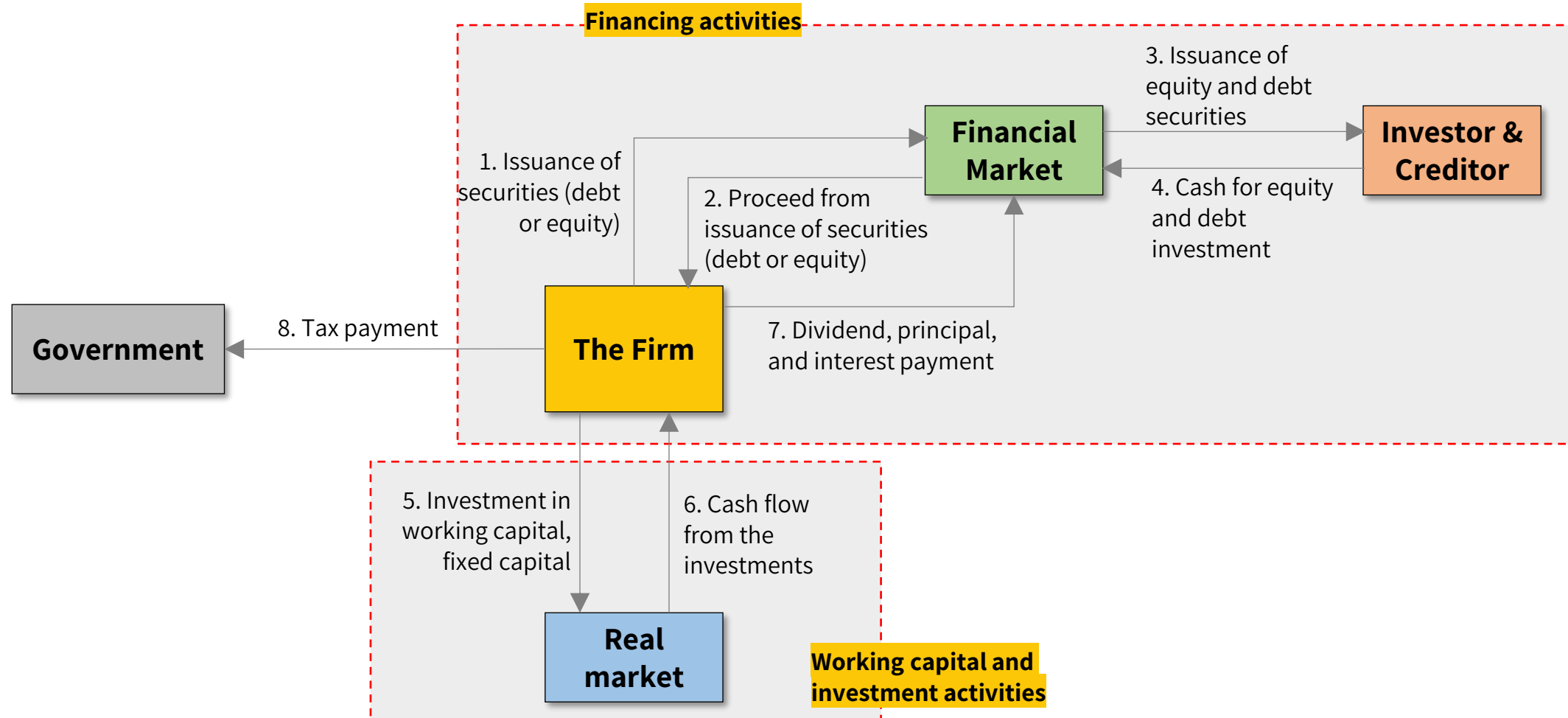
Indirect Agency Cost

The opportunity cost of new potential investment consideration

Additional reading materials:
<https://s.id/AgencyCostReading>

Financial Market & Corporation

As per presented in previous slide, on of the advantages of corporation is their easiness **to raise capital** and **to transfer ownership**. The features are **made possible by the financial market**.



Financial Market & Corporation

A closer look of **the type of market within the financial market**

Features	Primary Market	Secondary Market
Definition	The market where securities are issued for the first time (either through Initial Public Offering (IPO) or Follow-on Public Offering (FPO))	The market where shares already issued earlier are then traded between investors.
Purpose	Undertaken for expansionary plans or for promoters to offload their stakes	Gauge investor sentiments as reflected in the stock prices and provide ready market for trading securities between investors
Intermediary	Underwriters	Brokers
Price	Fixed by the investment bankers at the issuance time	Depends on the demand and supply mechanism in the market
Alternate name	New Issue Market (NIM)	Aftermarket
Counterparty	Company is directly involved	No direct involvement of the company
Recipient of proceed	Issuing company	Investors

Dealer Market	Auction Market
A financial market where dealers buy and sell securities using their accounts.	A market where the buyers and sellers enter competitive bids and offers, respectively, simultaneously.
It is quote-driven.	An auction market is order-driven.
There is no centralized trading floor for this market.	An auction market has a centralized trading floor.
NASDAQ (National Association of Securities and Dealer Automated Quotations) system is a dealer market.	NYSE (New York Stock Exchange) is an example of the auction market.
The dealer holds the securities stock in this market and electronically quotes the offer and bid price. The buyers and sellers are never brought together; the order is executed through dealers.	In this market, the potential buyers and sellers come to a single platform and announce the prices they are willing to buy and sell, which provides transparency and the best price for security.



Thank You

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