



BUSINESS ECONOMICS

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BUSINESS ECONOMICS

- **Main textbook:**

Trefor, J., *Business Economics and Managerial Decision Making*

- **Requirement:**

Griffths, A. and Wall S., *Economics for Business and Management*



Chapter 1:

INTRODUCTION TO BUSINESS ECONOMICS

- Required: *Business Economics and Managerial Decision Making*, C. 1
- Recommend: *Economics for Business and Management*, C. 4



? Economics applied
for business

→ Economics +
Managerial perspectives

Managerial economics

→ Application of
microeconomic theories &
quantitative methods
*to find optimal solutions to
managerial decision-making
problems.*

Regarding:

- *Customers*
- *Suppliers*
- *Competitors*
- *The internal workings of the organization*

STRUCTURE

1. Objectives and methodology
2. Overview of a company
3. Ownership vs. managerial control
4. Outsider and Insider system of corporate control
5. External and Internal constraints for managerial discretion

1. Objectives and methodology

1.1 Objectives:

→ *Optimal solutions for decisions*

1.2 Methodology:

→ *Fundamental theories*

→ *Economic models*

2. Overview of a company

2.1 Types

2.2 Common characteristics

2.3 Ownership structure

2.1 Types of companies

Unincorporated vs. Incorporated

+ Legal identity: separate?

+ Liability: limited?

+ Formalities: complex?

*(UK: Sole trader & Partnership vs.
Limited company & Holding company)*

2.2 Common characteristics

- Owners
- Managers
- Objectives
- Resources
- Organization structures
- Performance assessment

2.3 Ownership structure

- *Monistic*: a single interest group (shareholders → UK and USA)
- *Dualistic*: two interest groups (shareholders & employees → Germany and France)
- *Pluralistic*: stakeholders (→ Japan)

3. Ownership vs. Managerial control

3.1 Definition

Spieler, A. C. and Murray, A. S. (2008), Management Controlled Firms vs. Owner Controlled Firms: A Historical Perspective of Ownership Concentration in the US, East Asia and the EU, Journal of International Business and Law, Vol. 7, Issue 1.

3.1 *Definition*

- **Owner control** occurs where the equity holders of a firm maintain **sufficient control over the board of directors** to have a measureable influence on policy either by *direct control of votes on the board of directors*, or *indirectly through a sufficiently large share of the voting stock*

3.1 Definition

- Manager control exists in a firm where the shareholders **fail to achieve sufficient board representation or voting stock control** allowing managers to exercise more judgment than would be possible under OC regime.

→ Advantages

- *Owner Control:*

- + More productive & accountable to the owner's wishes
- + Align the interests of the owner and the manager
- + Help retain the ability of the owner to control the future direction
- + Avoid the problem of agency

→ Advantages

- Manager Control:

- + Suitable for the complexity, scale, and scope of a company's operation expansion
- + Protect minority shareholders
- + Possess specific knowledge that effective management

3.2 Criteria for classification

- ? A threshold/ a cut-off point

Berle and Means (1932): 20%

Radice (1971): 15% for the
largest shareholding

3.2 Criteria for classification

- ? *Control = f (X)*

Cubbin and Leech (1983):

A probabilistic voting model:

+ Degree of control (probability of the controlling shareholders securing majority support in a contest vote)

+ Control (95% chance of winning a vote)

X:

- Size of largest holding
- Size and distribution of the remaining shares
- Willingness of other shareholders to form a voting block
- Willingness of other shareholders to be active and to vote against the controlling group

4. Insider vs. Outsider system of Corporate control

Corporate governance

Griffiths and Wall: “Corporate governance refers to the various arrangements within companies which provide both authority and accountability in its operations. In other words, the various rules and procedures which are in place to **direct and control the running of the company**”

Corporate control

- *Insider systems:*

- + Ownership: concentrated
- + Trading shares: large blocks
- + Relationship between management and shareholders: close & stable
- + Board of directors or other senior managerial positions: shareholders
- + Priority to stakeholders
- **More active owner participation**

Corporate control

- *Outsider systems:*

- + Ownership: dispersed

- + Trading shares: easy (for investment)

- + Relationship between management and shareholders: not close

- + Board of directors or other senior managerial positions: owners and stakeholders

- + Priority to market regulations

- **More active market for corporate control**

5. External & Internal constraints

→ Constraints for objective-setting

- ***External constraints:*** Arises from the *active market in company shares (i.e. holder of large blocks of shares, acquirer of blocks of shares...)*
- ***Internal constraints:*** Arises from *the role of non – executive board members and stakeholders (i.e. Owners/shareholders, stakeholders, non-executive directors)*