

STRATEGIC MODELS AND MANAGEMENT (6)

PROFESSOR ROBIN MATTHEWS

STRATEGIC MODELS AND MANAGEMENT (6)

PAYOFFS ETHICS

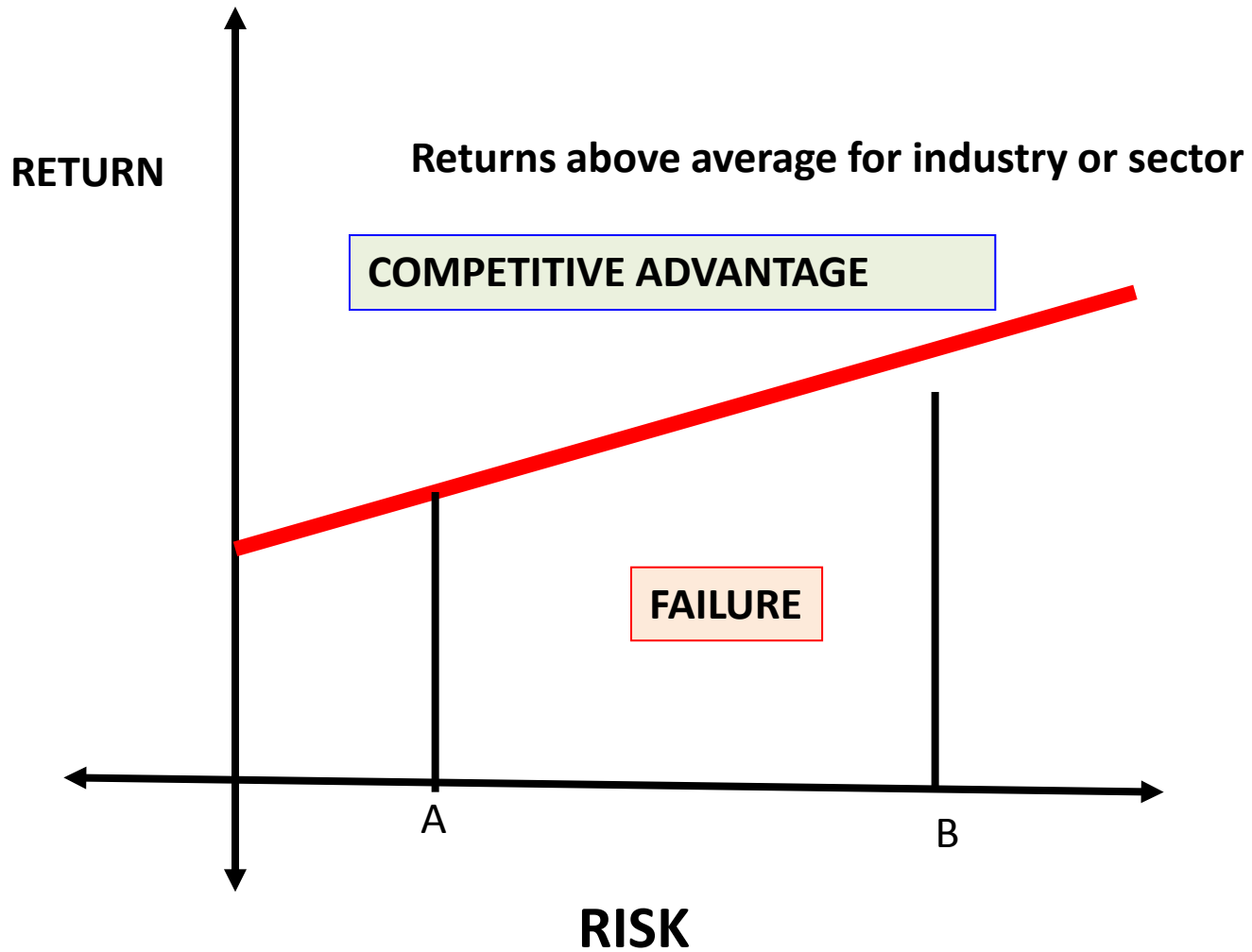
Financing and Net Present Values And alternatives

STANDARD MODEL

- 1. The dominant business model in global capitalism is the competitive advantage model**
- 2. Competitive advantage is based on misconception of**
 - a. Darwinian evolution**
 - b. Schumpeterian ‘creative destruction’**

The dominant stakeholder in the standard model is the shareholder

A LIMITED VIEW OF PAYOFFS
The shareholder value model



The model of individual competitive advantage

Some aspects of business ethics

- **Utilitarianism (Singer)**
 - happiness of all sentient creatures, people, the environment , animal rights, international law, world health.
- **Categorical imperative (Kant)**
 - act as if the underlying principle is a universal law
- **Social contract (Rawls)**
 - Contract decided under a veil of ignorance

DISCUSSION

1. Are the two boxes below compatible?
2. Is an ethical approach in business consistent with seeking competitive advantage?

STANDARD MODEL

1. The dominant business model in global capitalism is the competitive advantage model
2. Competitive advantage is based on misconception of
 - a. Darwinian evolution
 - b. Schumpeterian 'creative destruction'

The dominant stakeholder in the standard model is the shareholder

Some aspects of business ethics

Utilitarianism (Singer)

- happiness of all sentient creatures, people, the environment, animal rights, international law, world health.

Categorical imperative (Kant)

- act as if the underlying principle is a universal law

Social contract (Rawls)

- Contract decided under a veil of ignorance

Financing the firm

1. Bonds (debt)
2. Shares (equities)
3. Retained earnings

**WHAT ARE THE RISKS OF 1-3?
(remember opportunity cost)**

TIME VALUE OF CASH FLOWS

time value of revenues minus costs
over the life of the project

cost of capital

=

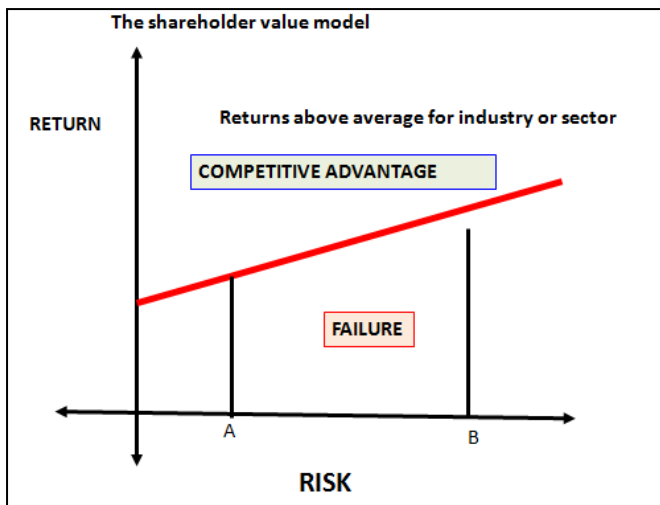
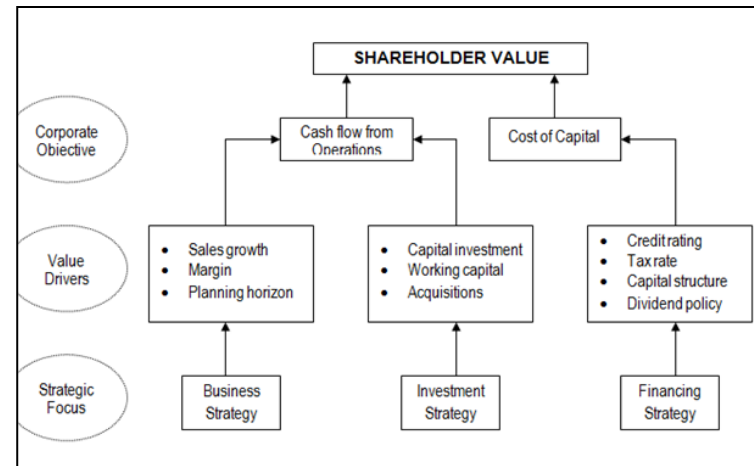
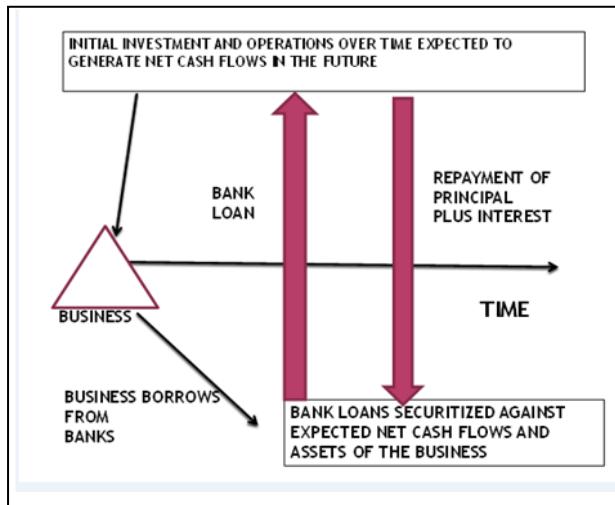
$$\sum_{t=0}^T \frac{R(t) - C(t)}{(1+r)^t}$$

NPV

- **Using interest rate (discount rates) of:**
 - a. 10%
 - b.5%, c.3%
- **What is the NPV of the following income streams at each interest rate**
 - \$100 next year
 - \$100 for 3 years
 - \$100 per year forever

DISCUSSION

1. Explain and illustrate the data below using examples you know about.
2. How are the 4 pictures/data related?



TIME VALUE OF CASH FLOWS

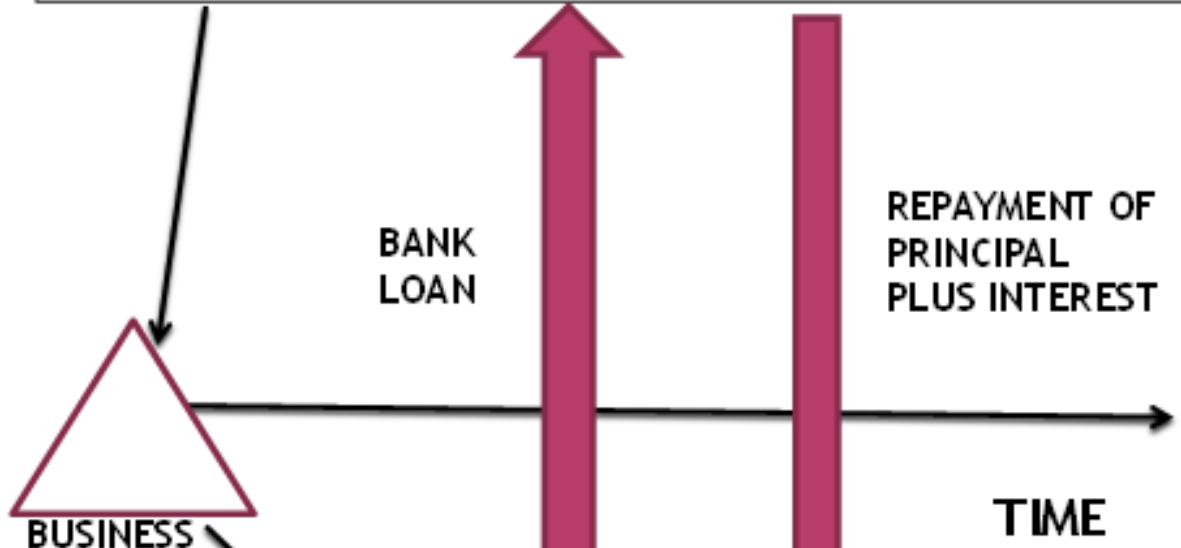
time value of revenues minus costs
over the life of the project

cost of capital

=

$$\sum_{t=0}^T \frac{R(t) - C(t)}{(1+r)^t}$$

INITIAL INVESTMENT AND OPERATIONS OVER TIME EXPECTED TO GENERATE NET CASH FLOWS IN THE FUTURE



**BANK
LOAN**

**REPAYMENT OF
PRINCIPAL
PLUS INTEREST**

BUSINESS

TIME

**BUSINESS BORROWS
FROM
BANKS**

**BANK LOANS SECURITIZED AGAINST
EXPECTED NET CASH FLOWS AND
ASSETS OF THE BUSINESS**

