

**MINI CASE**

Suppose you decide (as did Steve Jobs and Mark Zuckerberg) to start a company. Your product is a software platform that integrates a wide range of media devices, including laptop computers, desktop computers, digital video recorders, and cell phones. Your initial market is the student body at your university. Once you have established your company and set up procedures for operating it, you plan to expand to other colleges in the area and eventually to go nationwide. At some point, hopefully sooner rather than later, you plan to go public with an IPO and then to buy a yacht and take off for the South Pacific to indulge in your passion for underwater photography. With these issues in mind, you need to answer for yourself, and potential investors, the following questions.

- a. What is an agency relationship? When you first begin operations, assuming you are the only employee and only your money is invested in the business, would any agency conflicts exist? Explain your answer.
- b. If you expanded and hired additional people to help you, might that give rise to agency problems?
- c. Suppose you need additional capital to expand, and you sell some stock to outside investors. If you maintain enough stock to control the company, what type of agency conflict might occur?
- d. Suppose your company raises funds from outside lenders. What type of agency costs might occur? How might lenders mitigate the agency costs?
- e. Suppose your company is very successful, and you cash out most of your stock and turn the company over to an elected board of directors. Neither you nor any other stockholders own a controlling interest (this is the situation at most public companies). List six potential managerial behaviors that can harm a firm's value.
- f. What is corporate governance? List five corporate governance provisions that are internal to a firm and under its control.
- g. What characteristics of the board of directors usually lead to effective corporate governance?
- h. List three provisions in the corporate charter that affect takeovers.
  - i. Briefly describe the use of stock options in a compensation plan. What are some potential problems with stock options as a form of compensation?
  - j. What is block ownership? How does it affect corporate governance?
- k. Briefly explain how regulatory agencies and legal systems affect corporate governance.