

MANAGEMENT FALL 2015

Learning Objective: Developing Practical Perspectives for Embarking on a Business Education and Career

Students will have an introductory familiarity with:

- Various forms, practical and legal, of business enterprises
- Role of Accounting as the language of business and a tool to measure business performance
- Common functions of every business
- Administration of a business
- Employee evaluation and incentives
- Multiple constituencies with which a business interfaces
- Roles of outside advisors, including accountants, lawyers, and bankers
- Capital markets
- Critical aspects of international business
- Formulation, evolution and application of “The Business Plan”

Course Content:

During the course, each of the fundamental functions and challenges of business enterprises will be discussed. Real life examples of enterprises from sole proprietorships to multi-national corporations will be described and animated with anecdotes from the teacher’s experiences and contemporary reports.

The course initiates with the various forms, legal and descriptive, of business enterprises. There follows a discussion of Accounting, the essential language of business administration, performance measurement and capital allocation decisions. There follows examinations of the multiple functions common to business operation, management and governance; the constituencies that a business serves and with which it interacts; and the outside advisors on which businesses rely. International operation and the inherent cultural and legal challenges are reviewed. Employee incentives and evaluation, at the personal and Board of Director levels are outlined; the perspectives of the students will be elicited. Finally, the composition and importance of “The Business Plan”, from creation and initial financing of an enterprise, through its on-going evolution, is addressed in detail.

Required Reading:

In addition to specific assignments and handouts, students will be required to read daily the Financial Times (www.ft.com).

Course Delivery:

This course will be taught over a period of six weeks, generally on Mondays and Wednesdays, in two 1.5 hour sessions each day. Sessions will be comprised of a lecture followed by a period for student questions and comments. Students are encouraged to share ideas with the class and innovative participation is a meaningful component of each student’s grade.

Course Etiquette:

Students are expected to be punctual, present, and attentive throughout each session. Appropriate attire is required. Mobile phones are not permitted and laptops can be used only for note taking.

Course Evaluation:

A Final Exam distributed in the final class will be submitted by e-mail to Professor Benevento within a week. Grades will depend on the final exam (40%), class participation (30%) and three assignments (30%; 10% each). The Professor may give the students "pop quizzes"; each will be weighted equally with the assignments in comprising 30% of the Grade. In all regards, clarity, reasoning and creativity will be weighted heavily.

About The Professor:

Frank A. Benevento II was an investment banker at Lehman Brothers, engaging in all aspects of corporate finance worldwide: underwriting, private placements, project finance, and M&A. Particular experience was with natural resource companies, projects and properties.

Subsequently, he co-founded the sector leading Energy Recovery Fund, managing privately negotiated equity investments in oil and oil service companies in the U.S., Canada, and the UK, including the acquisition with Goldman Sachs of Aberdeen based Subsea International, the world's largest underwater robotics and diving oil service company, of which he became Chairman and CEO.

He initiated or advised in numerous corporate transactions in the U.S., U.K, France, and the UAE. He was the sole retained financial advisor to RJR Nabisco and later its senior management in the process that culminated in the renowned \$30 billion transaction, the largest Leveraged Buyout in history. He served on the Boards and several Executive and Special Committees of five NYSE and two TSE companies.

He holds a B.S., summa cum laude, from Georgetown University and a Juris Doctor from the University of Virginia Law School. Mr. Benevento has interests in 16th Century cartography, especially the Venetian school, poetry, geopolitics, and fiscal and monetary policy. He has written numerous poems, political satire, and taxation and geostrategic commentary, some of which has been published.

CLASS 1 & 2: WEDNESDAY, SEPTEMBER 23

Course Introduction and Goals

What to Expect from a Business Education

Students should consider their business education as “Age of Exploration” of worldwide commerce, and their individual interests and talents. From this vantage, students should identify industries and careers that fit their personalities and competencies and fulfill their aspirations.

Factors in Success Everyone Can Control

Suggested Reading (not required): Sun Tzu, *Art of War*; Machiavelli, *The Prince*; “The Black Swan of Cairo”, <http://www.foreignaffairs.com/articles/67741/nassim-nicholas-taleb-and-mark-blyth/the-black-swan-of-cairo>

Required: Watch “Too Big To Fail” on Amazon (Prime; free); and “Inside Job” on Amazon

CLASS 3 & 4: THURSDAY, SEPTEMBER 24

Black Swans: Observations on the Financial Crisis

Required: “How the Economic Machine Works” by Ray Dalio, CEO of The World’s Largest Equity Hedge Fund, Bridgewater Associates
<http://www.cnn.com/id/101055852>

Assignment Dalio: Please describe the basic role of Central Banks and how the video changed your understanding of the economy and your personal career plans. The Assignment should be emailed to the Professor by 5 P.M. Sunday, September 27.

CLASS 5 & 6: MONDAY, SEPTEMBER 28

The Enterprise: What is a Company?

All companies are ORGANIC: as with the human beings who comprise them, companies grow and transform as part of a natural evolution.

Accounting: The Language of Management

Every enterprise, regardless of size or nationality, deploys the common language of management – Accounting, which will be introduced in detail during the second half of this course. US dialect: GAAP; EU, Russia, Hong Kong, India, Australia dialect: IFRS. The EU is adopting GAAP for publicly traded companies, banks and insurance companies.

Daily entries create a diary (the "Ledger"); a snapshot of the company at the end of a period, e.g., December 31, is a Balance Sheet; performance of a company over a period is an Income Statement.

Start with a student's individual diary to create a student's Balance Sheet, Income Statement, and Cash Flow.

Importance of Margins: What percentage of Revenue is Gross Profit? ; Operating Profit? ; Pre-Tax Profit?; and After Tax Profit?.

Anecdotal Experience: Hillman; RJR (Red Book); Walmart (Info Systems)

Required: Watch Buffett and Gates on Success: https://www.youtube.com/watch?v=ldPh0_zEyKU

CLASS 7-10: WEDNESDAY, SEPTEMBER 30 & THURSDAY, OCTOBER 1

Common Functions of Every Enterprise

1. MARKETING

In a global economy, marketing and delivering products and services retains a local orientation, e.g., Walmart IT Systems. Indeed, internet advertising increasingly personalizes advertising, starting with geographic locale.

- A. Venture: In what business do you want to be?
- B. Existing company: what businesses should be retained or acquired ?
- C. Markets; Demographics; Competition; Risks; Barriers to entry; Growth potential. "Know Your Customer" (Sam Walton); Develop Products; Drop Products. Gaining an edge.

2. PROCUREMENT/SUPPLY CHAIN/DISTRIBUTION TO POINT OF SALE

Just in time delivery: An inventory/production strategy to increase efficiency and decrease waste by shipping and receiving materials and goods only as needed in the production process, thereby reducing inventory and associated carrying costs and thus increasing return on investment. Just In Time Delivery requires that producers accurately forecast demand.

3. MANUFACTURING and PRODUCTION: Striving for innovation, efficiency and margins

- A. Retail: The power of brands
- B. Technology
- C. Healthcare/Pharmaceutical
- D. Banking: new products; new locations; customer service; lowering cost of capital
- E. Professional Services
- F. Travel, Leisure, Entertainment
- G. Natural Resources

4. RESEARCH & DEVELOPMENT: Companies compared with peers based in R&D/Revenue

R&D Percentage of Revenue varies by industry; Creating moats and growth.

5. INTELLECTUAL PROPERTY

Protecting moats with Patents and Trademarks

6. RISK MANAGEMENT

Hedging; Insurance; Contingent fee system in US but not Europe; BP Macundo Spill

7. TAX, LEGAL, AND REGULATORY COMPLIANCE

Tax as Profit Center: e.g.: Google, Ireland. Italy's struggle with "Nexus" vs. Domicile.

Luxembourg :

http://www.afr.com/p/national/why_ikea_profits_are_mostly_tax_MSQO0NKMIJHQzP8qQANBUP

8. FINANCE

To be the subject of a future class.

Handouts: Organization Chart

Required: Charles Munger: Psychology of Human Misjudgment

<https://www.youtube.com/watch?v=pqzcCfUglws>

CLASS 11 & 12: MONDAY, OCTOBER 5

Administration and Oversight

1. The Organization Chart

2. The Constituency Chart

Shareholders, Debt holders, Managers, Employees, Community, Environment

3. Boards of Directors

- Governance Models; Private and Public Companies; Europe; Americas
- History of Transformation to "Professional Management"
- Family Control Creates Superior Long Term Value:
- DuPont; Ford; Walmart; Google; Luxottica; Fiat; Ferrero; Tata; Newscorp

4. Board Committees

5. Business Ethics Incentives; Performance Damning Psychology traits:

Management stock option Incentives; "The Coin Flip Trader"; Long-term v. Short-term; Company Culture.

6. Roles of Outside Advisors:

Accountants; Lawyers; Investment Bankers; Consultants

CLASS 13: WEDNESDAY, OCTOBER 7

Managing and Providing Incentives for Employees

Annual Reviews:

- The GE Rule: Only the Top 10% Stay
- Tangible: Revenue/Profit Generation
- Intangible: Leadership; Creativity; Constituent Relationships

Things Employee Controls and Does not:

- "Five Controllable Characteristics that guarantee success".
- The Art of Listening

Handout: Factors in Success Everyone Can Control

Assignment: "By What Factors Would You Judge Co-Workers?"

Please email the assignment to the Professor by 5 P.M. Sunday, October 11.

CLASS 14: WEDNESDAY, OCTOBER 7

International

1. Cultural Aspects
2. Marketing and Sales
3. Operations and Procurement
4. Labor
5. Tax, Legal, Regulatory
6. Negotiations
7. Capital Markets

Handouts: Summary Comparison of Legal forms of Business Entities

Review: Following class: Forms of Business Ownership

Source: UTAH STATE OFFICE OF EDUCATION, "Entrepreneurship UNIT 3.2A, CREATING THE BUSINESS PLAN, A Complete Discussion of Legal Forms of Ownership". PDF LINK: Allen, Kathleen R., & Meyer, Earl (2006). "Entrepreneurship and Small Business Management." New York: Glencoe, p. 143. Section II

Assignment Munger: Describe in 250 to 500 words any predispositions to human misjudgment you recognize in yourself or consider most important to overcome.

See: Charles Munger: Psychology of Human Misjudgment:

<https://www.youtube.com/watch?v=pqzcCfUglws>

Please email the assignment to the Professor by 5 P.M. Sunday, October 11.

CLASS 15: MONDAY, OCTOBER 12

Forms of Business Enterprise

1. Sole Proprietorship – Legal Form, Probably a Corporation

- A. Touring Sports Professional
- B. International Scope: Colombo Mobili (Milano)
- C. Distribution: Baker, Knapp & Tubbs in U.S.
- D. Antique Shop
- E. Construction; Trades can build fortunes, see, Generoso Pope
- F. Car dealership/Franchises

2. Partnerships and Limited Partnerships

e.g. ,Hedge Funds. Law, Medicine, Consulting, etc.

3. Corporations

4. Other

Joint Venture. In U.S.: "Sub S. Corporation, LLC

5. Non-Profit:

University, Museum, Hospital, Research Foundation

CLASS 16: MONDAY, OCTOBER 12

Accounting: the Gauge of Performance

Review: Relevant portions of Class 5 & 6.

Review Handouts:

- 1. IROR; NPV, and Return of Capital Multiple
- 2. IROR Excel
- 3. Dupont Formula

CLASS 17 & 18: WEDNESDAY, OCTOBER 14

Performance and Identifying Opportunity:

ROA; ROE; IROR; Net Present Value (Vandell Article); “Risk Adjusted” Discount Rate; Payback Period; Rule of 72; Cap Rate; Fixed v. Variable Costs; Margins; Du Pont Formula.

Budgeting and Resource Allocation:

Hurdle Rate; Cost of Capital; Projection (“Psychology of Conservative Case”); Risk Adjusted Returns (recommended reading: Against the Gods, Peter L. Bernstein)

CLASS 19 & 20: MONDAY, OCTOBER 19

Review and brief introduction to “The Business Plan”

Students should study for the next class October 21:

Power Point: Source: UTAH STATE OFFICE OF EDUCATION, “ENTREPRENEURSHIP UNIT 3.2, CREATING THE BUSINESS PLAN”.

Allen, Kathleen R., & Meyer, Earl (2006). “Entrepreneurship and Small Business Management.” New York: Glencoe, p. 143. Section II:

Handout: Business Plan: Giacalone Luca Exam from 2013

CLASS 21 & 22: WEDNESDAY, OCTOBER 21

All Begins with “The Business Plan”

1. Starting a Company: the plan must address each element common to all business enterprises and project future results.
2. Existing Company: The Annual Negotiation; setting the bar.

Finance: Raising Capital to Fund the Business Plan

Equity Valuation:

- New Business: Present Value of Future Cash Flows; “Risk-Adjusted”; Margin of Safety
- Existing Business: Market Value

Equity Financing:

- New Business: Venture Capital
- Existing Business: Private Equity; Public Markets

Debt Financing:

- New Business: not realistic: equity risk for debt returns
- Existing Business: Banks; Public and Private Debt Markets

CLASS 23 & 24: MONDAY, OCTOBER 26

Review

Final Exam Distributed

CLASS 25 & 26: WEDNESDAY, OCTOBER 28

Review

Guest Lecturer: in 2014, Francesca Villa, co-owner, Villa Atelier, <http://www.villa.it/>
