



Book Summary: What They Teach You at Harvard Business School: My Two Years Inside the Cauldron of Capitalism (Penguin) by Philip Delves Broughton

Number of Pages: 304 pages

ISBN-13: 978-0141046488

Book Finished: 31 Jan 2014

Note: This is a very concise paraphrased summary. Please support the author and buy the book.

- **Far better it is to dare mighty things, to win glorious triumphs even though checkered by failure, than to rank with those poor spirits who neither enjoy nor suffer much because they live in a gray twilight that knows neither victory nor defeat. – Teddy Roosevelt**
- Roughly a 100,000 MBAs graduated from American universities in 2000.
- Harvard education is based on the **case study approach**.
 - Cases are written by members of the faculty and can range in length from a couple of pages to more than thirty.
- **Banks like to lend to asset-based businesses.**
 - Unlike a factory, humans, of course, can get up and walk out of the door at any time, hence bank's reluctance to lend to advertising agencies, law firms, or architectural practices.
 - No chemical plant is going to say to hell with it and default on its loan.
- **MBA and Class Structure**
 - **Classes begin with a cold call**, in which the professor picks out a student to introduce the case he/she had prepared the night before.
 - The first year of the MBA Course at HBS is called the required curriculum, or RC. During the second year, the EC, or elective curriculum, students choose from a wide variety of courses or pursue independent research.
 - After two years, the top 5 percent of the class would be awarded Baler Scholarships, the highest academic honor.
 - The **section** is HSB's most aggressive act of socialization and network building.
 - HBS strongly encourages the formation of study groups, four or five students who would meet up for an hour before class each day to discuss the upcoming cases.
- **GANTT Chart:** A bar chart used to lay out a project schedule.
- People who apply to business school can be placed into 2 broad categories:
 - People from companies with a long tradition of sending employees to business school.
 - Those people who have a career change in mind.
- **Specialities of business schools:**
 - **Stanford:** Place for Silicon Valley entrepreneurs.
 - **Kellogg, at Northwestern University:** Famous for marketing.
 - **Wharton, at the University of Pennsylvania:** Financiers.
 - **Columbia:** Similarly plugged into all that happens in New York.
 - **Sloan School, at MIT:** For engineers and scientists wanting to turn their ideas into businesses.
 - **Harvard:** General Management
- **The real power behind HBS is international, multi-industry friendships that last.**
- **Fundamentals of Accounting**
 - $Assets = Liabilities + Equity$
 - $Accounting = Economic\ truth + Measurement\ error + bias$
- Inventory is a dirty word in business and the less you have of it, the better.
- **With valuations, the most important thing is to make sound assumptions based on all the available evidence.** Then it is simply a question of putting the numbers into a spreadsheet – “plug and chug” as the bankers call it.
- **Beta is a nifty way of describing the risk of a stock.**
 - A beta of 1 implies that the stock, on average tracks the market perfectly. If the market goes up 8 percent, the stock goes up 8 percent.
 - A high beta stock is one that exaggerates the market's improvements. Say the market goes up 10 percent; a stock with a beta of 1.5 goes up 15 percent.
 - A low-beta stock is less volatile than the market. If the market goes up 10 percent, a stock with a beta of 0.5 only goes up 5 percent.
 - **Warren Buffet is anti-beta.**
 - **Related to jobs and entrepreneurship:** Jobs are defined as low-beta (consulting) or high-beta (your own start-up).
- **Alpha is the white whale of the investment community – it reflects the extent to which you make nonsense of standard risk/reward measures.**

- Benjamin Graham, the intellectual godfather of value investing, spoke about risk in yet another way. He liked companies that had a “margin of safety,” some cash in the bank, perhaps, or a very manageable amount of debt.

Truth about valuations

- You can't get upset about valuations not being right. They make no claim to be exactly right.
- Valuations are merely negotiating tools.
- If you spend any time at a bank you would see that all these techniques and models just serve the political needs of the bankers and their clients.
 - If the bankers come up with one valuation and the client says, can't we make that a little higher or lower, the bankers will go back to their model and adjust it to get it where the client wants it.
- All that matters is assumptions, and anyone can have a discussion about them regardless of how much finance they know.
- The main thing is understanding the business in question.
 - In one church sermon the priest said you can tell most of what you needed to know about a person from looking at their bank and credit statements. So it is with companies.
 - You can tell everything about a company from its top line, its revenue.
 - Revenue is proof of your ability to win customers, which would determine your success more than your ability to squeeze a few pennies out of your costs.
- When asked to value a company and in so make a realistic bid, always ask first: “Who's buying?”

Private equity

- According to Rubenstein, the useful thing about private equity is that you are highly compensated if you are reasonably successful.
- And even if you are not that good, you'll probably still make a fair amount of money.
- According to Schwarzman: To get from zero to some element of significant success, you have to be exceptionally resilient.
 - It took Schwarzman until his 19th meeting to find anyone who would invest money in Blackstone, who pledged him \$100 million over a tuna sandwich.

Venture Capital

- VC firms tend to invest in people rather than ideas.
- When pitching to a VC, it is vital to “get them juiced in the first five minutes. Get them captured and fully engaged quickly.”
- Customers interviews are great... how many customers have you talked to? Is there a real problem... how many said they will pay?
- Very important lesson: **Pick a vertical.**
 - It's easier to get traction and get good at what you're doing if you're focused on a single area from top to bottom.

What they don't teach you at HBS

- What they don't teach you is what they can't teach you, which is how to read people and how to use that knowledge to get what you want.
- If there is one thing to remember coming out of HBS, is that it isn't the weighted average cost of capital or the four Ps of marketing.
 - It is to return calls and e-mails in a timely way. That would put you 99.9 percent ahead of your competitors.