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MBA 694.80: Business Dynamics - Managing in Turbulent Times

Richard Chandler

The University Of Montana

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SYLLABUS

MBA 694-80

**Business Dynamics: Managing in Turbulent Times
Summer, 2017 (CRN: 51333)**

Course Information:

Instructor:

Richard H. Chandler
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California Address: PO Box 2088, Rancho Santa Fe, CA 92067
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Class Meetings: GBB L14

Friday, June 23, 2017: 6:00 p.m. to 9:00 p.m.
Saturday, June 24, 2017: 8:00 a.m. to 12:00 and 1:00 to 5:00 p.m.
Sunday, June 25, 2017: 8:00 a.m. to 12:00 p.m.

Course Summary:

Companies face continuous challenges to their survival today as the business environment shifts unexpectedly and technology re-defines entire industries. Industry leaders in one decade, such as Circuit City, Blockbuster and Borders, become takeover targets or bankruptcies a few years later. Central to a manager's success is the ability to respond to these challenges in a time-efficient, strategically sound manner.

This course is designed to teach the graduating MBA how company leaders must manage in turbulent times and will be divided into a series of instructional modules. We will initially focus on managing turnarounds and improving financial performance, covering basic financial analysis concepts and management techniques for leading change in an organization. We will then shift to the role of the leader in developing core competencies and improving business processes as a source of competitive advantage. Dynamic markets may open up opportunities for growth through mergers and acquisition, a module that will also include basic valuation methodologies and also a role playing negotiation exercise. Expanding globally can be an effective strategy for finding relief from intensively competitive domestic markets. A final module will examine how to deal with a crisis that may threaten the very existence of an organization. The lessons to be learned in each area will be presented in lectures, case studies and current news stories that highlight management successes and failures across a variety of industries. The text for the course will be *The Five Dysfunctions of a Team*, by Patrick Lencioni. A series of Leadership Axioms will be woven throughout the lectures.

Throughout the course a series of "management axioms" will be presented that can be applied in any business situation. In lieu of a final exam, students will prepare an M&A case based on a real world example that requires manipulation of a financial model (to be provided) and preparation of a letter to the board of directors advocating the acquisition and analyzing its financial impact.

This course is a companion course to "The Practice of General Management" offered in alternate years by the same professor. Taken together, the two courses will present the full list of 60

Leadership Axioms. Students will be prepared for many of the challenges faced by branch managers, general managers, and CEOs and will have learned disciplines and techniques that will help them become better managers at any level.

Course Objectives:

Upon completion of this course, the conscientious student will have gained a greater understanding of how organizations can be managed for improved performance in difficult times. You will understand how CEOs confront a variety of real world challenges, such as monitoring operating performance, turning around underperforming businesses, expanding into international markets, and facing a major crisis. The course will provide a basic primer on mergers and acquisitions, with special emphasis on modeling and valuing acquisitions. This will be especially useful if you ever have ambitions about buying and running a business yourself. You also will be familiar with the culture of successful teams and the dysfunctions that can de-rail them. Finally, you will have learned some general principles of leadership, called “Axioms,” that you can apply in any management setting.

Course Requirements:

You will be required to complete the readings for the class, submit one written assignment and participate actively in all class discussions. The first half of each class will be devoted to lecture, and the last half will turn to case discussions, a team problem solving exercise and a negotiation simulation. To succeed in this course, you must read the appropriate cases for each class and develop an informed opinion about them, as I will do cold calls on each case. The critical questions for the cases are shown in this syllabus under the course schedule for each day.

- A. Textbook:** You must purchase and read *Five Dysfunctions of a Team* by Patrick Lencioni, Jossey-Bass, San Francisco, 2002. It is available from Amazon.com for \$14.97 or less. This book is a relatively short and readable fable about a female CEO who takes over a technology business with a dysfunctional management team that is undermining company performance. Lencioni develops and illustrates a model for how teams must function to be effective and the traps they must avoid.
- B. Course Readings:** The other required readings for the course will consist of four case studies and several articles. All of the readings are available from www.study.net, with the exception of the Guardian case, which will be emailed to the class and posted on the class website in advance of class. Here are the readings:
1. Case: “Nissan Motor Co., Ltd., 2002,” Harvard Business School Press, 2002. (#9-303-042)
 2. Fortier, “A Note on Mergers and Acquisitions and Valuation,” Ivey School of Business, 1995.
 3. Case: “Starbucks: Delivering Customer Service,” HBSP, 2003 (#9-504-016)
 4. Case: Chandler, “The Acquisition of Guardian Products,” University of California, Irvine, 2012.
 5. Case: “Olam International,” HBSP, 2008. (#9-509-002)

These course readings can be purchased from www.study.net for about \$20, downloaded to your computer, and printed. (To be sent hardcopies from them will cost an additional amount of around \$12 plus shipping.) You will have to go to the website and register as a student, then click Courses and pick

out this one from the others offered by U. of Montana. Click “add to cart” to start the purchase process. No course password is required.

- C. In-Class Discussion Exercises.** There will be two in-class exercises, one requiring team problem solving and the other the negotiating an acquisition. These exercises will not be graded, but the student presentations will be an important part of the overall participation grade for that class session.
- 1. Ace Strollers eBusiness Exercise:** On Saturday morning after the lecture, the class will be divided into teams of 3-4 students that must develop a solution to a leadership challenge. You are the CEO of baby products manufacturer Ace Strollers, it is January, 2000, and you have come to the realization that the Internet is going to change everything. It will re-define all of the company’s business processes, replacing manual systems and mailed hardcopy documents in areas such as purchasing, engineering, dealer relationships, sale force management, etc. The task of each team is to come up with an action plan for accomplishing that transformation over a reasonable period. The teams will each summarize their conclusions for the class.
 - 2. Guardian Products Negotiation Exercise:** On Saturday afternoon after the lecture there will be a discussion of the *Acquisition of Guardian Products* case that will be posted on the www.study.net course website. The case describes events leading up to a negotiation between Al Smith, the owner of Guardian Products, and Dick Chandler, CEO of Sunrise Medical. Besides a descriptive write-up, the case includes financial statements for Guardian and Sunrise and data about the stock market valuations of other similar medical device companies. Students will break into pairs to actually negotiate the acquisition, with one assuming the role of Smith and the other Guardian. After the pairs reach agreement (or not), they will present the results to the class. I will then explain what actually happened, and each student will see how good a negotiator they were. Students should bring a laptop to class on Saturday afternoon, as we will discuss and distribute an Excel model that can be used to experiment with different acquisition prices and show the impact each on Sunrise Medical’s earnings per share.
- D. Written Assignment: Jay Medical Acquisition Case.** As CEO of Sunrise Medical in 1993, you have determined that Jay Medical, the leading custom wheelchair cushion manufacturer, would be a “perfect fit” acquisition for the Quickie Designs wheelchair division of Sunrise. Rick Jay, the owner, has given you his financial statements and invited you to make an offer. This assignment requires you to apply a spread sheet model (to be provided) that identifies three different acquisition prices, calculating the impact on Sunrise Medical’s earnings per share of each price based on the terms and composition you decide. You will also be asked to prepare a letter to the Board of Directors proposing and justifying this acquisition, preparatory to a formal proposal at the next board meeting. The Jay Medical case will be handed out in class on Saturday and is due two weeks after the course. Acquisition valuation methodology is described in the Fortier article and will also be covered in class on Saturday. The paper is expected to be 3-4 pages plus exhibits.

E. Class Participation. Every student will receive a participation grade for each of the four class sessions. Active engagement by all students in class discussions is critical to the success of the course. It is also good training for your careers, as the world of business does not reward the meek. Remember, however, that it is quality, not quantity that counts. Did your contribution add a valuable insight, challenge the thinking of others, or turn the discussion in a positive new direction?

Course Grading:

Your course grade will be determined by weighting the following factors:

Class Participation	40%
Written Assignment: Jay Medical Case	<u>60%</u>
Total	100%

The written assignment will be graded on both content and the writing/presentation (e.g., tables or exhibits). It must be emailed or mailed to me by **midnight on July 14, 2017**. I will post your grade on the final paper on Moodle. If you would like to receive my grading comments, you must mail me a hardcopy of your paper to be postmarked by the deadline, along with a stamped, self-addressed envelope with adequate postage. I will return your paper with the grade and comments within several weeks. If you select this option, you should mail your paper to me at this address: **Richard H. Chandler, 496 E. Tammany Trail, Hamilton, MT 59840**.

Class Absences:

Students must attend all four class sessions. However, if illness or another unavoidable excuse causes you to miss a class session, you may make up for it by submitting written answers to four of the questions for the case discussion that you missed, as shown in the Course Schedule below for that session. This should be a 1-2 page conversational summary of what you would have said if called on in class to answer those questions. It must be postmarked or emailed no later than the due date for your final paper.

Class Website:

Lectures and handouts for the course, along with other general announcements, will be posted on the class website on Moodle under MBA 694-80, Business Dynamics.

Lecturer Biography**Richard H. Chandler,
President, R. H. Chandler Co.**

Richard Chandler heads his own management consulting firm, R. H. Chandler Company, specializing in strategic redirection, new venture start-ups and organizational development. He also serves as an adjunct professor at UC-Irvine's Merage School of Business and at the University of Montana School of Business Administration, teaching courses in business strategy, M&A, entrepreneurship, and CEO leadership.

Chandler's 35-year career in management began with functional experience in marketing, finance, and business development, followed by 28 years in general management positions, the last 23 as a CEO of three growth companies. Most recently, he formed Freedom Scientific in early 2000 by raising \$65 million in venture capital and debt financing and acquiring four assistive technology companies. He served for three years as CEO of this Florida-based manufacturer of hardware and software for people who are blind or have learning disabilities. He remained on the Board until the company was sold to a private equity firm in 2007.

From 1983 to 1999, Chandler served as chairman and CEO of Sunrise Medical, which he founded with venture backing in early 1983 and took public later that year. Sunrise grew to become one of the world's leading manufacturers of rehabilitation and home care products, with sales of \$700 million and a NYSE listing. Sunrise had company-owned operations in 22 countries and sold its products in over 100 countries.

Chandler was CEO of Abbey Medical, a nationwide retail supplier of rehabilitation and home health care products, from 1979 to 1982. He and co-investors acquired Abbey from Sara Lee Corporation in July, 1979 and sold it to American Hospital Supply Corporation (now Baxter International) two years later. Abbey subsequently became part of Apria, Inc. (NYSE)

From 1974 to 1979, Chandler held various executive positions at Sara Lee, including vice president of corporate development and planning, president of the Abbey Medical/Abbey Rents division, and group vice president of diversified products, responsible for eight divisions and five thousand employees. He began his career with Bell and Howell Company in Chicago, where he moved through a variety of management positions including vice president of marketing of DeVry Inc., its education subsidiary.

Chandler's outside activities have included the founding in 1971 of Chicago Community Ventures, an investment company (SBIC) devoted to minority-owned enterprises that was funded by 17 major Chicago corporations. He is a former member of the American Business Conference and Young Presidents' Organization, and is a current member of World Presidents' Organization. In 1972, Chandler was selected as one of the Ten Outstanding Young Men of Chicago. He was recognized as San Diego's Entrepreneur of the Year in 1995.

Chandler earned his B.A. degree magna cum laude from Princeton University in 1964, an MBA with honors from the University of Chicago in 1966, and a Masters in International Economics with distinction from the University of Louvain, Belgium in 1967. He currently resides in Rancho Santa Fe, California and also has a vacation home in Hamilton, MT. He has been married for 51 years to his wife, Linda Boerner Chandler, and they have three adult daughters.

COURSE SCHEDULE
MBA 694-80, Business Dynamics, Summer, 2017

Class 1: Friday, June 23, 2017, 6:00 p.m.	Managing Performance
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1A. Managing Operational Performance and Turnarounds.

- Key financial concepts for non-financial managers.
- Turnaround management
- Product line profitability analysis
- The manager's tool kit: calls to action

1B. Turnaround Management in the Automobile Industry

- Case Discussion: Nissan Motor Co.

Reading Assignments

1. Lencioni, *Five Dysfunctions*, Part One and Part Two, pp. 1-114.
2. "Nissan Motor Co., Ltd., 2002," Harvard Business School Press, 2002 (9-303-042).

Case Discussion: Nissan Motor

1. Describe Ghosen's first month or two on the job. In what ways did he respect the existing culture, and in what ways did he act to change it?
2. As he developed and implemented his turnaround plan, which specific actions contributed most importantly to his success? What ideas could be applied to any turnaround situation in a large organization?
3. How much of the rebound came from resources and capabilities brought from the outside by Renault and Ghosen, and to what extent were the key ingredients already present at Nissan once he was able to unleash them?
4. How would you describe Carlos Ghosen's management style? What were his strengths and weaknesses?
5. The Renault "rescue" of Nissan has been considered a great success. What actions did Ghosen take to develop synergies between these two independent, but now related, auto giants?

Class 2: Saturday, June 24, 2017, 8:00 a.m.	Business Process Innovation
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2A. Managing Operational Effectiveness

- Core competencies
- Impact of business process innovation
- Developing a culture of execution
- Case study: launching a Pursuit of Excellence program

2B. Growth through Business Process Innovation

- Case Discussion: Starbucks

2C. Group Exercise: Ace Strollers eBusiness Initiative.

- Students will break into 4 person teams and develop an action plan for launching an eBusiness initiative at baby equipment manufacturer Ace Strollers. (See handout) Results will be presented briefly to the class, and a consensus plan developed.

Reading Assignments:

1. Lencioni, *Five Dysfunctions*, Parts Three, Four and The Model, pp. 115-222.
2. “Starbucks: Delivering Customer Service,” HBSP, 2003 (#9-504-016)

Case Discussion: Starbucks

1. Evaluate the job Howard Shultz has done in creating a compelling company vision and strategy. What are the key elements of that strategy?
2. Describe the Starbucks corporate culture and explain how management has developed and sustained it. Does this give the firm a competitive advantage? Is it sustainable?
3. What are the key elements of the Starbucks business model and operating system? What are its most important core competencies?
4. How does Starbucks manage to continually improve its operational effectiveness and overall performance? Is this a source of sustainable competitive advantage? Why?
5. If you were Shultz, would you approve Day’s proposal to increase costs by \$40 million in order to improve customer service and reduce wait times? What evidence is there that this is justified and will earn a return on investment? What evidence argues against approving the proposal?

Class 3: Saturday, June 24, 2017, 1:00 p.m.

Growth through Acquisition

3A. Growth through Mergers and Acquisitions

- Identifying targets: the Perfect Fit test.
- Valuing and negotiating acquisitions
- Negotiating and closing the deal
- Due diligence and integration

3B. Guardian Products Acquisition Negotiation Exercise

- Students will be paired up in order to negotiate a price for the Guardian Products acquisition by Sunrise Medical. Playing the role of either Al Smith or Dick Chandler, each member will be given a confidential crib sheet indicating their price limit and will attempt to negotiate the best possible price.

3C. Guardian Products Case Discussion.

- After the exercise, each two-person team will share their results. I will then present what actually happened, allowing you to see how good a negotiator you were. We will then use the case to reinforce the valuation concepts presented in the lecture.
- **Bring a laptop to class** if you would like to download the Guardian Excel model and experiment with it while I am demonstrating its use to the class.

Reading Assignments

1. Fortier, "A Note on Mergers and Acquisitions and Valuation," Ivey School of Business, 1995.
2. Chandler, "The Acquisition of Guardian Products," UC Irvine, 2012.

Case Discussion: The Acquisition of Guardian Products.

1. What was Smith's asking price and his limit (i.e., walk-away) price? What was the basis for his determining this bottom price? Consider the stock price valuations and growth rates of peer companies and the normal 20-30% discount of private versus public companies.
2. What should Chandler's opening offer be, and what should his limit or maximum price be? Why did you select the latter?
3. What price do you think the transaction was completed for?
4. How would Sunrise finance the maximum price, using a combination of bank loans, Guardian cash on hand, Sunrise stock, subordinated installment notes, and/or a non-competition agreement from Smith?
5. Using the maximum price you are proposing, what would be the price/earnings ratio being paid, the price to net book value, the price to trailing sales, and the price to trailing EBITDA?

Class 4: June 25, 2017, 8:00 a.m.	Global Expansion & Crisis Management
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4A. Building a Global Business

- Expanding to international markets
- Global organizational structures and policies
- Joint Ventures
- Managing foreign exchange

4B. Managing Through a Crisis

- Types of crises
- Principles of effective crisis leadership
- Anatomy of a crisis: Sunrise Medical financial restatement

4C. Creating Competitive Advantage in a Global Environment

- Case Discussion: Olam International

Reading Assignments

1. "Olam International," HBSP, 2009

Case Discussion: Olam International

1. What have been the key elements in Olam's business strategy for developing and growing its business, first in Africa and then internationally?
2. What are the most important core competencies—and hardest to imitate—that explain its outstanding global success?
3. Olam is on the *Fortune* magazine list of the 25 best global companies to work for. Describe the key features in the Olam corporate culture that probably contribute most to this recognition. What is distinctive about Olam's management development policies? Will this continue to work as well going forward as they grow?

4. What is Olam's acquisition strategy, as described in the text and exhibits? Do you think this is a good strategy that has been well executed, or do you have doubts about some aspect of their M&A approach, which could lead to problems down the road?
5. What observations can you make in reviewing Olam's financial statements? Should they be emphasizing improving profitability or increasing growth?

Friday, July 14, 2017 12:00 midnight	Final Paper Deadline
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Email your final paper, the Jay Acquisition Case, including a copy of your spreadsheet model, to me at dick@rhchandler.com no later than 12:00 midnight on Friday, July 14, 2017. I will post your grade on the final paper on Moodle. You can also mail a hardcopy of your paper to me postmarked by the deadline, along with a stamped, self-addressed envelope, and I will return your paper with the grade and comments. Be sure to add enough postage to cover the extra ounces, probably an additional one or two 21 cent "Additional Ounce" stamps. Mail it to: **Richard H. Chandler, 496 E. Tammany Trail, Hamilton, MT 59840.**