

**MANAGING THE FUTURE**

**OR**

**THE SIXTY-MINUTE M.B.A.**

**EEN 415 AND EEN 418  
MARCH 9, 2004**

**NORMAN G. EINSPRUCH**

# **MANAGING THE FUTURE**

- **WHY DOES THE CORPORATION EXIST?**
- **CORPORATE STRATEGIC PLANNING**
- **ECONOMICS**
- **FINANCE**
- **ACCOUNTING**
- **TAXATION**
- **ETHICS**
- **ENRON**
- **ANDERSEN**

**WHY DOES THE CORPORATION EXIST?**

**THE CORPORATION EXISTS TO**

- **CREATE**
- **MAKE**
- **MARKET**

**GOODS AND SERVICES FOR THE BENEFIT OF MANKIND**

**THE INCENTIVE TO DO SO IS THE OPPORTUNITY TO MAKE A PROFIT**

**HOW MUCH PROFIT YOU MAKE IS A MEASURE OF HOW WELL THE GOODS AND SERVICES ARE PROVIDED**

The War Over Cheap Drugs

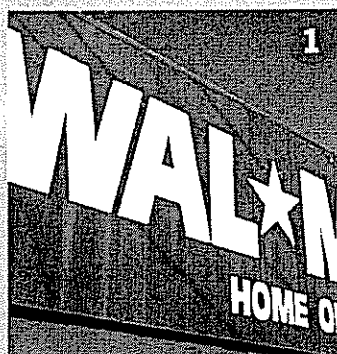
Enron: The Noose Tightens

Inside the CEO Change at Coke

STOCKS  
HOW TO PLAY  
THE MEDIA FRENZY

# FORTUNE

MARCH 8, 2004 \$4.99



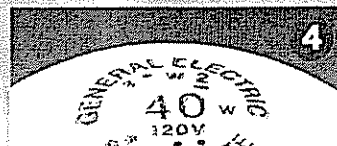
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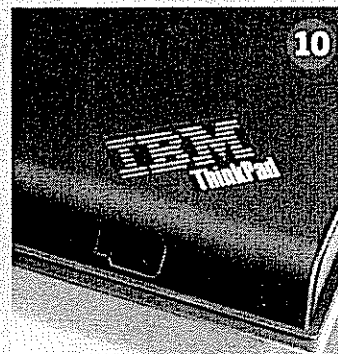
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MIAMI FL 33146-2312 P01731

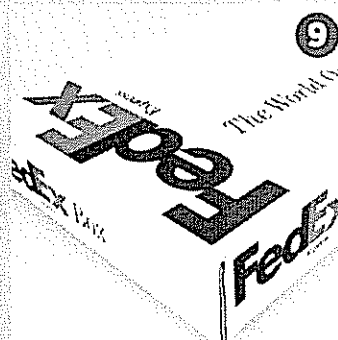
## The 2004 List

# AMERICA'S MOST ADMIRED COMPANIES

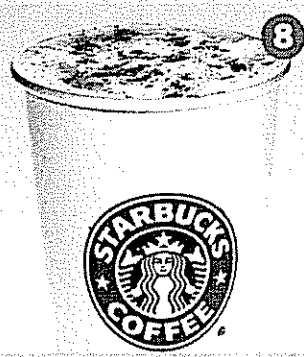
For the full report, see page 80.



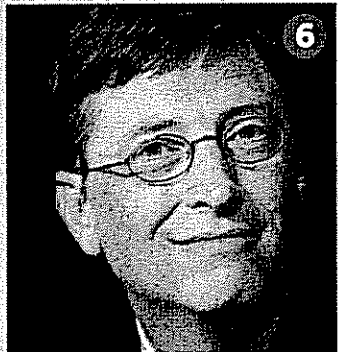
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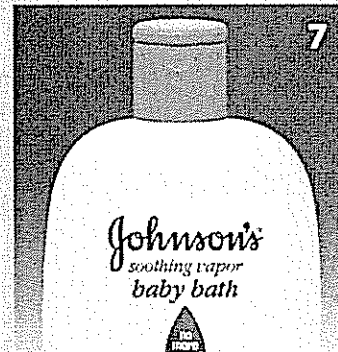
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PLUS Wal-Mart: It's Tough to Be No. 1

# Corporate reputation: eight key attributes

To arrive at each company's score on the industry list (see foldout), we averaged its score for these eight criteria. Here are the three highest scorers in each category. The lowest overall? Bankrupt United Airlines parent UAL.

Innovation	Financial soundness	Employee talent	Quality of management				
Washington Mutual	8.76	United Parcel Service	9.67	Procter & Gamble	8.97	United Parcel Service	9.29
Starbucks	8.62	Microsoft	9.50	American Express	8.79	Liz Claiborne	9.07
Procter & Gamble	8.53	Anheuser-Busch	9.30	Walgreen	8.79	Procter & Gamble	9.05

Use of corporate assets	Long-term investment	Social responsibility	Quality of products/services				
United Parcel Service	9.00	Exxon Mobil	9.42	United Parcel Service	9.00	Anheuser-Busch	9.25
Procter & Gamble	8.71	United Parcel Service	9.30	Alcoa	8.72	United Parcel Service	9.17
Berkshire Hathaway	8.65	Berkshire Hathaway	9.12	Washington Mutual	8.57	Procter & Gamble	8.97

## MISSION STATEMENT

Baptist - South Miami Home Care is dedicated to providing excellent health care to individuals in their place of residence through its commitment to clinical and service excellence and fiscal responsibility. These home health services are designed to restore acutely ill, convalescing and disabled persons to their maximum potential for good health and independent functioning.

Baptist - South Miami Home Care seeks to promote the understanding of good health practices; to promote physical, emotional, and psychological care to all patients, including the terminally ill and their families; to prevent unnecessary institutionalization; and to facilitate early hospital discharge by providing technically feasible treatment in a therapeutic home environment.

Baptist - South Miami Home Care aims to provide counseling and guidance, utilizing the home care team personnel and community resources to cope with problems affecting a patient's health and well-being. Baptist - South Miami Home Care believes that quality patient care is the result of the combined efforts of each individual; thus the home care team collaborated with patients, care givers, physicians, and others to coordinate and provide quality holistic care.

Baptist - South Miami Home Care is a vital link in South Miami Hospital's comprehensive network of services striving to meet the health care needs of the community of Dade and Monroe Counties without regard to sex, race, color, national origin, age, creed or handicap.

## **SITUATION ANALYSIS**

### **INTERNAL**

- **STRENGTHS**
- **WEAKNESSES**

### **EXTERNAL**

- **OPPORTUNITIES**
- **THREATS**



# **CORPORATE STRATEGIC PLANNING**

- **OBJECTIVES**

- **STRATEGIES**

- **TACTICS**

# economics

social science that seeks to analyze and describe the production, distribution, and consumption of wealth.

The major divisions of economics include microeconomics, which deals with the behaviour of individual consumers, companies, traders, and farmers; and macroeconomics, which focuses on aggregates such as the level of income in an economy, the volume of total employment, and the flow of investment. Another branch, development economics, investigates the history and changes of economic activity and organization over a period of time, as well as their relation to other activities and institutions. Within these three major divisions there are specialized areas of study that attempt to answer questions on a broad spectrum of human economic activity, including public finance, money supply and banking, international trade, labour, industrial organization, and agriculture. The areas of investigation in economics overlap with other social sciences, particularly political science, but economics is primarily concerned with relations between buyer and seller.

# finance

the process of raising funds or capital for any kind of expenditure. Consumers, business firms, and governments often do not have the funds available to make expenditures, pay their debts, or complete other transactions and must borrow or sell equity to obtain the money they need to conduct their operations. Savers and investors, on the other hand, accumulate funds which could earn interest or dividends if put to productive use. These savings may accumulate in the form of savings deposits, savings and loan shares, or pension and insurance claims; when loaned out at interest or invested in equity shares, they provide a source of investment funds. **Finance** is the process of channeling these funds in the form of credit, loans, or invested capital to those economic entities that most need them or can put them to the most productive use. The institutions that channel funds from savers to users are called financial intermediaries. They include commercial banks, savings banks, savings and loan associations, and such nonbank institutions as credit unions, insurance companies, pension funds, investment companies, and **finance** companies.

# accounting

the systematic development and analysis of information about the economic affairs of an organization. This information may be used in a number of ways: by the organization's managers to help them plan and control the organization's operations; by owners and legislative or regulatory bodies to help them appraise the organization's performance and make decisions as to its future; by owners, lenders, suppliers, employees, and others to help them decide how much time or money to devote to the organization; by governmental bodies to determine how much tax the organization must pay; and occasionally by customers to determine the price to be paid when contracts call for cost-based payments.

## Income Statement

Stock investors like to look at the income statement (a.k.a. "earnings statement" or "statement of operations") because it shows the company's "bottom line": its earnings, or profit. Most of the income statement details the company's operations: the yellow zone back in the [diagram](#).

<b>Article</b>
Introduction
► Income Statement
Cash Flow Statement
Balance Sheet
For More Information

### Consolidated Financial Statements

#### Income Statement

(click on highlighted text for more information)

(dollar figures are in thousands)	1997	1996
<b>Sales Revenue</b>		
Widget Sales	\$ 12,347	\$ 9,746
Services	6,912	5,688
<b>Total Sales Revenue</b>	<b>19,259</b>	<b>15,434</b>
<b>Sales Costs</b>		
Widget Sales	5,649	4,688
Services	3,166	2,712
<b>Total Sales Costs</b>	<b>8,815</b>	<b>7,400</b>
<b>Gross Profit</b>	<b>10,444</b>	<b>8,034</b>
<b>Gross Margin Percent</b>	<b>54 %</b>	<b>52 %</b>
<b>Operating Expenses</b>		
Sales & Marketing	4,078	3,132
General & Administrative	916	705
Research & Development	2,364	1,831
<b>Total Operating Expenses</b>	<b>7,358</b>	<b>5,668</b>
<b>Operating Income</b>	<b>3,086</b>	<b>2,366</b>
Interest Payments to Bondholders	147	253
<b>Earnings Before Taxes</b>	<b>2,939</b>	<b>2,113</b>
Provision for Taxes	1,028	739

Earnings ("net income")	1,911	1,374
Dividends paid to Shareholders	10	-
Earnings available to Shareholders	1,901	1,374

Consolidated Financial Statements

Balance Sheet

(click on highlighted text for more information)

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(dollar figures are in thousands) 1997 1996

**Assets**

**Current Assets**

Cash and Equivalents	\$ 2,738	\$ 2,260
Accounts Receivable	1,175	996
Inventory	1,034	897

<b>Total Current Assets</b>	<b>4,947</b>	<b>4,153</b>
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Real Estate (purchase price)	31,677	29,847
Equipment (depreciated value)	13,448	12,958
Goodwill (depreciated value)	3,167	3,334

<b>Total Assets</b>	<b>53,229</b>	<b>50,292</b>
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**Liabilities**

**Current Liabilities**

Accounts Payable	1,488	1,092
Short-term Debt	123	147

<b>Total Current Liabilities</b>	<b>1,611</b>	<b>1,239</b>
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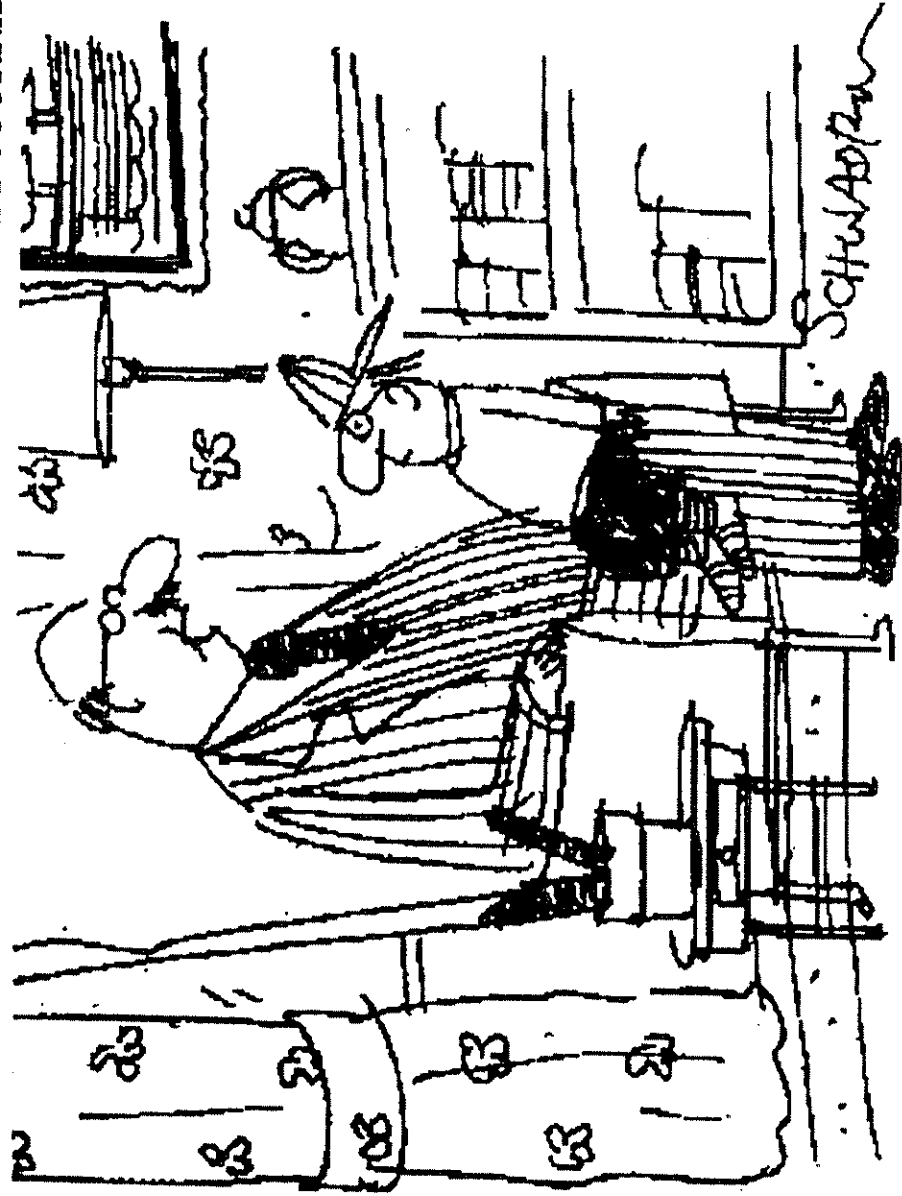
Long-term Debt	245	267
Other Liabilities	122	101

<b>Total Liabilities</b>	<b>1,978</b>	<b>1,607</b>
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<b>Total Shareholders' Equity</b>	<b>51,251</b>	<b>48,685</b>
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# Pepper . . . and Salt

THE WALL STREET JOURNAL



“Feelings of self-worth are important, but never confuse them with *net* worth.”



## **FAMOUS INTERVIEW**

**STUDENT:** *Dr. Einstein, what is the most important invention in the history of mankind?*

**DR. EINSTEIN:**

***COMPOUND INTEREST!***

## **RULE OF SEVENTY**

$$(N) \times (r) = 70$$

**Where:**

**r = annual percentage interest rate**

**N = number of years required for principal to double**

**Examples:**

**If r = 7%, then 10 years are required to double**

**If doubling time is 7 years, the interest rate is**

**10%**

**Frequently see 72, since it has more factors than 70 does**



# 2003 Tax Rate Schedules

Schedule Y-1—Use if your filing status is Married filing jointly or Qualifying widow(er)

If the amount on Form 1040, line 40, is: Over—	But not over—	Enter on Form 1040, line 41	of the amount over—
\$0	\$14,000	..... 10%	\$0
14,000	56,800	\$1,400.00 + 15%	14,000
56,800	114,650	7,820.00 + 25%	56,800
114,650	174,700	22,282.50 + 28%	114,650
174,700	311,950	39,096.50 + 33%	174,700
311,950	.....	84,389.00 + 35%	311,950

# TAXATION

- **FEDERAL INCOME TAX – 35% MAX IN 2003**
- **SOCIAL SECURITY – 6.20% ON \$87,000 (DOUBLED)**
- **MEDICARE – 1.45% (DOUBLED/NO LIMIT)**
- **STATE/LOCAL SALES TAX – 7%**
- **LOCAL REAL ESTATE TAXES - \$5K ON \$300K CORAL GABLES HOME**
- **GASOLINE, CIGARETTES, ALCOHOL, ....**

## ESTATE (DEATH) TAXES

<u>Exclusion</u>	<u>Year</u>	<u>Amount</u>	<u>Maximum</u>	<u>Year</u>	<u>Tax Rate</u>
2002 and 2003		\$1,000,000		2002	50%
2004 and 2005		1,500,000		2003	49%
2006, 2007, and 2008		2,000,000		2004	48%
2009		3,500,000		2005	47%
				2006	46%
				2007, 2008, and 2009	45%

result of patience than of good luck. Recent research from the National Bureau of Economic Research by economists Steven Venti and David Wise confirms this conclusion. According to Venti and Wise, whether a person reaches old age wealthy or penniless mostly depends on the percentage of his earnings he saved—not on the total amount he made in his lifetime. This means that most of the burden of the

N. GREGORY MANKIOW is an economics professor at Harvard and the author of *Principles of Economics*.

estate tax falls not on those who have been lucky throughout life but rather on those who have been frugal.

When the government levies a tax on what we leave when we die, it is literally taxing our patience. If the nation were suffering from a surfeit of patience, if national saving were too high, if we were doing too much to ensure our children's economic prosperity, the estate tax would

make sense. In the real world it doesn't. It is a good rule of thumb that when you tax an activity, you get less of it. If we stopped taxing estates, estate building would be more attractive, and that would be good for everyone in the economy. Maybe we'd even have fewer multimillionaires trying to buy themselves second careers in Congress. No one would call that change unfair.

**MOST OF THE BURDEN OF THE ESTATE TAX FALLS ON THOSE WHO HAVE BEEN FRUGAL.**

## FIRST PRINCIPLES

# The Estate Tax Is One Death Penalty Too Many

BY N. GREGORY MANKIOW ■ When the Republican-led Congress recently voted to repeal the estate tax, many Democrats called the move unfair; President Clinton threatened a veto. Without doubt, the heirs of millionaires—not exactly society's neediest group—would benefit most directly from the repeal. But the concept of tax fairness means more than merely soaking the rich and protecting the poor. The more you think about the estate tax, the less fair it looks.

Consider a story of two millionaires—Sam Spendthrift and Frank Frugal. Each starts a dot-com after college and sells the business a few years later, accumulating a \$20 million nest egg. Sam then enjoys the high life, buying expensive cars, boats, planes, and vacation homes. When all that gets boring, he blows millions financing his own campaign for Senate, leaving little for his heirs. Frank, meanwhile, chooses a more middle-class lifestyle. He keeps his fortune invested in the economy, where it finances capital accumulation, new technologies, and economic growth. He leaves most of it to his children, grandchildren, nephews, and nieces.

Now, here's the policy question: Which millionaire should pay higher taxes?

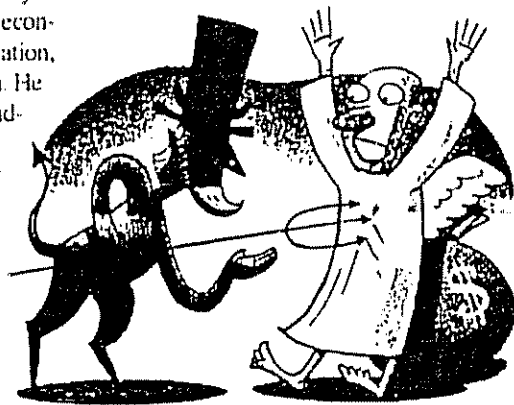
It is easy to argue that they should face the same tax burden. They both start life with the same resources. One person's extravagant tastes aren't the government's business. Equalizing their tax burdens would mean taxing their earnings but not their estates.

It is also easy to argue that Sam should face higher taxes. Sam is taking more from the economy than Frank, so shouldn't he pay for the privilege? If the nation's millionaires were less like Sam and more like Frank, the economy would be more prosperous, and the country would be better off. Many economists have advocated encouraging behavior like Frank's by replacing the income tax with a progressive consumption tax; people would

pay taxes based on how much they spent rather than how much they earned. Again, an estate tax wouldn't be necessary.

What is hard to argue, however, is that Sam should pay less in taxes than Frank. But that is precisely the tax policy we have now. Under current law, Frank's estate is taxed at a rate of about 50%, while Sam avoids the tax by blowing his wad during his lifetime. This, according to many Democrats, is what fairness requires.

Of course, proponents of the estate tax are moved not by such comparisons between rich guys but by comparisons between the rich and the poor. In their view, the estate tax helps ensure that the rich pay their fair share. But if the rich are the target, the estate tax is the wrong weapon. The right one is a progressive income or consumption tax. If advocates of greater



redistribution think that the current top income-tax rate of 39.6% is too low, they should argue for an increase. If they think there are too many loopholes, they should try to close them. But once we have taxed the successful for their success, we shouldn't go further and tax the frugal more than the spendthrift.

Several years ago the book *The Millionaire Next Door* made bestseller lists with the message that getting rich is more often the

DAVE KALIN