



FINA 5521
FALL (F2) – 2014
FINANCIAL MANAGEMENT CONCENTRATION INTEGRATION

1. COURSE INSTRUCTOR AND TIMING

Professor Vijay Jog, Room 1714, Dunton Tower
Phone (613) 520-2377
Course Time: Tuesdays 6:05 – 8:55pm
Office hours - Monday 5 to 6 p.m.

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Email hours: I typically respond to emails within 24 hours.

Prerequisite(s): [ACCT 5001](#), [ACCT 5002](#), [BUSI 5801](#), [FINA 5501](#), [FINA 5502](#), [FINA 5512](#) and [FINA 5513](#)

2. COURSE DESCRIPTION

This is final (capstone) finance course in the M.B.A. program. The course assumes that you have a good knowledge and understanding of corporate finance and investments gained through all the courses associated with the finance concentration.

In this course, we are going to assume that we are planning to work in the finance department of a ‘for profit’ enterprise as a financial analyst/manager reporting directly to the CFO. We are going to prepare ourselves to appreciate and deal with many challenges which are a result of significant changes to the decision making environment faced by our firm: 1) increased global competition for capital and talent; 2) recent (and continued) turbulence and scandals involving major U.S. corporations leading to increased awareness of the importance of corporate governance and the role of the Board of Directors and executive compensation; 3) the apparent lack of value creation performance by many corporations; 4) a renewed debate about the lagging and leading (and least unbiased) financial and non-financial performance metrics and their impact on managerial decisions and corporate performance; 5) a move away from viewing finance function in a “command & control” framework to a framework which links financial measures/function to corporate strategy and overall stakeholder values and 6) the role of the new CFO organization within the enterprise. As a result, we now have to learn and work with many new financial and operational paradigms and to have an appreciation of new management tools and techniques that were traditionally outside the scope of corporate finance.

As we will see, these new paradigms have now become an integral part of knowledge requirements of many professional programs including CPA/CFA programs and their continued education

courses/sessions. Moreover, many leading academic and professional journals are publishing papers in this area and have started a vigorous debate as to the correct measurement techniques, implementation issues, and empirical evidence that link many traditional corporate finance concepts such as free cash flows and target debt structure, signaling and agency theory, executive compensation, and dividend and CAPEX/investment policy to firm valuations.

This course would encompass many of these leading edge concepts, frameworks and empirical research to appreciate the changing nature of demands for corporate finance managers in the management of the firm. While emphasis clearly would be on corporate finance issues, the course would also focus on issues related to stakeholders and corporate governance in general and about the role of corporate finance in the overall context of the efficient financial management of the firm.

3. LEARNING OBJECTIVES

Accordingly, the course would cover three key sections/themes.

Understanding value and wealth creation

The purpose of this theme is to introduce you to competing financial performance metrics and to provide an overview of the theoretical but more importantly pragmatic underpinnings of value/wealth creation. Many of the readings in this theme will provide a background on “value” and “wealth” and highlight the usefulness of the various financial performance measurement tools. This section would also provide an enriched definition of “value” by ensuring that the interests of all stakeholders are taken into account in corporate decision making.

Measuring value/wealth

The purpose of this theme is to introduce the student to the various financial performance metrics (e.g., EVA[®]/SVA/EVC/EP, TSR, etc.) that have been proposed to measure firm’s value creation abilities. A distinction will be made between internal performance measures and external (share price based) performance measures and their linkage with free cash flow and net present value concepts. Emphasis will be to extend and refine (1) understanding cost of capital, capital structure and required rates of returns; (2) understanding how different proponents measure value/wealth, (3) contrasting these measures to traditional accounting earnings and return measures, and (4) understanding the situations in which each measure is appropriate.

The link between value and value-based management

The purpose of this part of the course is to understand how value is created through the implementation of key corporate finance decisions within the context of the overall corporate strategy. These decisions span: optimising capital structure, determining and using cost of capital, investment (capital budgeting decisions), dividend policy as well as linkages to non-financial performance measures – value drivers (yield, employee turnover, quality, customer relationship management) and Corporate Governance and executive compensation.

Upon completion of this course, you will have:

1. A good understanding of the role of the CFO and the finance function
2. An understanding and appreciation of key corporate finance decisions
3. An understanding of Key areas that impact financial performance
4. An understanding of Firm performance and metrics

4. *METHOD OF INSTRUCTION*

The format of the course consists generally of one 170-minute class meetings per week. Class sessions entail a mixture of class discussions and cases. Cases/project will be used to provide a hands-on analytical understanding of these measures in the real world. The content of any class discussion presumes and expects that you have carefully read the assigned readings and analysed assigned cases and are prepared for each class. There are a select number of readings assigned for each session. You are expected to have read them prior to coming to the class. I may randomly select one of you to provide a brief synopsis of one or two assigned readings and your performance will be graded – so be prepared. Due to time constraints not all (Assigned) reading material will be covered in class. Similarly, not all slides in the session Power Point will be covered in the class. The sessions are expected to be interactive and class participation from each one of you is encouraged.

5. *Drop Course Policy:*

You may drop this course up until the END of the second week of classes. Students that drop a class in the third week will receive a WDN but will automatically have the grade changed to ABS. A grade of ABS is considered a failing grade. Students with relevant medical issues and supporting documentation may petition the School to have the ABS grade changed back to WDN.

6. *GRADING SCHEME*

The course is designed to be highly interactive and consists of readings, cases, a group project and class discussions. Depending on the student interest and background, I reserve the right to make modifications to the course plan as the term progresses.

Group case presentations and write up	30
Group Project report	30
Final Examination	40

Group Case Presentation and Write-Ups,

We plan to do four cases in this course. Each group will be of maximum 3/4 students. Each case will be presented (and with a detailed write up) by one or two groups. The write-ups will be professionally written with a *maximum* length of 15 pages. The first page will consist of an executive summary of the group's analysis and recommendations. The subsequent pages will document the analysis and reasoning and tables/charts. Detailed numerical analyses that are referred to in the write-up should be provided as appendices. Other groups will also be asked to prepare a write-up as well and will have to be submitted for grading – these should be able show me that the group has done the necessary work, understood the case and have a set of recommendations.

Presentations. The assigned groups will give a verbal presentation of the case, assuming a knowledgeable audience. The group will prepare and handout to the whole class copies of any calculations or tables it considers to be relevant. It is expected that the presentation would be conducted in a formal manner.

A typical case presentation session will be structured as follows (times stated are *maximums*):

Presentation	15 minutes
General class discussion	10 minutes
Summary, key points and resolution of general confusion	20 – 30 minutes

Group Project report: Live Case study

Each group is expected to choose a large TSX listed (non-financial excluding income trust/REIT) firm for analysis. The analysis would be based on the last 5 years of the firm's performance in all aspects of its financial decision making environment and all relevant calculations and comments about key characteristics (value creation performance, cost of capital, capital structure, dividend policy, valuation, M&A decisions, corporate governance, executive compensation etc.). The report is expected to be between 25 to 30 pages in length with corresponding appendices and references and is due at the end of the term. A sample of such report and proposed coverage of topics will be provided on the web. The firm would be chosen in collaboration with the instructor no later than the end of the third week. The report is due by the 7th week.

Final Examination:

This will be held in class on 7th week and will cover the material discussed in the course including the articles assigned as readings.

** Satisfactory In-term Performance

- a) The requirement for Satisfactory In-term Performance is set at 50% of all pre-final term work (cases)
- b) Unsatisfactory In-term Performance in this course will lead to Failure in this course (regardless of the performance at the Final exam) FND (Failure, no deferral) grade in this course (in case of missed Final exam). There is no “make up” for any case or final exam.

Deferred Final Examination:

Students unable to write a final examination because of illness or other circumstances beyond their control must contact the instructor and the MBA office in writing to request a deferred exam. Permission may be granted when the absence is supported by a medical certificate and or appropriate document/s to support the reason for the deferral. Deferred exams are not granted for students who have made travel arrangements that conflict with examination schedule.

7. *Course Material*

You are encouraged to seek whatever material you may consider relevant to the course from the library or any other source. All assigned readings would be made available to you on the course web page. Although the readings consist largely of journal and magazine articles, you may also choose to buy: Tim Koller, Marc Goedhart, David Wessels, *Valuation: Measuring and Managing the Value of Companies*, 4th University edition, McKinsey & Company, Inc., John Wiley and sons;. Or the 5th edition (2010) ISBN: 978-0-470-42465-0, if you so choose.

Buying the book is not compulsory and no specific questions would be asked in the final examination from that book.

8. *CONDUCT*

Professional conduct is built upon the idea of mutual respect. Such conduct entails (but is not necessarily limited to):

The use of mobile devices IS NOT PERMITTED in this class. It is disruptive to the instructor and class members. If you carry such a device to class, please make sure it is turned off. If an emergency situation requires you to keep it turned on, please discuss this with your instructor prior to class.

Use of lap tops: Lap tops should only be used to refer to the material relevant to the session (e.g. session PPTs, your notes on the case being discussed, taking notes if it is not disruptive). Using laptops to surf the internet and do other work shows disrespect to others and is disruptive.

- Attending the class.

Each class benefits from the attendance and participation of all students. Your grade for participation will be affected by absences. Regular class attendance is important

and required. I expect you to attend class and contribute to a quality discussion. Class and team discussion of the materials (e.g., readings, assignments, and cases) are an important part of the learning process. If circumstances prevent attendance at a class meeting, please remember that you are responsible for all materials discussed, handouts distributed, assignments covered, and announcements made.

- Arriving on time.

Late arrivals are disruptive to both class and case discussion, and show disrespect to those who are on time.

- Minimizing disruptions.

You should not leave and re-enter the class. All cell phones and electronic communication devices should be turned off during class. You should avoid engaging in side conversations after class has begun.

- Focusing on the class.

While you may take notes on laptops, do not use laptop computers or handheld devices for other tasks while in class. Activities such as net surfing and answering email are very impolite and disruptive both to neighbors and the class.

- Being prepared for class.

You should be ready to discuss any assigned readings and to answer any assigned questions for each day's class, including being ready to open a case assigned for that day.

- Respect.

You should act respectfully toward all class participants. Class participation grading reflects student adherence to these principles; students gain credit for contributing valuable insights and students lose credit if they fail to adhere to any of the above guidelines.

9. STUDENT PREPARATION

Each session requires you to read the readings associated with that session and analyse the assigned cases. The content of any class discussion presumes and expects that you have carefully studied these assigned readings.

10. Ethics and Values

Ethics and values are very important in accounting and the world of business, non-profit and government organizations. We will consider ethical issues in accounting throughout this course. Ethics and values are also important in education. Instructors will assume, unless there is evidence

to the contrary, that you are an ethical student. To help you fulfill your ethical responsibilities as a student, the ethical standards for this course are listed below.

Individually assigned work

All work is to be performed exclusively by the individual student or pre-specified group.

Examinations

All exams must be the exclusive work of the individual student.

Penalty for academic integrity violations

University recommended sanctions for academic integrity violations will be imposed. All academic integrity violations must be reported.

11. GROUP WORK

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, follower-ship and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your professor may assign one or more group tasks/assignments/projects in this course. If you have a group assignment, you may find useful the resources at http://sprott.carleton.ca/academic_programs/groupwork.html

Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

12. PERSONS WITH DISABILITIES

Students with disabilities requiring academic accommodations in this course are encouraged to contact a coordinator at the Paul Menton Centre (PMC) for Students with Disabilities to complete the necessary letters of accommodation. After registering with the PMC, make an appointment to meet and discuss your needs with your instructor at least two weeks prior to the first in-class test or ITV midterm exam. This is necessary in order to ensure sufficient time to make the necessary arrangements.

13. RELIGIOUS OBSERVANCE

Students requesting academic accommodation on the basis of religious observance should make a formal, written request to their instructors for alternate dates and/or means of satisfying

academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory academic event. Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student.

Students or instructors who have questions or want to confirm accommodation eligibility of a religious event or practice may refer to the Equity Services website for a list of holy days and Carleton's Academic Accommodation policies, or may contact an Equity Services Advisor in the Equity Services Department for assistance.

14. PREGNANCY

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. The student must then make an appointment to discuss her needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

15. Academic Integrity

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another's ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated. Penalties may include expulsion; suspension from all studies at Carleton; suspension from full-time studies; a refusal of permission to continue or to register in a specific degree program; academic probation; and a grade of Failure in the course, amongst others. Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at <http://www2.carleton.ca/sasc/advisingcentre/academic-integrity/>.

16. CHANGES TO THE SYLLABUS

A syllabus is a tool to help you plan your time. Every effort is made to make the syllabus as complete as possible, but there may be occasions when changes are required. The instructor will announce any deviations from the syllabus in class and the change will be posted on the course web page.

Topic and Materials to be Covered – Tentative

Sessions

- Session 1 ***Introduction to the course – Role of CFO Specifics: Cost of Capital***
Activist CFO role – FEI magazine December 2004
The New Role of Modern CFOs, Daniel Caringi, August 2014
CFO as a Navigator – Becoming a Perfect CFO” – Vijay Jog, Bottom Line, ICABC, April 2013
R. F. Bruner, K. Eades, R. Harris and R. C. Higgins, “Best Practices in Estimating Cost of Capital: survey and Synthesis”, Financial Practice and Education, Spring/Summer 1998, pp. 13-28.
What to Expect when you are investing – David Porter and Robert Kavcic, Bank of Montreal, Focus, December 2010
Javier Estrada, “The Three factor model: A practitioner’s Guide”, Journal of Applied Corporate Finance, Spring 2011, PP. 77-84.
Pablo Fernandez, Javier Aguirreamalloa and Luis Corres, Market Risk Premium used in 82 countries in 2012: a survey with 7,192 answers, IESE Business School June 19, 2012.
- Session 2 ***Corporate finance decision domain and a review of CAPEX/Investment decisions***
Case #1 – Pepsico
Graham, J.R. and Harvey, C.R. “The Theory and Practice of Corporate Finance: Evidence from the field”, Version May 2, 2000
Icahn and Activism - August 2014
- Session 3 and 4 ***Measuring Corporate Performance – Shareholder Value, capital structure***
Session 3: Case #2 - Euroland Foods (roles will be assigned to different groups)
Session 4: Case #3 - Valmont Industries
For both sessions 3 and 4:
Vijay Jog and Shantanu Dutta “ Value and Wealth Creation” Canadian Investment Review, Winter 2003, pp.45-50
Igancio Velez – Pareja and Joseph Tham, “EVA made simple: is it possible?”, Working paper February 9, 2004
Damodaran, “Value Creation and Enhancement – Back to the future: Working paper, NYU, Date unknown
J. G. Graham, C.R. Harvey and S. Rajgopal, “Value Creation and Financial Reporting Decisions”, Financial Analysts Journal, Vol. 62, #6, Nov/Dec. 2006, pp. 27-33.
Pablo Fernandez, Javier Aguirremalloa and Luis Corres, “Shareholder value creators in the S&P500: 1991-2010”, Working paper, February 10, 2011
Strategic yardstick you can’t afford to ignore , McKinsey quarterly October, 2013

Session 5 ***Beyond Financial Measures – The Balanced Scorecard Approach***

Case #4 - WM Wrigley

Robert S. Kaplan and David P. Norton, "The Balanced Scorecard-Measures That Drive Performance," Harvard Business Review, January-February, 1992

Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as A Strategic Management System" Harvard Business Review, January-February, 1996

Christopher D. Ittner and David F. Larcker, "Coming up Short on Non-Financial performance Measurement" Harvard Business Review, November 2003, pp. 88-95.

Christopher D. Ittner, "Non financial Measures – What works and What doesn't" December 2000, knowledge@wharton

Session 6 ***Designing incentive systems (briefly) and Wrap up***

Lessons from the real world

An Academic Classic: On the folly of rewarding A, while hoping for B – Academy of Management Executive, 9, 1, 1995, pp. 1-10

Rappaport, A. "New Thinking on How to Link Executive Pay with Performance", Harvard Business Review, March-April, 1999, pp. 91 – 101

Philippe C. Haspeslagh, Tsutomu Noda, Fares Boulos, "Managing for Value: It's Not Just About the Numbers", Harvard Business Review, July-August 2001

Allaire report on exec comp 2012

Indra Nooyi's Challenge – Pepsico, Fortune June 2012

Can Indra Nooyi keep Investors Sweet on Pepsi?, Fortune July 1, 2013