

BUSINESS INSIDER

The most mind-blowing things I learned in my first year at Harvard Business School

ELLEN CHISA, MEDIUM

MAY 26, 2015, 1:02 PM

“What’s one thing you’ve learned at Harvard Business School that blew your mind?”

I’ve gotten countless variations of this question over the past year.

I can’t tell you everything I’ve learned at HBS, and no book would have prepared me for the experience.

Instead, I’m going to give you a taste.

Some of these literally blew my mind. Some blew my mind because I never realized how important they were.

I’m going to give you the lesson I learned from each of the core classes — and the case that showed it most clearly for me.

I won’t share any specific case details because that’s against HBS policy (some of the same cases are used over multiple years). Some of the lessons may sound obvious, but the conversations you have to get to them aren’t.

Every HBS MBA takes these classes in the first year:

- Finance 1 (FIN1)
- Finance 2 (FIN2)
- Leadership and Organizational Behavior (LEAD)
- Technology and Operations Management (TOM)
- Financial Reporting and Control (FRC).
- Marketing (MKT)
- The Entrepreneurial Manager (TEM)
- Strategy (STRAT)
- Business, Government, and the International Economy (BGIE)
- Leadership and Corporate Accountability (LCA)

FIN1: Stock prices are just the sum of all the money investors think a company will ever make.



Harvard Business School.

Flickr/Florian Pilz

I used to wonder why stocks moved substantially after earnings announcements, but less for product announcements. Now I know: It's because the stock price is meant to reflect the value of a company.

One way to think about "value" is as the sum of all the money a company will make, forever. Earnings announcements are a great predictor for those cash flows.

The cool part is that you can do the calculations yourselves if you have a copy of an income statement and balance sheet and some comparable companies to reference. The technique is called a Discounted Cash Flow, or [DCF](#), and the main idea behind it is that cash now is worth more than cash later. By building it, you can decide for yourself if a stock is under, over, or fairly valued.

The case that made this the most clear for me was "[All American Pipeline](#)" — but I've been told that it takes about 12 times building a DCF before it clicks.

One quick trick to evaluate stocks without building a full DCF is to use something called a [multiple](#). This is how many of my peers prefer to evaluate stocks.

FIN2: Technical debt ~= Financial debt.

FIN2 was about taking the concepts in FIN1 further. I could tell you about debt overhang and the "costs of financial distress," apply to your DCF, but I don't think it'd make sense in a Medium piece.

Instead, my favorite thing about FIN2 was our professor. She does research using financial models to model *technical* debt (the kind in code). It turns out there isn't much difference between how financial debt works and how technical debt works.

Working in industry, I'd always gotten the idea that we couldn't quantify the impacts of technical debt—in terms of how long it takes us to add additional things, how much time we should spend fixing it, etc.

It turns out that isn't necessarily true. Carliss Baldwin is doing research that models technical debt and can help companies make tradeoffs about fixing it now vs. fixing it later. Here's [an early paper of her research in technical debt](#).

LEAD: Understand your worst self.

People often know what they're good at (it got them where they are!) Unfortunately, things won't always go well in your career. How you react and recover impacts everyone around you.

One of the best things I did this year was answering these two questions honestly, for myself:

- What is my worst self?
- When does my worst self come out?

My worst self: critical, impatient, stubborn, cynical, and sarcastic. It comes out when I feel like I'm not in a position to make an impact, and when I feel undervalued in a situation. It also happens if I think I'm fundamentally "right" and someone disagrees. If it goes on for too long I become incredibly apathetic and don't do anything.

I have a hard time avoiding this, but I am better at catching it now. When I do catch it, I attempt to apologize to the group, move on, and catch it faster the next time.

Recommended Case: [Erik Peterson \(A\)](#).



HBS grads.

Brian Snyder/Reuters

TOM: Figure out why.

Technology and Operations management's first module was all about process flow mechanics (factories, job shops, etc). The others were more at the level of technological innovation and supply chain management.

I loved the first module. Figuring out what the limiting step is and why is like a math puzzle. The best thing about it was that sometimes a simple problem delays an entire operation—the slowest step is the one that matters, but it screws everything else up. Being able to figure out what's going wrong is important. Often times there's a ton of complicated data that makes it hard to figure out what's wrong.

I'd point to two cases that you can use to test your ability to do this:

[National Cranberry Collective](#) for Process Flow
and

[Toyota Production System](#) to see the same concepts at a larger scale.

FRC: Create an Entrepreneurial Gap.

FRC is the "accounting" class at HBS. We did also learn accounting mechanics, but we also learned a lot about motivation and compensation.

My favorite was the idea of “span of accountability” — what an employee is responsible for vs. “span of control” — what the employee can dictate based on their job. For instance, a PM has a lot of accountability (shipping the product), but relatively little control (no direct reports).

When an employee has more accountability than control, this is considered an “entrepreneurial gap.” It’s typically created via an incentive system that encourages the employee to go beyond their span of control. The key thing is to get the incentive system right. What behaviors will it encourage? What levers can employees pull to move the metric?

Before I wanted to hire smart people and pay them “fairly.” Now I want to hire smart people, and give them an entrepreneurial gap with an incentive system that works well for them and for the company. It’s more fair that way.

Recommended Case: [Nordstrom](#).

If you want a second lesson, I also really enjoyed the [Boston Children’s Hospital time vs. activity based costing](#). It’s all about getting into how much things really cost and better cost measurement.

MKT: Consider Value-Based Pricing.

Marketing was the class with the most frameworks. The five Cs, The four Ps, the six Ms, the brand pyramid. I probably learned the most tangible skills in marketing.

There are two primary types of pricing: Cost-Based and Value-Based. In Cost Based pricing, you figure out how much it costs you to provide a service. Then you add a mark up and use that price to sell to the customer.

The idea behind value pricing is that there’s actually a much wider wedge between the two things:

First, there’s the amount your Product costs to make.

Then, there’s the amount your Product saves the other company (or how much more it allows them to sell—but basically the financial impact giving your product has).

You should charge somewhere between those two points.

As much as I’m never going to charge to the very top of that spectrum, I know that I need to write down both pieces to make sure I’m not undercharging.

The case on this was a [Coca-Cola vending machine](#), but my favorite case in the pricing module was about [pricing the London Olympics](#).

TEM: Be careful who you trust.

This is only sort-of a joke. I’m a pretty trusting person, and I know many of my friends are too.

We did a case on [YieldEx](#), a startup founded by an Engineer who was considering an offer to sell or an offer to raise another round. You can easily deduce that they didn’t sell at the time: [YieldEx was recently acquired by AppNexus](#).

Without sharing case details: There were a couple distinctly different attitudes in the room. I genuinely try to give advice that helps the person who asks me, removing my personal interest. I try to assume the best of others, and thus think they do similarly for me.

While my belief was prevalent in the room, there was also a counter view of “the world works best if you serve your own interest and everyone should believe that others are self-serving.”

The discussion definitely impacted how I view advice from others on my career. Potential cofounders and VCs may have your best interests at heart: and they also may not. Read the situation carefully.

STRAT: Financial Statements reveal Strategies.

Strategy is all about: the dynamics of an industry, and the way firms position themselves within the industry.

The most interesting thing you can do is look at financial statements to see where competitive advantages are coming from. Lower costs of production? Lower admin costs? If a firm has a low cost strategy, do they spend a lot in one area? Which? Why might that be, and how does it play into the overall strategy?

Examining a financial statement gives you way more about strategy than I ever would have guessed.

This is super clear in the [Walmart Case](#).

BGIE: The same political topics come up everywhere.

Politics make me cringe. I try to avoid talking about them whenever possible, because I simply feel I'm not well enough informed.

Doing 20+ cases on countries and politics taught me one important thing: there's a lot of similarity between different politics situations. It's not too hard to brush up on the basics so you can maintain a conversation about international affairs.

One of those things is the [GUIDES indicators](#) that focus on some overall macroeconomic indicators.

A few other topics that get you a lot of bang for the buck: British Colonialism, Nations vs. States, Dutch Disease (Resource Curse), Sovereign Wealth Fund, Import Substitution, Current Account Balance, Fiscal Deficit, IMF austerity measures, and the "Trilemma" of Free Capital Flows, Independent Monetary policy, and Fixed Exchange rates.

These topics came up throughout the world: from [Iceland](#) to [Indonesia](#) to [Nigeria](#). They're worth learning, even just to avoid staring in silence during dinner parties.

LCA: My gut might be wrong.

The role of Leadership and Corporate Accountability is much like an ethics class. Throughout the class, we develop frameworks for considering the implications of a choice: financially, legally, and ethically.

I would not give a fig for the simplicity this side of complexity, but I would give my life for the simplicity on the other side of complexity.—Oliver Wendell Holmes Jr.

Many people make these choices about right or wrong based on "gut feeling" (myself included). LCA teaches you to evaluate using frameworks to make sure you've thought through everything. Things get harder first, and only then can you use your gut.

A good example is [this case on an insurgent situation in Iraq](#). You might be tempted to make one call when you first read it, and change your mind as you keep reflecting.

This class, and frankly this entire piece, is best summed up by this quote often attributed to Oliver Wendell Holmes Jr.

All of the lessons in this post are my simplicity on the other side of the complexity of HBS.

Thanks to Ben Congleton (from [Olark](#)) who used this wording of the question in the title, which was my favorite.

Ellen Chisa just finished her first year in the MBA program at Harvard Business School. Previously she worked with Kickstarter, the Awesome Foundation, and Microsoft. She has a B.S. in electrical and computer engineering from Franklin W. Olin College of Engineering.

Read the [original article](#) on [Medium](#). Copyright 2015.

×