What Is Business?

- Collection of people and resources organized to provide a product or service to others with the objective of sustaining themselves economically and/or for generating economic profit.
Types of Business Organizations

- **For Profit** — Microsoft
- **Non Profit** — The United Way
- **Not For Profit** — Northwestern Mutual
How Businesses Operate

- Businesses of any size formally divide their organizations into sub-units to get work done.
How Businesses Operate

How a firm organizes will impact;

- Decision making.
- How efficient and effective it is.
- Market responsiveness.
- Corporate culture.
- Operating success.
- Morale of workforce.
Centralized Decision Making

- Consolidates key functional decision making within the organization.
- Decision making is “top down” — represents vertically structured decision making (pyramid).
Decentralized Decision Making

- Decentralized decision making distributes decision making across organizational units.
- Often required if firm significantly diversifies its product offering.
Decentralized Decision Making

- Diverse geographic markets can also prompt this model.
- Represents horizontally-structured decision making (flat).
Arguments for Centralized Decision Making

- Centralized decision making can facilitate coordination.
- Helps ensure decisions are consistent with organizational objectives and across operating units.
Arguments for Centralized Decision Making

- By concentrating power and authority in single mgmt. team, easier to bring about needed organizational change.
- Avoids duplication of activities.
Arguments Against Centralized Decision Making

- Can create distance from market and customer needs.
- Hampers customization required by regional markets.
- Outside of profit/loss business unit so less ownership or stake in outcome.
Arguments for Decentralized Decision Making

- Promotes flexibility and greater market responsiveness.
- Increases control over specific markets or products.
Arguments for Decentralized Decision Making

- Focuses accountability and ownership.
- Creates greater sense of autonomy within operating unit.
Arguments Against Decentralized Decision Making

- Can create silos within organizations.
- Harder to maintain product and policy uniformity.
- Can duplicate functions or services.
Horizontal Integration

- **Horizontal integration** describes a company’s decision to acquire capabilities that complement its current core competencies.

Example:

1. Standard Oil acquires 40 refineries.
2. The auto industry acquires an SUV manufacturer.
Vertical Integration

- **Vertical integration** describes the degree to which a firm owns/acquires its upstream suppliers or its downstream supply chain components.
- Example: Computer manufacturer purchases silicon chip company.
Regulation Fair Disclosure

- SEC Regulation FD (fair disclosure) requires that all publicly-traded companies disclose material information to all investors at the same time.
Regulation Fair Disclosure

- Fair disclosure means that you can’t break material news to a limited audience – a reporter, for example – but instead you have to disclose it through a means where everyone would have access to it.
Regulation Fair Disclosure

- Issuing a press release, then filing that press release on a Form 8-K is the appropriate way to make an fair disclosure.
- SEC Form 8-K is a “current report” and is called “A Current Report on Form 8-K.” It can be very short or very long.
SEC Form 10-K

- The Form 10-K is properly called the “Annual Report on Form 10-K,” or the Annual Report.
- Comprehensive financial report and management discussion for the fiscal year.
Quiet Period (aka Gag Period)

- Period between the time a company files a registration statement with the SEC for a public offering of securities (stock and bond offerings, for example) and the time the SEC declares it effective, which is the time when the company can actually offer the securities for sale.
Quiet Period (aka Gag Period)

- A company generally can’t issue a lot of material information during this time that would impact the stock price or be perceived as “front-running” the offering.
Quiet Period (aka Gag Period)

- A company can’t file for an offering, then announce something positive that would drive up the stock price ahead of the offering.
Sarbanes-Oxley Act of 2002

- Enacted following the revelations of accounting scandal at Enron, where the CEO and CFO claimed they were not aware of the fraud that was being committed.
Sarbanes-Oxley Act of 2002

- Sarbanes-Oxley Act requires a number of complex corporate controls of authority, and requires the CEO and CFO to sign certificates in each Q and K that they have read and understand everything contained in the report, and that the report is accurate and complete.
Common Financial Statements

- **Balance Sheet**
  - Assets, liabilities and equity at a given time.
  - Listed by order of liquidity.
  - Assets = Liabilities + owner’s equity.

- **Income Statement**
  - Profitability over given time.
  - Shows gross income, revenues, expenses and net income.
  - Also known as the profit & loss statement.

- **Cash Flow Statement**
  - Shows cash in and out.
  - Can be positive or negative.
Lobbying

- Federal lobbying act of 1913 — state lobbyists must register.
- Legal statutes vary by state.
- Act applies only if a person is aiding in the passage or defeat of legislation.
Foreign Agents Act of 1938

- Public relations professionals representing a foreign government must register with the U.S. government.