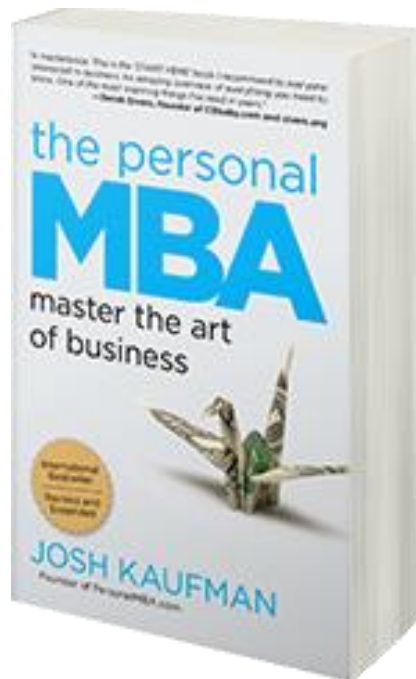


DR. ALVIN'S PUBLICATIONS

AN OVERVIEW OF THE PERSONAL MBA BY JOSH KAUFMAN

BY DR. ALVIN ANG



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THE PERSONAL MBA BY JOSH KAUFMAN

A SUMMARY BY DR ALVIN ANG

WHAT THIS BOOK IS ABOUT

(KAUFMAN 2012)

1. How to make good business decisions.
2. How to maximize your personal productivity.
3. How to manage uncertainty and ambiguity.
4. How to conduct intelligent experiments to improve your results.
5. How businesses actually work – in practice, not theory.
6. How to evaluate new business ideas: what really matters, and what doesn't.
7. How to start a new business from scratch.
8. How to improve any existing business, whether it's a solo venture or a Fortune 500 corporation.
9. How to use business-related skills to accomplish your personal goals.

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SUMMARY OF THE PERSONAL MBA

1 | YOU DON'T NEED TO KNOW IT ALL

- ✓ All you need to do is learn a few simple concepts that will change the way you think about how business works.
- ✓ If you invest the time and energy necessary to learn these concepts, you'll easily be in the top 1 percent of the human population when it comes to knowing:

HOW BUSINESSES ACTUALLY WORK.

HOW TO START A NEW BUSINESS.

HOW TO IMPROVE AN EXISTING BUSINESS.

HOW TO USE BUSINESS-RELATED SKILLS TO ACCOMPLISH YOUR PERSONAL GOALS.

2 | MENTAL MODELS, NOT METHODS

- ✓ To improve your business skills, you don't need to learn everything there is to know—mastering the fundamentals can take you surprisingly far.
- ✓ A mental model = an idea about how something works in the real world.
- ✓ Your brain forms mental models automatically by noticing patterns in what you experience each day.
- ✓ Correcting your mental models can help you think about what you're doing more clearly, which will help you make better decisions:
- ✓ Focus your time and energy on actually doing useful things:

CREATING SOMETHING VALUABLE,
ATTRACTING ATTENTION,
CLOSING MORE SALES,
SERVING MORE CUSTOMERS,
GETTING PROMOTED,
MAKING MORE MONEY, AND
CHANGING THE WORLD.

Accurate Mental Model	Inaccurate Mental Model
<p>Uncertainty is an ever-present but manageable part of business, and risks can be minimized.</p>	<p>Starting a business is risky.</p>
<p>A written plan is secondary to understanding the critical functions of your business, and no matter how much you prepare, there will always be surprises along the way.</p>	<p>In order to successfully create a business, you must create a flawless business plan before you start your business.</p>
<p>Raising money is necessary only if it allows you to accomplish something that would otherwise be impossible (like building a factory).</p>	<p>You must raise large amounts of capital before you start building your business.</p>
<p>Personal connections are important, but knowledge is key if you want to use those connections to your best advantage.</p>	<p>It's not what you know, it's who you know.</p>

3 | I REALIZED 3 THINGS

LARGE COMPANIES MOVE SLOWLY.

- ✓ Good ideas often died on the vine simply because they had to be approved by too many people.

CLIMBING THE CORPORATE LADDER IS AN OBSTACLE TO DOING GREAT WORK.

- ✓ I wanted to focus on getting things done and making things better, not constantly positioning myself for promotion.

POLITICS AND TURF WARS ARE AN INESCAPABLE PART OF THE DAILY EXPERIENCE OF WORKING FOR A LARGE COMPANY.

- ✓ Frustration leads to burnout.
- ✓ I wanted to enjoy the daily experience of work, but instead I felt like I was running a gauntlet each day.
- ✓ It began to affect my health, happiness, and relationships.
- ✓ The longer I stayed in the corporate world, the more I realized I wanted out.
- ✓ I desperately wanted to work on my own terms, as an entrepreneur.

4 | ESSENCE OF SUCCESSFUL BUSINESSES

- ✓ Every successful business
 1. Creates or provides something of value that
 2. Other people want or need
 3. At a price they're willing to pay, in a way that
 4. Satisfies the purchaser's needs and expectations and
 5. Provides the business sufficient revenue to make it worthwhile for the owners to continue operation.

MARKET RESEARCH

- ✓ Value can't be created without understanding what people want.

MARKETING

- ✓ Attracting customers first requires getting their attention, then making them interested.

VALUE DELIVERY / OPERATIONS

- ✓ In order to close a sale, people must first trust your ability to deliver on what's promised.

CUSTOMER SERVICE

- ✓ Customer satisfaction depends on reliably exceeding the customer's expectations.

FINANCE

- ✓ Profit sufficiency requires bringing in more money than is spent.
- ✓ Every business fundamentally relies on two additional factors: People and Systems.

People:

- ✓ To understand how businesses work, you must have a firm understanding of how people tend to think and behave—how humans make decisions, act on those decisions, and communicate with others.

Systems:

- ✓ By understanding the essentials of how complex systems work, it's possible to find ways to improve existing systems, whether you're dealing with a marketing campaign or an automotive assembly line.

MBA programs around the world have three issues:

1. Too Expensive

- a. MBA programs have become so expensive you must effectively mortgage your life to pay the price of admission.
- b. It gets worse: getting an MBA doesn't even have an impact on your total lifetime earnings.
- c. It takes decades of work simply to dig yourself out of the debt you took on to get the degree.
- d. It takes twelve years of solid effort just to break even—and that's assuming everything goes according to plan.
- e. If you graduate into a bad job market, you're screwed.

2. Inapplicable and Irrelevant to Real Life

MBA programs teach the wrong things

- a. MBA programs don't make students more successful because they teach very few things that are actually useful in the working world.
- b. Understanding what businesses actually do to create and deliver value is essential knowledge, but many business programs have de-emphasized value creation and operations in favor of finance and quantitative analysis.
- c. Learning how to use complicated financial formulas isn't the same as learning how to run a business.
- d. By ignoring the things that make a business operate more effectively, MBA-trained executives have unwittingly gutted previously viable companies in the name of quarterly earnings per share.
- e. The "leveraged buyout" strategy taught in many business school classrooms:
 - buying a company,
 - financing massive expansion via debt,
 - then selling the business to another company at a premium
 - turned formerly self-sustaining companies into debt-bloated monstrosities,
 - and the constant flipping of businesses from one temporary owner to the next turned financial markets into a game of musical chairs.
- f. Widespread practice of using large amounts of debt as leverage created enormous companies with even more enormous obligations, amplifying returns in good years but making the firms catastrophically unstable during the slightest downturn.

- g. When financial wizardry and short-term returns trump prudence and long-term value creation, customers and employees suffer.
- h. The only people who benefit are the MBA-trained executive-level financiers and fund managers, who extract hundreds of millions of dollars in transaction fees and salaries while destroying previously viable companies, hundreds of thousands of jobs, and billions of dollars of value.
- i. Business is about creating and delivering value to paying customers, not orchestrating legal fraud.

MBA programs are outdated

- a. The world is constantly changing, but business schools aren't changing with it.
- b. With the advent of the Internet and the widespread availability of new technologies, successful modern businesses tend to be smaller, require less capital to build, have less overhead, and require fewer employees.
- c. Speed, flexibility, and ingenuity are the qualities that successful businesses rely on today—qualities that the corporate giants of the past few decades struggle to acquire and retain, and business school classrooms struggle to teach.
- d. More and more employees are looking for a greater sense of autonomy, flexibility, and security from their work—and they're finding these things outside of the confines of the traditional corporate job.
- e. Yet the idea of the underlying mind-set of most business school management programs was that management was thought of mostly as an exercise in getting people to work faster and do exactly what they're told. They believed that if you discovered and applied just the right stimulus, people would behave however you wanted.
- f. This mentality led to the widespread use of financial incentives to influence behavior:
 - salary,
 - bonuses,
 - stock options, and
 - so on, in an effort to encourage business professionals and managers to act in the best interest of corporate shareholders.

- g. But these incentives often undermine performance, motivation, and job satisfaction in the real world.

3. Poor Return On Investment (ROI)

- a. MBA programs won't guarantee you a high-paying job, let alone make you a skilled manager or leader with a shot at the executive suite.
- b. Developing skills such as decision making, management, and leadership takes real practice and experience, which business schools can't provide in the classroom, regardless of how prestigious the program is.
- c. If you look at the curriculum of any business school, you'll notice a few assumptions about what you'll do after you graduate:
 - You'll either be
 - A C-level executive at a large industrial manufacturing or retail operation,
 - Become a consultant,
 - Become a corporate accountant, or
 - Work as a financier at an investment bank.
- d. If you're "lucky," you may be hired by a big financial services or consulting firm, where you'll have the privilege of working eighty-plus hours a week for around \$100,000 a year.
- e. The money is certainly good, but you'll have a hard time maintaining any sort of life outside of work and the pressure will be intense and relentless.
- f. Even if you don't like your job, you'd better keep pushing if you want to pay your tuition bills and make your investment "worth it."
- g. If you do a good job, you'll become an executive, get a raise, and have the privilege of working one hundred-plus hours a week.

- h. But top executives consistently have the highest rates of divorce and family relationship issues.
- i. The quickest and easiest way to screw up your life is to take on too much debt.
- j. The primary reason people spend decades working in jobs they despise is to pay off their creditors.
- k. Financial stress can destroy relationships, threaten your health, and jeopardize your sanity.

6 | SINGLE BENEFIT OF BUSINESS SCHOOLS

- ✓ The one significant benefit that business schools do provide is better access to Fortune 50 recruiters, consulting firms, large accounting firms, and investment banks via on-campus recruiting and alumni networks.
- ✓ Upon graduating from a top-tier business school, you'll find it much easier to get an interview with a corporate recruiter who works for a Fortune 50, investment bank, or consulting firm.
- ✓ The effect is strongest immediately after graduation, then largely wears out within three to five years.
- ✓ After that, you're on your own: hiring managers no longer care so much about where you went to school—they care more about what you've accomplished since then.
- ✓ Hiring managers typically use MBA programs as a filter when deciding whom to bring in for an interview.
- ✓ If you go this route, be aware of what you're getting yourself into before you apply—once you sign your life away, the debt will make it very difficult to change your mind.

7 | HOW BUSINESSES WORK

- ✓ A successful business, roughly defined, provides
 1. something of value that
 2. other people want or need at
 3. a price they're willing to pay, in a way that
 4. satisfies the customer's needs and expectations so that
 5. the business brings in sufficient profit to make it worthwhile for the owners to continue operation.

How People Work.

- ✓ Every business is created by people and survives by benefiting other people.
- ✓ To understand how businesses work, you need a firm understanding of how people make decisions, act on those decisions, and communicate with others.

How Systems Work.

- ✓ Businesses are complex systems with many moving parts that exist within even more complex systems like industries, societies, cultures, and governments.
- ✓ While management and leadership are important in the practice of business, they aren't the be-all and end-all of business education: without solid business knowledge, it's possible to organize and lead a group of people toward the accomplishment of the wrong objectives.
- ✓ Business is about the profitable creation and delivery of valuable offers to paying customers—management and leadership are simply a means to this end.

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ABOUT THE AUTHORS

ABOUT JOSH KAUFMAN

Josh Kaufman is the bestselling author of books on business, entrepreneurship, skill acquisition, productivity, creativity, applied psychology, and practical wisdom. More about him at joshkaufman.net.

ABOUT DR. ALVIN ANG

Dr. Alvin Ang earned his Ph.D., Masters and Bachelor degrees from NTU, Singapore. He is a Professor as well as a personal/business advisor. More about him at [www. AlvinAng.sg](http://www.AlvinAng.sg).