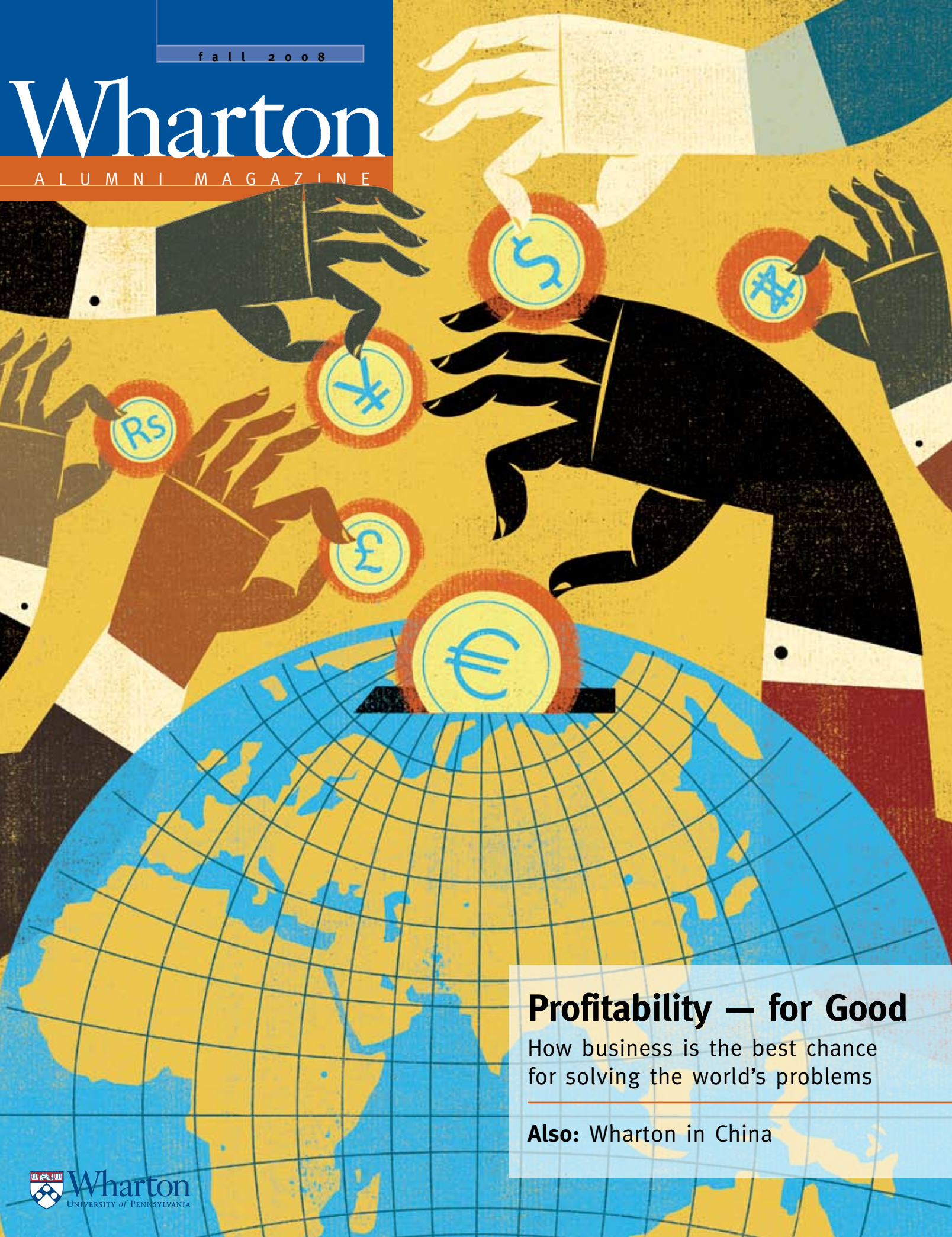


fall 2008

# Wharton

ALUMNI MAGAZINE



## **Profitability — for Good**

How business is the best chance  
for solving the world's problems

**Also:** Wharton in China



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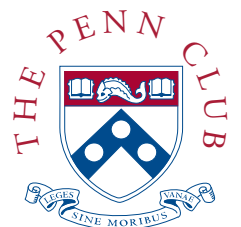
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— Anastasia Pozdniakova W'00, WG'09 Co-Captain - Penn Women's Tennis

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Sustainability with profitability.



**20**

The truth is out there.

**26** China's surging economy.



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WHARTON PROFESSORS RICHARD HERRING, SUSAN WACHTER, AND FRANKLIN ALLEN DISCUSSED THE GROWING FINANCIAL CRISIS WITH KNOWLEDGE@WHARTON MODERATOR JEFF BROWN ON SEPTEMBER 16.

## Wharton Faculty Take on Financial Crisis

**A Teach-In on the Crisis Draws More Than 1,000**

Fannie Mae and Freddie Mac were bailed out by the Fed; Lehman Brothers filed for bankruptcy; AIG was on the brink of ruin; and the Dow Jones dropped 500 points in one day. With the still-unfolding turmoil in the financial markets on September 16, Wharton students packed a one-thousand-seat auditorium to hear Wharton Professors Jeremy Siegel, Richard Herring, Franklin Allen, and Joseph Gyourko take

on the issues. MBA students Jennifer Akpapuna and William Hodge, co-presidents of Wharton Graduate Association's Finance Club, helped moderate the discussion.

The event was well covered by the press, including CBS3, the *Philadelphia Inquirer*, and BusinessWeek.com.

### Knowledge@Wharton Publishes a Special Issue

Earlier in the day, Knowledge@Wharton taped a panel discussion with Professors Susan Wachter, Richard Herring and Franklin Allen for a special issue that focused on the Wall Street crisis and its global repercussions.

## Editor's Note

When this issue of Wharton Alumni Magazine went to press on September 30, the economic crisis and ensuing bailout were still roiling financial markets. For up-to-date continuing analysis, visit Knowledge@Wharton, <http://knowledge.wharton.upenn.edu>

## New Deputy Vice Dean of Student Life to Develop Young Alumni Program

B. Kembrel Jones joins Wharton in a new position of Deputy Vice Dean of Student Life in the Graduate Division. Jones will oversee all co-curricular student activities in the MBA Program including student clubs, conferences, and speaker series. In addition, he will build and manage, in conjunction with the Director of Alumni

Affairs, a new Young Alumni Program aimed at engaging alumni in the first five years of their post-MBA careers.

Jones served most recently as the vice president for institutional advancement at Savannah College of Art and Design. Before that, for over six years, he worked at the Goizueta Business School at Emory University, serving first as assistant dean and then as associate dean of full-time MBA Programs.

Jones received a bachelor's degree in marketing and organizational management at University of North Alabama, a master and a doctor of educa-

## 14 Faculty Members Join Seven Academic Departments



New professors bring expertise in areas as diverse as corporate social responsibility, labor economics, competitive strategies, and information processing.

Pictured above left to right: Rahul Kapoor, Assistant Professor, Management; Matthew Bidwell, Assistant Professor, Management; Diana Robertson, Professor, Legal Studies and Business Ethics; Maria Ana Vitorino, Assistant Professor, Marketing; Lucian (Luke) Taylor, Assistant Professor, Finance; Geeta Menon, Professor, Marketing; Iwan Barankay, Associate Professor, Management; L. Felipe Monteiro, Assistant Professor, Management; Maisy Wong, Assistant Professor, Real Estate; David Zaring, Assistant Professor, Legal Studies and Business Ethics; Richard Lai, Assistant Professor, Operations and Information Management; Philipp Illeditsch, Assistant Professor, Finance; Jeremy Tobacman, Assistant Professor, Business and Public Policy; not pictured: Qiaowei Shen, Assistant Professor, Marketing.

tion degree from Harvard University's Graduate School of Education, and an MBA from the Goizueta Business School at Emory.

## Wharton and Penn Law Introduce Accelerated JD/MBA Program

Wharton and Penn Law School have created a fully integrated three-year JD/MBA program — the first of its kind among elite business and law schools.

“From corporate scandals and globalization to cri-

ses in the housing and credit markets, there is an obvious need for people with advanced training in the law to be highly skilled in business,” Michael A. Fitts, Penn Law School dean, said.

The new program will target potential applicants with two years of work experience, especially in finance, who are entrepreneurs, or are planning careers in investment banking, private equity, and related fields. The three-year JD/MBA program is expected to enroll about 20 students each year, beginning in September 2009.

## Executive Education Partners With Penn Vet School in a First-of-Its-Kind Program

Wharton Executive Education is developing a leadership program in partnership with the University of Pennsylvania School of Veterinary Medicine — one that will enable veterinarians to influence some of the most critical health issues of the future, such as recent scares with SARS and avian flu. The executive program, which will run June 7-12,

2009, will prepare veterinarians in positions of leadership to have a bigger impact on public health issues and health care organizations.

Says Kathy Pearson, the academic director of the program for Wharton Executive Education, “Unlike competitor programs, the focus of this program is not on managing a practice. It is for veterinarians who make decisions on a broad scale and who hold positions of senior leadership within their respective organizations — be it pharmaceutical, association, education, VMG, government, international, or other.”

The program is the brainchild of former Vet



# Initiative for Global Environmental Leadership

## OPPORTUNITIES TO CONTRIBUTE

The University of Pennsylvania has joined forces with leaders from U.S. businesses, government and non-governmental organizations to launch a new initiative on business and the environment.

The Initiative for Global Environmental Leadership, led by Penn's Wharton School, will address the environmental issues facing businesses today from academic and policy-oriented perspectives. This cross-disciplinary endeavor also includes faculty from Penn's schools of Arts and Sciences, Design, Engineering and Applied Science, Law, Medicine, and Veterinary Medicine.

**Corporate membership opportunities:** A corporate advisory board has been formed (with members to date, including BASF, Exelon, GE, Goldman Sachs, Interface, International Paper, Merck, Rohm & Haas, United Water Suez, and Xerox). More corporate members with solid reputations in the field would be welcome.

**Naming opportunity:** A naming opportunity is available for a major gift to fund and support the initiative for research and staffing needs, as well as educational and curriculum initiatives, for the foreseeable future.

### For more information about contributions please contact:

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[environment@wharton.upenn.edu](mailto:environment@wharton.upenn.edu)



Dean Alan Kelly and current Vet Dean Joan C. Hendricks, who approached Wharton with the idea of a five-day joint program following the success of a workshop on leadership in veterinary medicine. Three-quarters of the curriculum is focused on leadership, communication, and business, and the remainder on the state of veterinary practice.

Says Dean Hendricks, “Veterinarians are committed to both animals and the people who care for them, and want to be health partners for disease control, but right now, they don’t always invite vets to discussions of major health issues like avian flu. Vets have enormous amounts of knowledge to offer, and this program is about helping them to share it and be heard.”

## Wharton Interactive Media Initiative Launched With \$1 Million Gift

Wharton’s strength in interactive media will be expanded through the Wharton Interactive Media Initiative (WIMI). The research endeavor has been created and supported through a \$1 million gift from alumnus **Art Bilger**, W’75, and his wife, Dahlia.

WIMI aims to capitalize on Wharton’s longstanding strength in conducting data-driven research — its goal is to apply it to decision making to help companies in the media industry to monetize interactive data. Wharton professors Eric Bradlow and



BRIAN BIGGS

**DURING PRE-TERM WHARTON MBA STUDENTS WORKED TO BUILD A PLAYGROUND FOR A PHILADELPHIA DISTRICT CHARTER SCHOOL.**

Peter Fader are spearheading this initiative, which will focus on knowledge creation and dissemination, industry collaboration, new courses and other student-related activities, along with alumni networking opportunities. WIMI will include an annual conference, job placement assistance for students and alumni, the creation of an advisory board, and a prestigious prize for collaborative research in the field of interactive media.

Art Bilger is a member of Wharton’s Board of Overseers and a Managing Member of Shelter Capital Partners, LLC, a Southern California-based private investment fund.

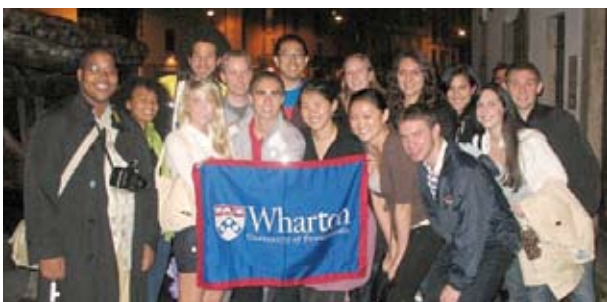
east Philadelphia. **Randall Weisenburger**, WG’87 provided funding for the project. Together they fulfilled the vision of local children who had drawn their “dream playgrounds” in the planning stage of the project.

Philadelphia Mayor **Michael Nutter**, W’79, stopped by the construction site to offer encouragement and thanks to the day’s “build captains.”

Weisenburger, Executive Vice President and CFO of Omnicom Group, Inc., spearheaded and partially funded the project, after having approached Wharton professor Mike Useem with the idea.

“This involved teamwork and bonding as a class, while giving back to the community,” said Wharton Deputy Vice Dean Peggy Bishop Lane. “With projects like this as part of the MBA experience, our graduates leave Wharton with a sense of community embedded in them.”

## Undergraduates Explore Global Business Practices in Milan and Seoul



As part of Wharton International Program, undergraduate students, pictured above in Milan, visited businesses in Korea and Italy. “We learned that 93.9% of Italian businesses have less than 10 employees,” said Dianne He, W’09, “At Parmigiano Reggiano, we saw how a large conglomerate brought together different businesses. It was very interesting to see so many small companies collaborating in the production process.”

The Korea trip included meetings with representatives of Samsung Electronics, Hyundai Motors, Hyundai Heavy Industries, SK Telecom, and Hana Financial Group, as well as a brief trip to North Korea to visit a Hyundai factory.

## 200+ Wharton MBAs Build a Playground

Working with the Wissahickon Charter School and KaBOOM!, more than 200 first-year MBA students constructed a playground in north-

## Events Calendar

### NOVEMBER 2008

#### November 1

Wharton Club of Houston: Charity Golf Event and Reception  
*Location:* Houston  
[www.whartonconnect.com/events.html](http://www.whartonconnect.com/events.html)

#### November 6

Wharton Leadership Lecture: S. Gopalakrishnan, CEO and Managing Director, Infosys Technologies  
*Location:* Philadelphia

#### November 7

Impact Conference: Measuring and Managing Innovation, presented by the Mack Center for Technological Innovation  
*Location:* Philadelphia  
<http://mackcenter.wharton.upenn.edu>

MBA Conference: Finance  
*Location:* New York  
[www.whartonfinanceconference.com](http://www.whartonfinanceconference.com)

MBA Conference: Marketing  
*Location:* New York  
[www.whartonmarketing.com/conference](http://www.whartonmarketing.com/conference)

#### November 8

MBA Conference: Global Business Forum: Africa  
*Location:* Philadelphia  
[www.whartonglobal.com/africa](http://www.whartonglobal.com/africa)

MBA Conference: Global Business Forum: Asia  
*Location:* Philadelphia  
[www.whartonglobal.com/asia](http://www.whartonglobal.com/asia)

#### November 10

Wharton Leadership Lecture: Pedro Aspe, Co-Chairman, Evercore Partners & CEO, Protego Asesores in Mexico  
*Location:* Philadelphia

#### November 11

Wharton Club of New York: Wharton Entrepreneurs Education and Resource Network: Legal Issues in Entrepreneurship  
*Location:* New York  
<http://www.whartonconnect.com/events.html>

Wharton Club of DC: 39th Annual Joseph Wharton Award Dinner and 40th Anniversary Celebration  
*Location:* Washington, DC  
<http://www.whartonconnect.com/events.html>

November 13-15  
MBA Conference: Net Impact North America Conference  
*Location:* Philadelphia  
[www.netimpact.org](http://www.netimpact.org)

#### November 20

Wharton Leadership Lecture: Muhtar Kent, President & CEO, The Coca-Cola Company  
*Location:* Philadelphia

#### November 21-23

MBA Conference: Whitney M. Young Conference  
*Location:* Philadelphia  
[www.wmyconference.com](http://www.wmyconference.com)

#### November 22

MBA Conference: German MBA Conference  
*Location:* Philadelphia  
[www.germanmbaconference.org](http://www.germanmbaconference.org)

### DECEMBER 2008

#### December 5

MBA Conference: Consulting  
*Location:* Philadelphia

### JANUARY 2009

#### January 18-23

Executive Education: Mergers and Acquisitions  
*Location:* Philadelphia  
<http://executiveeducation.wharton.upenn.edu>

#### January 23

MBA Conference: Private Equity  
*Location:* Philadelphia  
[www.whartonpeconference.org](http://www.whartonpeconference.org)

### FEBRUARY 2009

#### February 8-20

Executive Education: Executive Development Program  
*Location:* Philadelphia  
<http://executiveeducation.wharton.upenn.edu>

#### February 24-26

Executive Education: Corporate Governance Essentials for New Directors  
*Location:* Philadelphia  
<http://executiveeducation.wharton.upenn.edu>

For updated information visit [www.wharton.upenn.edu/whartonfacts/news\\_and\\_events/calendar](http://www.wharton.upenn.edu/whartonfacts/news_and_events/calendar)

## NET IMPACT NORTH AMERICA CONFERENCE TO BE HELD AT WHARTON

### November 13-15

Net Impact, a global network of students and leaders using business to improve the world, will present its 16th annual North America Conference in Philadelphia. Hosted by Wharton, the Net Impact North America Conference will address the issue of The Sustainable Advantage: Creating Social and Environmental Value. Speakers including John F. Brock, chairman and chief executive officer of Coca-Cola Enterprises Inc.; Carter Roberts, president and chief executive officer of World Wildlife Fund (WWF); and Matt Kistler, senior vice president of sustainability at Wal-Mart Stores, Inc.

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## Lawrence Zicklin Welcomes New MBA Class

On July 21 **Lawrence Zicklin**, WG'59, welcomed the class of new students at the MBA Student Convocation. The 800-member class is among

Wharton's strongest and most international, averaging 715 on the GMAT with six years of experience and including students from 72 countries. It is also one of the most diverse in experience, counting among its ranks film producers, professional athletes, artists, teachers, doctors, veterans, entrepreneurs, and professionals from microfinance,

non-profits, private equity, energy, and the Peace Corps, as well as Wharton's traditional strongholds of finance and consulting.

Zicklin is one of the business community's strongest voices in support of ethical practices. Formerly chairman and chief executive officer of the investment firm Neuberger Berman, Zicklin has taught business ethics

at New York University and at the Wharton School. In 1997, he endowed Wharton's Carol and Lawrence Zicklin Center for Business Ethics Research, which sponsors and disseminates leading-edge scholarship on such critical topics as global business ethics, corporate governance, social contracts, deception, disclosure, bribery, and corruption.

### Verbatim:

#### Judging What Is More Right and Less Wrong

*The following is taken from Zicklin's address to incoming students at this year's MBA Student Convocation.*

#### Ethics and Judgment

When we talk about ethics, we're not talking about the obvious, or about what is right and wrong. Rather, we're talking about the subtleties of the gray area and what is more right and less wrong. We're talking about the moral minefield of a business life, where so many decisions involve not only business judgments, but ethical problems that have the potential to harm both you and your company. You will be making those decisions in that minefield almost every day.

Good ethics inevitably involves good judgment, and that means not taking unnecessary risks. If the risk is high enough, it doesn't matter what the probability is: you can't afford it. You only have to be wrong once to destroy your reputation or that of your company. That's where judgment enters the picture. It's judgment that separates the mediocre from the superior.

So what is judgment? It's your capacity to understand a situation early and then take the proper action before it's too late. Developing good judgment means being curious, listening and learning from your mistakes. Successful executives are also able to learn from the errors of others and change their view when the evidence demands change. And judgment isn't all about experience. You need intelligent reasoning to be applied to that experience or else it doesn't work.

To have good judgment you have to be able to look at the same set of facts as everyone else but draw better

conclusions. Remember that judgment comes from looking at a mosaic of incomplete information, at a time that is not of your choosing, while the clock is ticking and the pressure to make a decision is most intense.

Permit me to offer you a few tips:

1. Staying out of trouble is difficult, but getting out of trouble is impossible.
2. Put a special emphasis on working with companies and people of good character.
3. Be tolerant of business errors but be ruthless with people who put your reputation or your company's reputation in danger.
4. Solving your problems before they become critical will pay dividends.
5. Be sensitive to facts that conflict with your preconceived notions. You have to be disciplined to accept what is, and change your view when what is conflicts with what you would like or expect.
6. Have courage. People respect those who express an honest difference of opinion.
7. Pay attention to the *New York Times* theory. Would you be embarrassed if what you are about to do was on the front page?
8. Finally, make sure you tell the truth and keep your word.

In the end, one of the determinants of your own success in school and in life will revolve around your values and your judgments. You have all the talent and ability that you need to succeed. Otherwise you wouldn't be here. So take advantage of what it offered. Refine your values and sharpen your judgment. The rest will take care of itself.



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## Wharton in the News Highlights

*New York Times* — Referring to her research, Business and Public Policy Professor Betsey Stevenson notes marital “debates....about money are code for how we want to live our lives.” (September 10, 2008)

*Wall Street Journal* — Management Professor Raphael (Raffi) Amit explained how a devalued U.S. currency can help growing firms. (September 9, 2008)

*Korea Times* — Management Professor Mauro Guillen discussed Korea’s foreign exchange reserves. (September 2, 2008)

*Computerworld* — A “Careers” article highlighted research by Operations and Information Management Professor Lorin Hit that found offshore outsourcing affects IT workers at twice the rate of those in other occupations. (August 28, 2008)

*Washington Post* — Real Estate Professor Todd Sinai and Marketing Professor Z. John Zhang were interviewed on pricing strategies for home sellers. (August 24, 2008)

*Reuters* — Analysis was offered of a report co-authored by Finance Professor Franklin Allen asserting that the EU needs a “better plan to share the costs of dealing with large bank failures.” The report was presented to the Kansas City Federal Reserve Bank. (August 23, 2008)

*Financial Times* — Management Professor Iwan Barankay’s research into “the nexus between pay, workplace friendships and workers’ productivity” was highlighted. (August 16, 2008)

*New York Times* — Legal Studies and Business Ethics Professor Andrea M. Matwyshyn discussed the challenge of legislation keeping pace with technology in an article entitled “Web Privacy on the Radar in Congress.” (August 10, 2008)

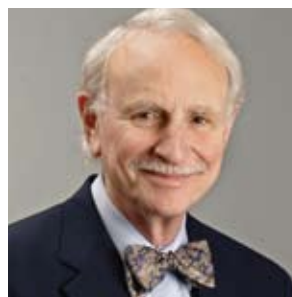
*USA Today* — Wharton School Publishing and Knowledge@Wharton were highlighted as resources to “Watch, Listen & Read.” (August 4, 2008)

*CNBC* — A report described how the weak dollar leads to increased international interest in U.S.-based MBA programs such as the Wharton School’s. (July 13, 2008) 2

## In Brief

### Knowledge@Wharton Teams with Nightly Business Report

PBS’s “Nightly Business Report” is teaming with Knowledge@Wharton and Wharton professors to name the top 30 innovations of the last 30 years. The program, which is seeking nominations from viewers, will run in January 2009. The two media entities previously collaborated on a program on the top 25 business leaders of the last 25 years.



STEPHEN J. KOBRIIN

### Stephen J. Kobrin Named Editor of Wharton School Publishing

Wharton School Publishing is under new leadership — editor Stephen J. Kobrin, the William H. Wurster Professor of Multinational Management. Kobrin, a 1982 Wharton MBA alumnus, replaces founding editor Yoram (Jerry) Wind, professor of marketing; director of Wharton’s SEI Center for Advanced Studies in Management.

### Undergraduate Program Adds New Concentration

With the addition of the new Marketing/Operations Management concentration, Wharton undergrads can now choose from 20 concentrations.

### Summer Program for Undergraduate Research (SPUR) Takes Off

At SPUR, launched this summer, seven undergraduates designed and performed in-depth research under the guidance of professors. The program supplied summer housing and \$3,000 stipends.

### Wharton Statistics Professors Awarded Top Honors

Professor Abba Krieger was selected as an Institute of Mathematical Statistics (IMS) Fellow; Professor J. Michael Steele was named 2008-2009 President-Elect of the Institute of Mathematical Statistics; and the Committee of Presidents of Statistical Societies (COPSS) chose Professor Tony Cai as the recipient of its 2008 COPSS Presidents’ Award. ♦

TOMMY LEONARDI



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# Seeing an 'Emergent Africa'



## Wharton Faculty and Alumni Identify Economic Leadership Opportunities at Global Alumni Forum in Cape Town.

With Africa poised for substantial growth in the next half-century, the 2008 Cape Town Global Alumni Forum was well timed. The weekend forum, which ran from June 26 to June 27, brought some of the world's top minds on African business together around the theme of transformational leadership for an emergent Africa.

The prospects for African growth were detailed by Wharton Professor Jeremy Siegel in a special presentation. Among other indicators, Africa is projected to be home to 20% of the world's population and will account for 7% of the world's GDP by 2050.

"Many see Africa as the next frontier," said **Victor Petenkemani**, WG'08. "I met many alumni, who are mostly working in Africa, in NGO and other high-profile industries such as private equities and hedge funds. All are bullish on career and development opportunities in Africa going forward."

"Many of the alumni at the forum are involved in enterprises with huge possibilities, from consulting in Rwanda to mining in the Congo to telecommunications in Nigeria," said **Sir Paul Judge**, WG'73, Alderman of London and executive of several enterprises. "Wharton already has a number of social enterprises on the continent and we had a particularly poignant presentation about how Wharton was using linear programming and financial skills to improve the supply of fertilizer to

African farmers." Wharton Professor Ian C. MacMillan, moderator of the panel on Societal Entrepreneurship, detailed how such projects were a more viable path to economic development.

Other diverse panels, representing what forum organizer **Anthony Hamilton Russell**, WG'90, proprietor of Hamilton Russell Vineyards, described as "an incredible concentration of African experience," included Mining and Natural Resources, and The Impact of Sport on Societal Development.

Business leaders in attendance, in addition to Judge, included David Noko, Chairman of De Beers Consolidated Mines; **John J. Teeling**, WG'69, Executive Chairman of African Diamonds, Dublin; **J. Eric Wright**, WG'92, Founder and CEO of Africa Venture Partners, and many others. Nearly a dozen Wharton professors attended, representing the Wharton faculty on each of the panels.

"The Forum signals that Wharton is serious about Africa. This is of tremendous importance in an era where the school competes with the likes of HBS, Stanford, and Kellogg for top African talent," said **Eric Kacou**, WG'04, and managing director of the OTF Group, a venture-based firm focused on emerging economies. ♦

– Jonathan Treble, WG'10



# PROFITABILITY

# FOR GOOD



# How business is the best chance for solving the world's problems

BY TIM HYLAND



**R**ajan Kundra ignored it for a while. But eventually, that one nagging question — the one that had been bothering him for years — finally got to him.

It got to him even though Kundra had a pretty good thing going for himself up on Wall Street, where after a decade of hard work he had been named senior vice president at a major investment bank.

“But I was always facing the ‘*What next?*’ question,” says Kundra, WG’93. “It almost always permeated the way I thought about everything. Wall Street is an excellent training ground, and so a lot of people use Wall Street for that training and the skill building. But then they end up asking themselves, like I did, ‘*What next?*’”

Kundra, at least, didn’t have to look all that far for his answer. Specifically, only about nine blocks.

That’s where he found the U.S. headquarters for the Acumen Fund, a social venture capital firm that has the stated goal of investing \$100 million into promising young companies that can deliver results on two equally important fronts: profitability and social impact.

“We focus our investments on the macro level, with companies that we believe can deliver basic necessities to the poor,” says Kundra, who also previously worked as a Vice President at J.P. Morgan. “For the most part these companies we invest in are for-profit companies, focused on new business models and new market approaches.”

Acumen targets companies that serve the “base of the pyramid” — the very poorest of the world’s poor, more than 3 billion in number, who do not have access to even the most basic services. Acumen officials like Kundra, who serves as director of capital markets and energy portfolio, and fellow Wharton grad **Omer Imtiazuddin**, WG’03, who serves as health portfolio manager, believe their firm’s work can eventually touch the lives of 50 million people worldwide.

In short, they believe good businesses — *profitable* businesses — can do great things.

“I knew I didn’t want to go back to investment banking,” explains Imtiazuddin. “I grew up in Pakistan. I had always seen

the poverty around me, and I think I always had a desire to make a difference in this world. I didn’t get that opportunity on Wall Street, given the hours and everything else. So having had that desire, I used Wharton as a sounding board to see if this was one of those things I really could make a career out of. I want my career to be something where I’d find great meaning beyond mere financial rewards.”

He’s not alone.

There is a real and quantifiable trend emerging in business today: An increasing awareness among business leaders of the enormous challenges facing the world — and, more importantly, a growing commitment among those same leaders to do something about them.

At the 2007 Wharton Economic Forum in Philadelphia, Rajat Gupta, former Senior Partner Worldwide, McKinsey & Company, said business must reinforce constructive contact and dialogue with society to “earn the right to serve. Corporate responsibility is not a luxury — we must work with partners to address problems facing society to shape social contract between business and society.”

At the 2008 World Economic Forum in Davos, Microsoft founder Bill Gates called it “creative capitalism” — “an approach where governments, businesses, and nonprofits work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world’s inequities.”

And in a 2008 *Financial Times* essay, Wharton Dean Thomas Robertson asserted that pursuing positive global social impact is not just about doing “good,” but a logical business opportunity, not only for NGOs, but for multinational corporations. He wrote, “They transcend national borders and governments, have resources that may exceed those of governments, and may garner more confidence than governments. In addition to providing skills and resources, corporations can also implement social responsibility codes that help build a better environment in which to do business and that potentially can encourage economic development.”

In rising markets such as China and India, investment from Western corporations has been credited with everything from improving human rights and labor standards to creating an



RAJAN KUNDRA, WG'93  
AND OMER IMTIAZUDDIN, WG'03

DANIEL GOODRICH

many of them chose India and China. We are seeing more and more students like them. These are students who are leaving Wharton with more of a social conscience and a greater willingness to go help the world. We find our alumni are turning to us, too, asking, 'How do we give back?'"

This fall Robertson will formally launch the Wharton Institute for Social Impact, a new research center that will harness all of the School's social capabilities under one initiative, allowing faculty and students to attack the world's problems more effectively than ever.

The Institute will place Wharton at the forefront of the business world's ever-sharpening focus on social entrepreneurship. It will arrive just as the students who comprise Wharton Social Impact — a group dedicated to using business skills to promote the greater good — prepare to host the prestigious national Net Impact conference for the first time.

The conference will bring more than 1,800 business students and professionals to Philadelphia to discuss the myriad ways business can create "social and environmental value." Conference organizer **Emily Schiller**, WG'09, says interest in Wharton Social Impact — and the idea that business can do good things while also generating good profits — is at an all-time high.

"Year after year, the number of students who attend Wharton Social Impact's events is increasing and increasing," Schiller says. "We have 65 students from just the class of 2009 volunteering to help, and they're not just signing a piece of paper saying, 'I support the conference.' They're out there literally pounding the pavement and really doing substantive things to advance this cause. In class with my cohort, we're having these conversations about what corporate responsibility really means — what it means for the reality of the job, and how that can work for a company and still make money."

entire new middle class, while funds funneled through micro-finance organizations and firms like Acumen Fund are creating real results in improving health care, stimulating economic growth, and giving new hope to millions. Meanwhile, entrepreneurs and established companies alike are also seeking out new sources of energy, investing in promising new technologies, and implementing new programs and policies that will make sustainable use of natural resources.

## Society as a Stakeholder



At Wharton, Dean Robertson has been promoting the idea of "business as a force for social good" since his arrival last summer. In his *Financial Times* essay, he challenged business schools and their graduates, defining "social impact" and "social responsibility" in part as "the ways in which businesses need to take into account not only their shareholders, but other stakeholders as well."

The idea is intentionally broad, encompassing many initiatives and extending far beyond the administration.

"A lot of our students are interested in experience in developing countries, and giving something in return — but not just giving something away," Robertson says. "Twenty-three percent of our students took jobs in other countries this year, and

## Profitability, Not Philanthropy



Schiller understands that concept — making money *and* serving the greater good — isn't easy to grasp. This isn't philanthropy, after all, it's business.

"That's a conversation we have every day at Wharton, and it's something that's really at the forefront of people's minds," Schiller says.

And not just at Wharton. A recent report from the Aspen Institute, a Washington, D.C.-based organization dedicated to fostering values-based leadership, surveyed MBA students from top business schools from around the country, including Wharton, and found that 26% said they were interesting in finding work that would allow them to make a "contribution to society." That's up from just 15% who said the same five years back.

The report also found current MBA students were "thinking more broadly about the primary responsibilities of a company" than students of the past, and that while the students continued to see generating profits as a primary focus for companies, an increasing number of them also said creating value for the communities in which they operate was also a major corporate responsibility.



“I came to Wharton because I wanted to understand what the profit motivations were to do something [with social impact], because ultimately, that’s what transforms business,” Schiller says. “But the thing is, we’re finding empirical evidence that beyond just breaking even, these strategies might be a more profitable way of doing things.”

Take Wal-Mart. America’s most dominant retailer may not have many friends among mom-and-pop stores and Main Street supporters, but this corporate giant has recognized the strategic value of doing things in a way that might be called “socially responsible” — especially when doing so results in better profits. With fisheries threatened by the twin stresses of over-fishing and environmental degradation, Wal-Mart in 2006 pledged to eventually buy all of its seafood from renewable fisheries.

The move required Wal-Mart to rebuild its entire supply chain, but the payoff is enormous: Wal-Mart ensures for itself a steady supply of controversy-free fish. The world’s oceans, meanwhile, will be protected.

“They realized over-fishing was draining the ocean’s population of seafood,” Schiller says. “And they knew that if they didn’t do something they would in the near future be taking a huge business loss. They said, ‘We need to change the way we fish.’ They did that.”

Those examples are especially plentiful, it seems, in the developing world — where they are needed most.

Forward-thinking entrepreneurs, academics, and long-established multinational corporations are pushing forward initiatives that negotiate the very balance Schiller and her classmates have struggled with: profits with social impact. The Acumen Fund, for example, is bankrolling companies that will do everything from improve ambulance service for India’s poor to offer cheap, accessible, quality obstetric care for millions of underserved pregnant women.

The much-lauded microfinance movement is one starting point.

## The Microfinance Revolution

**D**eveloped by Nobel Laureate Muhammad Yunus, founder of the pioneering Grameen Bank, microfinance is essentially banking targeted at the extremely poor — the kind of people who had been ignored by the banking establishment for decades. By delivering small amounts of capital — loans as small as \$100 — to the poorest of the poor, Yunus believed lenders could spark the development of new economies and tap into the long-ignored entrepreneurial talents of those mired in poverty.

The effects have been sweeping. The World Bank says microlending has directly impacted a half-billion people around the world, and *Forbes* estimates microfinance institutions delivered 33 million loans in 2007 alone.

“Traditional loans were not effective enough in getting the resources to entrepreneurs in developing countries,” adds Mauro Guillen, Wharton professor of management and director of the Joseph H. Lauder Institute for Management & International Studies. “Poor countries lack a really well developed financial system and so only the well-connected can get loans. So microfinance makes a lot of sense.”

It makes sense, Guillen says, for the simple reason that it’s effective. Many leading experts consider microlending one of the world’s most promising means of creating new small businesses, and new hope, for the world’s communities.

The idea of microloans has been expanded into businesses like GrameenPhone, founded by **Iqbal Quadir**, G’83, WG’87. Quadir partnered with Grameen Bank to bring 200,000 phones to Bangladeshi villages through GrameenPhone, serving 80 million people with an average of 400 people using each of those phones.

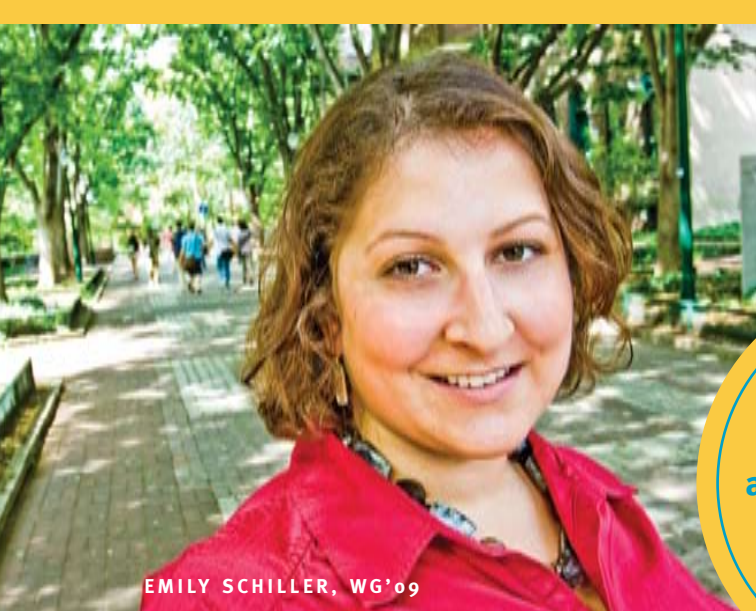
Quadir proposed that Grameen make \$200 loans to women who would use the money to purchase phones, then sell fellow villagers airtime. The fees would allow the women to pay back their debt to the bank and support themselves and their families. Quadir also convinced Telenor, the Norwegian telephone company, to invest in his company and build the network.

GrameenPhone has become a raging success financially. A group of Americans who backed him originally collectively put in \$1.65 million and got \$33 million back eight years later selling their stake.

More important is the impact on the women, families, and villages that gained both connectivity and income.

Are there perils in microfinance? Certainly, says Guillen. Firms who get into this business must deliver loans only to those people who can make something of them — and, of course, eventually pay them back. Profitability, as always, remains the bottom line.

Yunus’s Grameen Bank in 2007 posted a profit of \$1.56 million. Its followers are apparently doing well, too: *MicroBanking Bulletin* says a recent survey of more than 60 microfinance insti-



EMILY SCHILLER, WG’09

TOMMY LEONARDI

“Year after year, the number of students who attend Wharton Social Impact’s events is increasing and increasing.”

## CASE STUDY ON SOCIETAL WEALTH CREATION IN BOTSWANA

### Solving a public health problem while creating a medical software business

Although it has one of the most dynamic economies in Africa, Botswana also has one of the world's highest known rates of HIV/AIDS infection. In this country of 1.56 million, an estimated 350,000 people are living with the disease. The largest segment of HIV infected citizens are between the ages of 15 and 49.

In response, the Botswana government is developing comprehensive programs to cope with both the disease and the region's shortage of physicians and medical personnel. In conjunction with Harvey Friedman, chief of the Division of Infectious Diseases at the Penn Medical School and director of the Penn Program in Botswana, Wharton's Sol C. Snider Entrepreneurial Research Center under the leadership of Professor Ian C. MacMillan is helping the country develop a more efficient system to manage HIV/AIDS therapy and monitor HIV patients. One early result of that initiative has been a software monitoring program that, in the long run, could enable nurses to deliver diagnostic and prescriptive services to many more HIV patients than currently possible.

The software intervention model developed at the Center "plans to overcome these obstacles by enabling small- and medium-sized enterprises [which employ nearly 55% of South African workers] to participate in a network of subscribing firms that send their workers to a network of clinics, with an entrepreneurial database manager acting as the informational hub between multiple firms and clinics," according to the study, which goes on to note that the entrepreneurial HIV/AIDS software provider will make money by selling the software and support services to the "rest of Africa and then the rest of the developing world."

*To read the full article or the research paper on which it was based, visit [Knowledge@Wharton](http://Knowledge@Wharton) ([knowledge.wharton.upenn.edu](http://knowledge.wharton.upenn.edu)) and search for Ian MacMillan.*

tutions from around the world revealed an average rate of return on loans of about 2.5%. While that rate of return won't render hedge funds obsolete, it proves that the lending model can be sustainable for the long term.

"If this can create jobs, if it can enable people to be able to work in their household, and they can spend three to four hours a day attending to some kind of business, they can put back into the market whatever they produce," Guillen says. "All of that can have huge impact. In developed countries, the bulk of the jobs are created by small business — dry cleaners, restaurants, repair shops. You cannot do it without small business. No economy can."

### A New Model of Social Entrepreneurship



icrofinance is only one financial innovation making a societal impact. Ian C. MacMillan, the Dhirubhai Ambani Professor of Innovation and Entrepreneurship; Professor of Management and Director of the Sol C. Snider Entrepreneurial Research Center espouses entrepreneurial philanthropy that supports business en-

trepreneurship under a for-profit model that attacks social problems and creates new societal wealth.

The basic thesis is that many social problems, if looked at through an entrepreneurial lens, create opportunities to launch a business that generates profits by alleviating the initial problem, says MacMillan.

In 2006, the Snider Center launched a Societal Wealth Generation program to spread the model by identifying societal problems, designing a solution, and then recruiting an entrepreneur willing to run the business. So far, projects under MacMillan's auspices have developed software to manage HIV/AIDS treatment in Botswana, a high-end cookie company in a dirt-poor township in South Africa, and a Zambian animal feed business.

His ambitions are as huge as the problems he's tackling.

"I try to distinguish between social entrepreneurship vs. societal wealth creation," says MacMillan. "We are not talking about hot dog stands; rather we are trying to launch high-impact programs that help thousands, if not tens of thousands, of people."

## Sustainability at the Bottom Line



For developing nations that are rich in natural resources, sustainability is a core issue that has too long taken a backseat to short-term concerns. As Secretary of Planning and Economic Development in the Brazilian state of Amazonas, **Denis Minev**, WG'03, is trying to balance the environmental and economic future of a state, more than twice as large as Texas, that also happens to be blessed with some of the most pristine rain forests in South America. Minev aims to preserve them.

Since he's taken over as secretary, the annual deforestation rate in Amazonas has been cut in half, and now stands at just 0.05%. At the same time, annual economic growth in the state has reached 9%.

Minev says he's accomplished this through a variety of new programs and initiatives that encourage new growth in green industries. After state environmental preserves were established throughout the forest, Amazonas then staffed those with local residents, helping bolster local economies while also preserving virgin forest. Increased investment in science and technology is aimed at turning up new ways to tap into the wealth of the forest without cutting it down. Meanwhile, guaranteed pricing on sustainable forest goods — including rubber and oil products — has encouraged new growth in green business sectors. The state also built 28 new ports to help these new businesses succeed.

“Our main challenge is to make the forest worth more standing up than lying down,” Minev says. “And our policies are focused on such an equation being true.”

The truth is that no business can afford not to care about sustainability.

**Steve Weinberg**, WG'82, has been thinking about sustainable business practice since the early 1980s, long before it was trendy, and long before it was accepted as common sense. So it's no surprise that, today, Weinberg runs his own company, Philadelphia-based National Foundry Products, a sales agency representing global foundries and forging plants, as sustainably and responsibly as he can.

“When it comes to my own backyard, is that I do what I can do,” says Weinberg, whose firm is also one of the founders of B Corporation, a Berwyn, PA-based group that promotes businesses capable of creating benefit for all stakeholders, not just shareholders. “At my office we telecommute. We do carbon offsets. I work out of my home office, so I offset my home office. We contribute to things to help businesses be more sustainable.”

Weinberg is also a board member for Sun Farm Networks, a New Jersey-based solar energy firm, founder of Sustainable Mount Airy, an organization in Philadelphia's Mount Airy neighborhood that aims to foster “an inclusive, democratic approach to creating a just and sustainable community,” and co-chair of the Philadelphia Sustainable Business Network. He's the real-world embodiment of what Robertson envisions the Institute for Social Impact's environmental role to eventually be: Identifying problems, finding solutions, contributing to the greater environmental effort, acting responsibly.

Of course, as Weinberg and others admit, there are limits. His company grew from sales of \$3 million to \$30 million over 20 years of hard work, Weinberg says, and more growth remains the ultimate goal.

“Being a sales organization, there's only so much leverage I have,” Weinberg says. “I mean, they're my clients. I work for them. In the metals business, there's tremendous pressure for savings. Just trying to stay in business is the biggest concern for a lot of the people I work with. I understand you have to *guard* your bottom line. Besides, you don't do anyone favors if you don't stay in business.”

## The Business Opportunity in Social Good



**Tucker Twitmyer** would agree. Twitmyer, C'90, WG'96, hadn't planned a career in funding new energy sources. In fact, prior to joining Wayne, PA-based EnerTech Capital, Twitmyer had carved out a career in more traditional markets, first as a senior manager at Anderson Consulting and later as managing director of the private equity service firm Katalyst LLC.

While at Katalyst, though, he came into contact with the folks from EnerTech. He was intrigued by the opportunities presented in developing new energy sources. A few years later, he joined the firm himself.

CANDACE DICARLO



STEVE WEINBERG, WG'82

As a managing partner, Twitmyer oversees investments into everything from solar power to oil and gas, energy grid improvements to energy efficiency. The firm manages three funds totaling nearly \$370 million. It has invested in nearly 50 energy companies and helped push along nine IPOs. Its portfolio includes firms ranging from WellDog, which has developed a more profitable way to extract methane from coal beds, to Franklin Fuel Cells, which is working to improve the cost-effectiveness of fuel cells, to Advent Solar, which produces advanced solar cells that operate at lower cost.

Having been in the sector for more than a decade now, Twitmyer can attest to just how much interest in these new clean-energy technology has grown, both among the public and, more importantly, investors. And given that so many traditional businesses, and so many savvy investors, are now seeing the value in these potentially revolutionary technologies — technologies that could wean the world of carbon-based energy — Twitmyer says he truly believes clean energy does have a legitimate future.

He's got another reason to believe, too: EnerTech's investors are making money. Twitmyer says EnerTech delivered a 46% net return to investors in its first fund, and is currently among the top quartile in its second.

"We're saving the planet one company at a time," Twitmyer says. "And hopefully while we're doing that, we're making outsized returns for those that have chosen to invest in us."

**"We're saving the planet one company at a time," Twitmyer says. "And hopefully while we're doing that, we're making outsized returns for those that have chosen to invest in us."**



TUCKER TWITMYER, C'90, WG'96

TOMMY LEONARDI

## Leadership for a Movement



From resource conservation to fighting poverty to simply being better citizens of the world, the Wharton community from Dean Robertson on down believes business can, and should, strive to be successful both on the bottom line and as citizens of the world.

"There are more and more students getting interested in getting exposed to the problems of the developing world — thinking about these problems," Guillen says.

The popularity of the Wharton Social Impact clubs proves his point. So, too, does the increasing number of students like Schiller who are coming to Wharton specifically to launch careers as social entrepreneurs. Then there's the remarkable work already being done by such Wharton faculty as Ian C. MacMillan, who recently worked with residents of Zambia to help launch a sustainable new chicken feed plant, and Eric Orts, who has been tapped to lead the Initiative for Global Environmental Leadership.

Robertson says business — corporations, entrepreneurs, academics, students — have an even greater challenge before them, especially when it comes to solving global poverty.

In this world of 6.6 billion people, more than half live on less than \$2 a day. Handouts from developed nations can only do so much.

But he argues that business has the potential to deliver what handouts cannot: hope.

"These countries lack management capability, and they just get a lot of money thrown at them," he says. "But there's some very considerable debate around the idea that, although it's nice to engage in foreign aid, it may be more important to develop capabilities in those developing countries so they can actually become self-sufficient."

This is where business schools can help, he says. And the Institute for Social Impact should position Wharton to be able to fill that role. But even Robertson admits he struggles to quantify what the school could reasonably expect to accomplish.

"The major business schools have been redefined as global business schools," he says. "Wharton does a lot, really, in teaching social initiatives. But the important question, I think, is really: What can you *really* do?"

Business' may not have all the answers, but it may well have some of them.

Says Acumen Fund's Kundra: "There is an entire emerging space around social entrepreneurship and social investment. We're in the early stages of this opportunity, where we have people who are financially trained, accounting trained, redeploying themselves and turning this into a new career. In the past, I think people considered working at a nonprofit as a step toward retirement. That whole mindset, I think, has been broken." ♦

*This article includes material from Knowledge@Wharton.*

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Fiscal Year 2008

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# the SEEKER

The truth is out there, and Justin Wolfers believes economics is the means to find it.

BY NATALIE POMPILIO

Justin Wolfers pauses when asked about his latest projects: “Right now,” he says, “I’m doing a lot of work on happiness.”

Which sounds strange because Wolfers, a newly tenured associate professor of business and public policy, is a noted economist, not a sociologist or psychologist, so why would he care about how happy people are?

Because economics isn’t just about numbers, Wolfers says. It’s about people.

“Numbers are just aggregations of stories,” the 35-year-old Australia native says. “If I poll 1,000 people and ask them about their lives and find 73 percent are happy, that’s really a whole bunch of stories but I found a compact way of representing them. As an empirical economist, I’m struck at how useful stories are.”

Wolfers is part of the new breed of economists, using economic principles to analyze and assess anything from crime data to marriage statistics, mining the information for everything from interesting factoids to sound public policy suggestions.

An economic Renaissance man, his work has been noted everywhere from scholarly journals to *Sports Illustrated*. He’ll make the case that the death penalty doesn’t deter murder as easily as he’ll describe a pattern of point shaving in college basketball. The *New York Times* last year listed him as one of the country’s top young economists doing research on real-world problems, while *ESPN Magazine* named him one of nine behind-the-scenes sports power brokers.

“Economics is merely a lens through which we can view the world around us,” Wolfers says. “Some of my work interfaces with psychology, some political science, some criminology, some sociology. We’re social scientists trying to understand the world.”

Some refer to this as “freakonomics,” so-called after the 2005 book of the same name by economist Steven Levitt and journalist Stephen J. Dubner. (In fact, Wolfers contributes to the blog of the same name that’s part of the *New York Times*’ website.) The impolite term is “economic imperialism.”

Wolfers rejects the latter label, noting, “I have a profound faith that we can provide some useful insight — and the people who hate economic imperialists should be happy I said, ‘some.’”

“My job,” Wolfers says simply, “is to make the world a better place.”

Take the work he and fellow Wharton professor Betsy Stevenson are doing on happiness, which he believes will change how countries shape economic policies.

“Economics is merely a lens through which we can view the world around us. Some of my work interfaces with psychology, some political science, some criminology, some sociology. We’re social scientists trying to understand the world.”

For 30 years, many people have subscribed to what is known as the Easterlin paradox. Economist Richard Easterlin’s research showed that a country’s increased economic growth did not mean its populace would be happier. He also concluded that while rich people in a country are generally happier than poor people, rich countries are not happier than poor ones.

Stevenson and Wolfers reanalyzed that data as well as more recent surveys and drew different conclusions. While they agree that rich people are happier than poor, they also find that rich countries are happier than poor ones and more riches do equal more happiness.

“The implication was not the old view that economic growth is not something we should care about. It was an idea very influential in Europe, that we should stop caring about politics that concern this economic group,” Wolfers says. “This new view leads to completely opposite implications.”

Numbers, Wolfers shows, can reveal feelings and emotions. When he and two co-authors wanted to know how stock and bond markets were affected by the election of a Republican versus the election of a Democrat using prediction market-based analysis, they focused on what Wolfers called “the random Kerry presidency,” or the four hours on Election Day 2004 when John Kerry was predicted to win the presidency.

“Around 3 p.m. the polls got leaked and everyone thought Kerry had won in a landslide,” Wolfers says. “The question is how did the financial markets behave when they really were acting as if John Kerry was president.”

Looking at market fluctuations in the period immediately before and after the “Kerry presidency,” the study found that markets anticipated lower equity prices, interest rates, and oil prices under a Democratic president. The study captured traders’ expectations of partisan effects rather than the actual outcomes. (Prediction-market-based analyses of all presidential elections since 1880 revealed a similar partisan pattern.)

“Oftentimes, when you have an experiment, people say, ‘Will this work in the real world?’ and you’re saying, ‘A four-hour Kerry presidency might be different from a four-year presidency,’” Wolfers says. “But the emotions and how it changes people’s view of economic conditions is exactly what we’re trying to measure.”

Even seemingly frivolous studies have many layers, like the 2007 study that found racial bias among referees in the National Basketball Association. After analyzing more than a

decade’s worth of foul calls, Wolfers and co-author Joseph Price concluded that players score more points and earn fewer fouls during games in which the majority of the refereeing crew is of their same race.

The study drew national media attention. The NBA issued a stern denial, Charles Barkley called the authors “jackasses,” and Wolfers notes that it marked “the first time I’ve ever had a paper criticized by Kobe Bryant.”

Yet while Wolfers says that was all good and fun — It was odd, he said, to get into a cab the week after the project was released and have the driver ask, “Did you hear about that crazy Penn study?” — the point of the work was not to determine “if NBA referees are good guys or bad guys.” It was not just to have fun. It was an economist using economics to study social phenomena.

“The criticism we hear is that our job is to prevent poverty and stop unemployment and create economic growth and more fair and just societies. Does a study of NBA refs make the world a better place? On its face, no. I should really be off trying to figure out why Chad is so poor,” Wolfers says.

“But that paper actually and truly did start, within the basketball community, a national discussion about race... If we can get more people talking about how race manifests itself in organizations and get them to think differently about the machinations of discrimination and of what they have to look out for, then that’s socially useful.”

## THE ECONOMICS OF SOCIAL ISSUES

Wolfers credits Gary Becker, whom he calls “one of my great intellectual heroes,” as the economist who took the science “beyond the supply and demand for apples and oranges.” In the 1950s, Becker was seen as somewhat of a radical as he applied economics to social issues, including racial discrimination, crime, and family dynamics.

That had all changed by the 1990s, when Becker was awarded a Nobel Prize for Economics and Wolfers was working on his undergraduate degree in economics at the University of Sydney, Australia. Wolfers considers himself among the first generation



of economists to develop during a time when Becker's ideas were considered mainstream.

"We just sort of grew up with that being how you think about the world," he says.

From Sydney, Wolfers moved to Cambridge, MA, where he settled at Harvard to work on his master's and doctoral degrees in economics. Even while having beers in a bar during graduate school, he and his friends found themselves putting their "nerdy theorems" to work, he says. They'd notice single men and single women sizing each other up and saw "a matching function."

"What you see in a bar is not that different from what you see in the labor market," Wolfers says. "In the labor market you have jobs and you have workers and they both would like to meet each other. All the workers are looking for all the best jobs. And when we go on the first interview in the labor market, we wear a tie and when we got on a first date in the marriage market, we peacock a little."

At Harvard, Wolfers peacocked enough to meet Stevenson. The pair have been a couple for 10 years, share a Center City home and two cats, and are frequent collaborators, working together on the happiness study and other projects involving families, prompting Wolfers to note that it's "one of those weird things when you study marriage and divorce and you end up being neither."

And if he truly does see the world through an economic lens, perhaps his later observation that, in terms of taxes, "the closer your incomes are, the bigger the penalty for getting married," also plays a role in their relationship. Indeed, Wolfers notes that while he does make decisions by weighing costs and benefits, he believes many people do so but just use different terminology.

"It's either tremendously clinical and almost non-human or it's obvious. I think it's actually obvious," he says.

While he was speaking, one of the couple's cats, Ivan, leapt from a nearby table onto the back of the couch and demanded attention.

"Ivan's a little economist, too," Wolfers says. "He was thinking, 'Should I be bothered jumping on the couch? Pro: I might get lots of pets. Con: It's a pain in the ass.'"

Ivan chose to be petted, a decision he did not seem to regret.

## THE GAMBLER

At first glance, Wolfers seems more surfer than scholar. He looks younger than his years, with shoulder-length blond hair pulled back into a ponytail, tanned skin and a wide, crooked smile. He goes for drinks with his students, publishes his home address and cell phone number on his web page. Wolfers is enthusiastic, friendly, his voice cracking when he gets excited. He uses words like "wicked" as adverbs, like when he says Philadelphia is "wicked cheap" compared to San Francisco's Bay Area, where he lived when he taught at Stanford University. If his accent didn't automatically peg him as an Aussie, his use of phrases like "by jingo" would, as in "By jingo, you can't help but understand the forces of supply and demand when they're literally happening around you."

There, he was talking about growing up in Australia, where he once worked as a bookie's runner. "In my defense," he says,

"gambling with bookmakers in Australia is legal. The fact that I was 15 at the time was not legal." He took the job because it allowed him to indulge his passion at the time: betting on horses. He didn't realize then he was preparing for his future as an economist.

"Being a bookie's runner is a lot like being a runner on the floor of the stock exchange," he said. "We call it betting but people are buying and selling stocks in a horse. I've always argued — and no one's understood it or believed me — that it was good training."

Now, Wolfers uses betting in the classroom. During a recent class, he told a group of his MBA students that he could read their minds and he was willing to bet on it.

The wager involved a coin-flipping exercise. Students would flip a coin 30 times and record the results in one column, then create another column of fake results. Wolfers bet he could guess which column contained the genuine results and which the made-up ones.

Almost the entire class of 35 students placed a \$5 wager. Some wondered what Wolfers would do if he lost to everyone after he revealed he only had \$25 in his wallet. He didn't seem worried: "I'll call a banker," he assured them, turning on Kenny Rogers' "The Gambler."

Wolfers left the class \$50 richer.

He explained his selection strategy this way: He would look for the column with the longest streak and pick that one. If there were a tie, he'd look for the second-longest streak and choose that column. Ditto for a third or a fourth. If no column stood out, he'd guess the first.

"The moment you understand a betting market, where the value of things goes up and down depending on what you don't know, you realize it's a financial market," Wolfers says. "The whole idea is just to use gambling as a way of teaching how markets work and how people make mistakes in markets. The first lesson in finance is markets are smarter than you are."

Later in the same MBA class, with his winnings tucked safely in his wallet, Wolfers started a discussion on the assigned reading: a 1985 work dispelling the existence of "the hot hand" in basketball. The study showed that while players and fans believe a shooter's chances of making a basket are greater after a prior hit than after a prior miss, an analysis of shooting records, including free throws, proved that not to be true.

The students, especially basketball fans, were not happy with the study's conclusions and had a lot to say. "I know the hot hand exists because I've had it," one student said. Others were eager to weigh in: "Look at the pens in the air," Wolfers observed at one point.

He neatly parried and sparred the students' arguments: Someone who makes three baskets will likely receive increased defensive coverage, they said, thus making a fourth basket more difficult. Fine, Wolfers replied, but the authors also looked at free throw records, where no defense is involved, and the outcome was the same. The study doesn't take psychological factors into consideration, they argued. It does, Wolfers replied: the statistics spoke for themselves.

The debate lasted for more than half the class.

“Economists think there’s truth and all you have to do is be honest and you’ll discover it. It means we all wake up every day excited to go discover something.”

Later, Wolfers says, “I love teaching that paper. People get so upset... Everything in the hot hand paper isn’t about theory. It’s about facts. If you believe in the hot hand, you believe the guy who shot three baskets is more likely to hit another one than the guy who just missed three baskets, right? That’s a testable hypothesis. Let’s look at the data. The data doesn’t agree with you. That’s a fact.”

## SHOWMAN, TASKMASTER, INFLUENCER

Teaching, especially on the MBA level, requires a bit of performance, Wolfers says, and “that does not come naturally to an academic. We’re all shy nerds.” But he enjoys it. He first noticed this, he said, when he was tutoring students in math after high school. “I remember it as an amazing high for hours after. I remember explaining it to my mother, who is a math teacher, and she said, ‘Yes. That’s teaching,’” he recalls. Wolfers was 27 when he began teaching at Stanford, where the average age of his MBA students was 27, “and I was appropriately scared,” he says. Now, at Wharton, he finds his average student has six years of impressive work experience.

“Working with these students, they really know financial markets, and I was back to being a bit scared again, which is good for you, I guess,” he says. “But I realized everyone is an expert in narrow things and my job isn’t to be narrow.”

Despite his protestations to the contrary — and repeated references to himself as a “nerd” — Wolfers seems like a natural showman in the classroom. He’s quick with a quip — noting some of the students didn’t have coins to flip, he said, “This is the problem with MBAs. You’re flipping \$100 bills.” — and has a flair for the theatrical, like when he played “The Gambler” as the students tallied tosses. But he’s also able to go *mano a mano* when it comes to debating theories while offering countless examples — from football to elections in Zimbabwe — to support his positions.

His engaging manner in the classroom makes even the most challenging material more accessible to his students. Last year, Wolfers won the Wharton MBA Core Teaching Award which is subtitled “Tough, but we’ll thank you in five years.” He’s

clearly proud of the win and excited about the potential he sees in the students he teaches.

“I would imagine one-fifth of Congress has MBAs and my guess is that in 20 years time it will be one-third. So counting CEOs and college presidents and the like, I can imagine that, in 20 years time, having taught 360 students a year, I will have been able to teach economics to some very successful people,” Wolfers says. “That will be fun. Maybe they’ll ask me to be treasury secretary.”

It’s quite possible that, if not Wolfers, then someone he knows will one day oversee the country’s financial future. Already, he has friends who are Nobel laureates or advisers to would-be presidents.

“I think economists should be useful. In the U.S., there’s a close link between academics and politics,” he says. “It’s exciting and it’s weird. It’s weird because I never expected to know very important people. I still get to be the wide-eyed Australian who gets to be amazed to even meet these people.”

But now he and “these people” are on equal footing. Wolfers talks about his excitement when Becker critiqued his and Stevenson’s paper on happiness during a recent conference — “Something like that is really thrilling and he said good things, which was incredibly gratifying. I would have cried if it had gone badly,” he says — but he has also questioned some of his hero’s research, coming down on a different side of the death penalty as deterrant issue. (Wolfers and co-author John J. Donohue found no evidence the death penalty deters murder whereas Becker and his co-author said that it does.) It is Wolfers whose writing appears on editorial pages nationwide, who blogs for major newspapers, who continues to find new ways to analyze and assess.

Wolfers firmly believes that it is his job, as an academic and an economist, to improve the lives of people worldwide. The keys to how to do that are out there just waiting to be discovered. The trick is finding them and using them.

“Economists think there’s truth and all you have to do is be honest and you’ll discover it,” he says. “It means we all wake up every day excited to go discover something.” ♦



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# CHINA



# RISING

How Wharton alumni and faculty are influencing the surging economy that is reshaping global dynamics

BY TIM GRAY

**R**obert Zou's career trajectory would have been impossible in the China of a generation ago. In the span of three decades, he has gone from bricklayer to drug-company manager to entrepreneur.

Zou's wide-ranging professional adventure personifies today's China. As a teenager, Zou, WG'92, endured the Cultural Revolution, an ideological cleansing campaign initiated by Mao Zedong. Now, by starting and running Shanghai-based Arrail Dental Group, a chain of dental clinics, he enjoys income and travel opportunities his parents could never have imagined. "When I was a bricklayer, I didn't even dream that I'd ever be able to go to college," Zou says.

Today's China is a country in the throes of cheerful tumult. Its huge, fast-growing economy is lifting millions of people out of poverty each year and creating a new class of entrepreneurs and executives. It is achieving, in a matter of decades, an economic feat that took hundreds of years in Western Europe and a century in the United States.

According to the World Bank, about 10% of the Chinese people live in poverty, compared with nearly two-thirds in the early 1980s. What's more, the economy is growing at a rate of about 10% a year.

This summer, the Beijing Olympic Games were an extravagant coming-out party designed to show the world how far the country had come. China not only won the most gold medals but also staged an opening ceremony that could only have been produced by a place bursting with ambition, optimism, and 1.3 billion people.

## WHARTON'S CHINA STRATEGY

**"G**oing forward, it's essential for Wharton to be engaged in China," says Franklin Allen, the school's Nippon Life Professor of Finance. "China is where the future is, and it already has enormous influence on global finance through its sovereign wealth fund." The fund, called the China Investment Corp., invests a portion the foreign currency reserves generated by China's robust trade with the West.

"China was off on its own from about 1950 to 1980," Allen adds. "Now it has re-emerged, and we need to know, as scholars, how they do things and to teach our students to do business in the ways that they do business."

Wharton professors are taking up that challenge by educating entrepreneurs like Zou as well as providing insight into the forces behind China's unprecedented boom. They travel to the country frequently to meet with government officials, corporate executives, and colleagues at Chinese universities. Allen, for example, has published a series of papers on the Chinese financial system as well as helping to organize an executive education program for China's Securities Association, a nonprofit regulatory body.

Allen is only one of many. Raffi Amit, the Robert B. Goergen Professor of Entrepreneurship, has launched studies on how both entrepreneurial and family-owned companies operate in China. Marshall Meyer, the Richard A. Sapp Professor of Management, is examining the structure and geographic segmentation of Chinese firms.

"We can't be global thought leaders unless we understand the phenomenon that is occurring in China," Amit says.



JOHN J. CARLANO

MARSHALL MEYER



JOHN J. CARLANO

FRANKLIN ALLEN

Research is only part of Wharton's multipronged engagement with China. Dean Thomas Robertson is leading an effort to ensure that the School and the country have a deep relationship that should only grow over the coming decades.

"I believe that the quality of the relationship between China and the United States will have a direct impact on global peace and prosperity in the 21st century. Mutual understanding will be a key factor in maintaining and strengthening this relationship," he states. "The Wharton School must take the lead in learning about China, disseminating information broadly that will inform students and the interested public about China, and teaching the world's future leaders about China."

Since the 1970s, Wharton has worked cooperatively with Chinese business schools including the School of Management at Shanghai Jiao Tong University and Guanghua School of Management at Peking University. It has established alumni clubs in Beijing and Shanghai. And it has opened a representative office in Shanghai, which is run by China native **Phillip Wu**, WG'95. "We're having an alumni forum in 2009 in Beijing," Wu says. "I'm hoping we'll have 1,000 people there."

In addition to these initiatives, Wharton in 2005 launched China Knowledge@Wharton, both to generate new insight into the Chinese economy and to distribute broader research to the growing Chinese business readership. It's published in traditional and simplified Chinese characters as well as in English.

Wharton's ties to China stretch back to the early 20th century. In the 1920s, the School trained managers for the country's national railroad system. Philadelphia, at the time, was one of America's industrial and transportation hubs, and the School's proximity to such major railroad operators as the Reading Co. drew the Chinese managers to Wharton.

"We played a prominent role in the creation of their railroad system," says Jeffrey A. Sheehan, Wharton's associate dean for international relations. These ties were broken in 1949 when Mao founded the People's Republic of China, ushered in communist rule, and established a largely closed society. "There was a void until 1990," Sheehan says. "It was a period when there were no Chinese stu-

dents who came to Wharton." These days, Sheehan says, Wharton receives about 600 admissions applications a year from China and currently has a network of 1,047 alumni in China.

## A NEW KIND OF BUSINESS PRACTICE IN CHINA

In the 1980s, then-leader Deng Xiaoping began to relax the political and economic isolation of the Mao years. His government revived the country's colleges and universities and encouraged Chinese students to study abroad. It was these changes that allowed Robert Zou to attend college first in China and later to attend Wharton.

When he was 15, the government assigned Zou to work as a bricklayer. At the same time, party officials branded his parents, both schoolteachers, as intellectuals who needed re-education, sending them to the countryside to work as farm laborers while Zou remained in his hometown of Tianjin. He read schoolbooks at night to ease his loneliness and cobble together some semblance of a formal education. "I had to kill the time," he recalls. "I had to do something. When I look back, nobody wants to have that kind of experience, but it gave me a kind of training. It was so difficult, so challenging."

In the late 1970s, Deng's reforms began to take hold. Zou took a college entrance exam and was admitted. (His parents also returned home.) He majored in English, and when he graduated, he landed a job with a pharmaceutical company that had a partnership with SmithKline Beecham, a predecessor of GlaxoSmithKline. That position led to one with SmithKline, which had its U.S. headquarters in Philadelphia. "I'd been to Philadelphia a number of times, and I talked with my colleagues about attending Wharton. They said, 'Why not?' So I applied."

After graduating in 1992, Zou became a management consultant with AT Kearney, joining its Hong Kong office. While there, one of his former SmithKline bosses approached him about studying the dental-implants market in China. Zou obliged and

found that while Chinese consumers weren't ready for implants, they might patronize Western-style dental clinics for preventive care and cosmetic services. Previously, hospitals had provided most of China's dental care, mainly on an emergency basis. Zou wrote a business plan for the company that would become Arrail. He then raised money, mostly in France.

"I came back [to China] in 1998 and started this business," he says. "We opened the first clinic in April 1999. We're a little different from clinics in the U.S. The average size of our clinics is 10 treatment rooms, with 10 to 15 dentists. Our largest has 20 treatment rooms and 25 dentists."

Zou calls Arrail China's first high-end private dental practice. It has 10 clinics with about 100 dentists. "Our motto is, 'We'll give you a confident smile,'" he says. Local companies and multinationals have begun to offer Arrail's services as a fringe benefit to their executives.

As with any entrepreneurial venture, Arrail has faced obstacles, and sometimes still does. Despite a decade of operation, for example, it can't persuade Chinese banks to lend it money. "We're private and don't have a lot of collateral, and they don't care about cash flow," Zou says. "We raised money privately at the beginning, and since then, we've grown from our own cash flow."

## UNDERSTANDING THE GROWING PAINS OF A FINANCIAL SYSTEM

The banking industry's unwillingness to lend to entrepreneurs would seem to girdle China's growth. But as recent numbers indicate, the economy is sizzling. Allen was intrigued by this paradox. As a finance professor, he couldn't help but notice that China's growth came despite an inefficient banking system and nascent capital markets. Until recently, the government owned the country's banks, and loans were made based on policy goals, not creditworthiness. Banks, as a result, carried big slugs of non-performing loans on their books, which dragged down their earnings. At the same time, China's stock and bond markets had barely reached adolescence, so they didn't offer much of an alternative for companies seeking funding. "Up until just a few years ago, the banks were in terrible shape," Allen notes. "And the markets still aren't really very important in economic terms."

A popular research topic among development economists is ferreting out the political characteristics and institutions that countries need to succeed economically. A common answer is good legal and financial systems. "Yet China has neither of those

things," Allen points out. "My co-authors and I document that using standard measures of the quality of institutions."

What, then, has enabled China's growth in the absence of these institutions? "We argue that there are alternatives that work well based on things like reputation and trust," Allen says. "My co-author, Jun Qian, would argue that the Confucian culture also plays a role." Qian is a finance professor at Boston College and a native of China. Confucius was an ancient philosopher and teacher who developed an ethical system that stresses devotion to family, love of humanity, and harmony in thought and conduct.

A recent follow-up study by Allen and Qian argues that, in some circumstances, China's institutions enjoy advantages over their western counterparts. "The U.S. legal system, for example, can tend to get captured by interest groups," Allen notes.

Allen's travels in China have brought insights that have deepened his understanding of both the country, specifically, and economic development, in general. "I didn't realize that development could happen that quickly. If you think about the U.S., it became the dominant country in the world over the space of maybe a century — from about 1850 to 1950. So people had a long time to adjust. Still, that came as a shock after the Second World War to Europeans."

## A CULTURAL FORCE LIKE NO OTHER

Just as China surprised Allen, it has long fascinated other Westerners, inspiring awe — and affection — in those who study it. As writer Simon Winchester details in his recent book, *The Man Who Loved China*, the British biochemist Joseph Needham spent decades trying to unravel what's come to be known as "the Needham question," exploring how China, a country credited for inventing technologies such as printing, the compass and suspension bridges, ended up falling behind the West and missing much of the Scientific Revolution. Needham never managed to solve this puzzle, but in the process of trying he created an encyclopedic work, *Science and Civilization in China*.

# WHARTON IN CHINA

1,047 Wharton alumni live in China.

Nearly 50 Chinese students graduate from Wharton each year.

The Wharton Alumni Club has chapters in Shanghai (founded in 1987) and Beijing (founded in 1999).

China Knowledge@Wharton is published biweekly in English and simplified Chinese characters at <[www.knowledgeatwharton.com.cn](http://www.knowledgeatwharton.com.cn)>.

The Wharton Global Alumni Forum will be held in Beijing, June 12-13, 2009. Visit <[www.wharton.upenn.edu/alumni/forums/2009/beijing/](http://www.wharton.upenn.edu/alumni/forums/2009/beijing/)> to register.



JOHN J. CARLANO

Z. JOHN ZHANG



COURTESY OF UBS

DAVID YI LI, WG'92

Some scholars argue that no one has yet to sufficiently answer Needham's question. Nonetheless, what might be called a "new Needham question" has emerged in its place, overshadowing the prior one. It goes something like this: How has China created one of the world's largest industrial economies in the span of three decades, after starting from nearly nothing?

Marshall Meyer is, in some ways, an inheritor of Needham's mantle. Today, he devotes much of his time to studying China and is both perplexed and intrigued by the place. And like Needham, much of his earlier career focused on other topics. He was, he says, a classic "quant," someone who uses quantitative techniques like statistical analysis and mathematical modeling to unravel business problems. In his case, he studied organizational design and performance. But he became convinced a few years back that China's economic emergence was likely the biggest business happening of his lifetime.

It started in 1999 when an opportunity arose for Wharton professors to teach at China's Tsinghua University and Meyer grabbed it. He spoke no Chinese and knew little about the country but figured that business smarts and good manners — and capable translators — would compensate for his shortcomings. He couldn't have predicted how geopolitics would nearly bollix his plans.

"The day that I flew to China was the day after the U.S. accidentally bombed China's embassy in Belgrade [Yugoslavia]," he recalls. "United Airlines said, 'We're still flying, but we're not sure you want to.' One of my friends was supposed to be teaching there, too, and reneged, but I'm a damn-the-torpedoes type and went ahead."

More trips and more teaching in China followed and Meyer soon began to research the efforts of China's state-owned enterprises, or SOEs, to transition into for-profit firms. "I told one of my colleagues who knew China better than I did of my plans, and he said 'You'll spend the rest of your life just pounding on the door,'" Meyer recalls. SOE

managers, his friend warned, had little to gain from cooperating with a western academic.

Yet over the last nine years, as Meyer has visited China four to six times a year, he has found the opposite to be true. Chinese executives welcome him and eagerly share information on their operations and challenges. Says Meyer, "Western academics are held in esteem in China, and you're not viewed as political."

Meyer has woven what he's learned from these conversations into a series of case studies, articles and lectures, including one titled, "China's Second Economic Transition: Building National Markets," which he presented to the China Institute of Policy Studies, a government think tank reporting to Premier Wen Jiabao.

"My argument is that China can't build global corporations until it tears down its internal barriers," he explains. "The assumptions we make about western firms don't hold in China. Even the large oil companies, like Sinopec and PetroChina, are deeply decentralized, and China as a country isn't economically integrated. So I'm saying to them, 'You have to build a domestic base before you can be effective globally.' They hadn't heard that before."

## MAKING A WESTERN BRAND CHINESE

**S**am Su, WG'83, would agree with Meyer that Western assumptions don't work in China. In his case, that has meant that a firm can't just take its systems from the United States and Europe and try to clone them in China. Su has learned that as a marketer and executive for PepsiCo and Yum! Brands, which spun out of PepsiCo. Today, he is China president for Yum, which owns the KFC, Pizza Hut, and Taco Bell fast-food chains.

Su arrived in Hong Kong, Yum's hub in the region, in 1989. Soon, he was heading the effort to expand in China. Early on,



he studied his competitors and realized that the uniformity that had made the industry leader, McDonald's, so successful in the United States might be a weakness in China.

"Their system is so developed that it can't change very well," he notes. "We didn't believe that a system created for the U.S. could be the answer in China because the Chinese are a very proud people. So we developed a strategy to fundamentally change the business model. We decided to create more variety with more protein and vegetable choices and to add new products to make the menu more exciting. Fast food is a format, not a food. It doesn't have to be the same 23 items on the menu forever."

Su's improvisations appear to be working. KFC is the leading foreign-owned fast-food chain in China, with more than 2,500 outlets, and it's opening a new store almost daily. Pizza Hut, though not as large, is also thriving, with about 400 eat-in restaurants and about 70 separately operated delivery services. But perhaps most impressive is Yum's creation of a new chain, called East Dawning, that's attempting to bring KFC standards for value and service to traditional Chinese food. For now, East Dawning is small, with 15 outlets. But if all goes well, Su may soon be exporting his flexible Chinese model to the United States and elsewhere.

## LOCALIZING EXOTIC SECURITIES IN A COMPLEX ENVIRONMENT

**D**avid Yi Li's business, finance, couldn't be more different from Su's.

Yet Li, WG'92, had a similar experience to Su's when he became the head of UBS's China subsidiary. He set about rethinking the company's local strategy and realized that it relied too heavily on importing foreign methods and staff. He decided that a way to localize UBS's approach would be to acquire a Chinese firm. At that point, the government had not allowed a foreign firm to do that.

He therefore approached Chinese regulators with a proposal to, as he puts it, "restructure" a troubled local outfit. Out of respect for local sensibilities, "we don't say 'acquired,'" he says. His plan won approval at the end of 2006, and the restructured company began operations in May 2007. "We became the first foreign company to really get into the local markets in securities," he says. "Very senior people in the government tell me that we made history. They wanted to use us as a test case. They wanted to see how a foreign company would run a local securities firm."

"Once you give people freedom to do whatever their capability allows, then you'll create the economic miracle."

Like Robert Zou of Arrail, Li grew up in China and is old enough to remember the Cultural Revolution. He managed to endure that period in slightly more pleasant surroundings than some of his peers because of his athletic abilities: He was a professional soccer player. Even so, he recalls wondering what the future held at a time when so many avenues seemed closed.

"People my age, we're so lucky," he says. "We saw the Cultural Revolution and knew what was going on when the universities were closed. Then suddenly, the schools re-opened, and Deng Xiaoping said, 'You guys can go abroad.'" That re-opening to the West and to new ideas, Li suggests, laid the groundwork for today's prosperity.

"The country is moving up, up, up. But we still have problems. The hardware buildup" — such things as infrastructure, factories, and skyscrapers — "has been pretty quick. But we still have a lot of work to do in the soft areas, like the balance of growth between east and west parts of the country and between the city and the countryside."

## THE FORCE OF GROWING FREEDOM

**L**ike Li, Z. John Zhang, Wharton's Murrel J. Ades Professor of Marketing, is a native of China who's old enough to remember the country before people had the ability to study abroad or start a business. He was a member of the first generation of students who enrolled in universities in the United States. He ended up staying and building a career as a teacher and researcher. But he returns home often, both to teach and visit family, and has seen the revolution in thinking and lifestyles that Deng's seemingly simple reforms launched.

"Freedom does enable people," he says. "Once you give people freedom to do whatever their capability allows, then you'll create the economic miracle. It used to be that nobody had an incentive to work hard in China. Now you're rewarded for what you do. A lot of entrepreneurs have been born and are doing things they've never thought possible before. All the reforms you see coming out of China, whenever they are successful, are essentially to return freedom to people in an orderly fashion."

Wharton already has contributed to the success of many entrepreneurs through its research and teaching, through the activities of its alumni, and through the Chinese-language version of Knowledge@Wharton, the School's biweekly online business-news and analysis journal. Zhang says. "I taught a large number of executives in China, and they read it," he notes.

Those kinds of links will only grow as China continues to expand its role in world commerce. That, in turn, will help both China and Wharton, Zhang says. "This is one of the best business schools in the world," he adds. "We're known for generating new ideas and doing new kinds of analysis and for our innovations in business education. People in China tend to be very receptive to what we have to say, as we are all business. And in the process of teaching them, we keep our fingers on the pulse of China and get to know China much better." ♦

# A Lot to Learn:

## Many Sovereign Wealth Fund Managers Come up Short

**Bird dung started the boom in sovereign wealth funds.**

The British colonial government of the archipelago nation of Kiribati in the South Pacific created the first such fund in 1956. Back then, Kiribati exported phosphates — that is, guano — for use in fertilizer. The government deposited its phosphate royalties in an investment fund on the theory that future generations should share in the profits from this exhaustible resource. Today, the guano is gone, but the fund, with about \$500 million in assets, is nearly 10 times as large as the country's gross domestic product.

Sovereign wealth funds and their cousins — national-pension and currency-stabilization funds — have lately burgeoned. Like Kiribati's, many of the government-run funds have their roots in their home nations' natural resource wealth, especially oil exports. With crude prices increasing fourfold over the last five years, countries ranging from Russia to Venezuela are now collecting more revenue than they can prudently invest at home. The International Monetary Fund estimates that sovereign wealth funds control about \$3 trillion and that figure could grow to \$12 trillion by 2012. The biggest of them, the Abu Dhabi Investment Authority and Council, is believed to sit on about \$875 billion.

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“I hadn't given to Wharton in a while, but over the past couple of years, I decided to start giving again on an annual basis. I realized that giving something, no matter what amount, represented my appreciation for what Wharton has done for me. I realize that by giving annually, I'm helping to build the base of support for Wharton.”

*-Andrew J. Cohen, WG'86*



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**“As sovereign wealth funds have grown, they appear to be demonstrating an increasing risk appetite, very little transparency, and virtually no clarity of objectives.”**

Despite these eye-popping sums, the management sophistication of many of these outfits has hardly reached its adolescence, says Olivia S. Mitchell, a Wharton professor of insurance and risk management and director of the Boettner Center for Pensions and Retirement Research.

In a soon-to-be-published paper titled, “Managing Public Investment Funds: Best Practices and New Questions,” Mitchell and two co-authors — John Piggott and Cagri Kumru at Australia’s University of New South Wales — say that many funds don’t adhere to basic norms of modern money management. Most don’t even

appear to make an effort to match their investment strategies with their future financial obligations. “As [sovereign wealth funds] have grown, they appear to be demonstrating an increasing risk appetite, very little transparency and virtually no clarity of objectives,” the three scholars write.

### **Matching Risk with Obligations**

That’s troubling because, in theory, government-run funds should conduct themselves just as private ones do when it comes to matching their investments with their future payouts, Mitchell says. “Your appetite for risk should depend on the cash flow pattern of your expected liabilities. Until you undertake a good analysis of the liability stream you need to cover, it’s impossible to know what you should be invested in. In the majority of cases, these funds don’t report enough information to track their future liabilities, so we cannot tell whether their investments are appropriately matched to future promises.”

The three scholars devised a system for ranking the management of sovereign wealth funds by tallying indicators of their governance, public accountability and investment practices. They rated Norway’s Government Pension Fund and New Zealand’s Superannuation Fund as the best managed, while Abu Dhabi’s management counts among the worst in terms of transparency and accountability. Norway and Abu Dhabi are investing a portion of their swelling oil wealth, while New Zealand is sock-

ing away tax receipts to provide retirement income for its citizens.

“New Zealand is charging today’s workers while they’re young, so the young of the next generation won’t be so heavily taxed when today’s workers retire,” Mitchell notes. Like many developed nations, New Zealand faces an aging populace because of lengthening lives and a falling birth rate.

What sets Norway and New Zealand apart from their peers? Both countries have created operations that function almost like modern U.S. mutual funds.

“The well-managed funds are very explicit about where their money comes from and what their objectives are,” Mitchell says. “They’re reporting the nature of their investments and the funds’ geographic diversification. They issue quarterly reports, and they protect the funds’ managers from political interference. New Zealand’s plan has even put in place guidelines for corporate responsibility, outlining the way it will intervene, or not, in companies in which it invests, and what types of assets it will or won’t seek to hold. It publishes a formal ‘responsible investment policy’ manual, which takes into account the environmental impacts and employment-rights practices of companies in which it invests.”

Just as important, both countries try to insulate their funds from political meddling, which is perhaps the biggest peril for a government-run investor.

They achieve this partly by investing much of their money abroad, thus reducing pressure from elected officials to back friends’ and supporters’ companies or hometown projects. Norway, for example, holds about 60% of its assets in foreign stocks and 40% in foreign bonds. New Zealand has 40.5% in foreign stocks, 7.5% in domestic stocks, 17% in bonds, and 35% in other asset classes, including real estate, timber, and private equity.

Both of these funds were created by democratic governments, giving them a legal obligation to operate openly. And, by doing so, they also generate support for their financial mission. In theory, if citizens understand and trust a fund’s goals, they should be less likely to clamor for tax cuts or increased benefits. “New Zealand has been explicit that

### **Trade in Latin America: More Countries Are Turning to Their Neighbors for Business**

The traditional trade strategy of Latin American countries — to target their exports at developed nations — is changing. An increasing percentage of Latin American business goes to other countries within the region, measured by imports, exports, and investment activity. What factors are responsible for this new dynamic, and what will it mean for the region?

Read the story at <http://wharton.universia.net>

## ACC's Sumit Banerjee: 'Profits and Cartelization Are Two Different Things'

When inflation in India went out of control earlier in 2008, the central government imposed controls on the cement industry. Share prices of cement companies have since slumped, and the industry faces accusations of operating as a cartel. Sumit Banerjee, CEO of ACC, India's largest cement manufacturer, refutes these charges and reflects on the cement industry's challenges.

Read the story at <http://knowledge.wharton.upenn.edu/india>

it's building this asset pool now in the hope that it will help to buffer future pension payments," Mitchell says. "It takes resolve to be that unambiguous about intergenerational tradeoffs."

### Too Tempting

The United States has repeatedly stumbled in its efforts to put financial priorities ahead of political hurly-burly in the administration of its Social Security system. Back when President Franklin Roosevelt championed the national public pension plan, he envisioned an agency that would collect money from workers, invest it, and then pay benefits out of those contributions and investment returns, not out of current tax receipts, as occurs today. "What happened was that the pool of assets started to build up, and it was too tempting — politicians increased benefits and reduced the retirement age," Mitchell says.

Likewise, during the Clinton administration, federal policymakers discussed investing some of Social Security funds in the stock market, which prompted all manner of political carping and caterwauling. "One group didn't want investments in companies that weren't green," Mitchell recalls. "Another was worried about companies that shipped jobs overseas. At the time, it became quite clear that it would be difficult to insulate a U.S. government investment board from these kinds of pressures. This may be one reason that the Australian Future Fund will eventually steer all of its money outside of the country."

Several of the sovereign wealth funds at the bottom of the authors' ranking don't operate in democracies and thus may face less pressure to operate transparently than their counterparts in Norway and New Zealand. Abu Dhabi, for example, is part of the United Arab Emirates and is governed by an emir,

or prince, who chairs the board of the country's fund.

Mitchell says she understands the desire of money managers to operate clandestinely. "It is often the case that investors like to keep their strategies close to the vest, so as not to be pre-empted," she notes.

### Keeping Others Out

Politics, in many forms, bedevils sovereign wealth funds. Simply put, they are controversial and, to some people, even scary. Thus, some governments restrict investments by foreign funds or are considering doing so.

Despite concerns, little evidence has surfaced that governments have tried to use their funds for political manipulation or chicanery. If anything, some of the recent moves by sovereign wealth funds could be deemed more stumbling than sinister. One of China's funds, for example, last year bought \$3 billion worth of shares in Blackstone Group, an American private-equity company. The value of Blackstone's shares has since fallen, sliding with the rest of the U.S. financial sector. Today, the stake is worth about \$2 billion.

Likewise, in November, Abu Dhabi's fund shoveled about \$7.5 billion into Citigroup. Like many U.S. banks, Citigroup has been sapped by its bad bets on mortgage securities, and its shares have dropped nearly 40% so far this year.

Other equally ill-timed investments may be plaguing some sovereign wealth funds, but, given their penchant for operating covertly, independent experts such as Mitchell cannot be sure. "We don't know how many of these funds might hold mortgage-backed securities and, if they do, what damage they have done to the public asset pools," she says. "We only see the tip of the iceberg, but there's a feeling that some pain has been inflicted." ♦

*Originally published August 6, 2008 by Knowledge@Wharton*

## Hewitt Associates' David Kompare on the Coke-Huiyuan Deal and Global M&A

Global M&A is on the rise. In September Coca-Cola announced a \$2.4 billion takeover of Beijing-based China Huiyuan Juice Group, the number-one juice maker in the country. David O. Kompare, head of the global M&A practice at Hewitt Associates and a veteran with 15 years of experience in the M&A business, discussed the ins and outs of M&A in China.

Read the story at [www.knowledgeatwharton.com.cn](http://www.knowledgeatwharton.com.cn)

## Making Sense of an Uncertain World

One new title explores the underpinnings and impact of Islam, while another shows how to innovate and profit amid uncertainty.

### **Islam: The Religion and the People**

By Bernard Lewis and Buntzie Ellis Churchill

“Bernard Lewis has no living rival in his field.”

– *Al Abram, Cairo* (the most influential Arab world newspaper)

Lewis is one of the West’s leading experts on Islam. His views have influenced world leaders for decades. Now, with the help of Buntzie Ellis Churchill, he’s written the definitive introduction to Islam for a general business readership. Islam is indispensable reading for everyone who wants to understand the faith, culture, and peoples of Islam and respond effectively to the global challenges that involve Islam, from terror to oil.

Drawing on a lifetime of scholarship, Lewis answers questions like: What are the pillars of the Islamic faith? What does Islam really say about jihad? What about the differences between men and women? What are the rights of non-Muslims? What are the differences between Sunni and Shi’a? Can there be Islamic democracies? What does the Prophet say about free enterprise and profit? What really caused the rise of radical Islam? How can Muslims live their faith in societies that are largely non-Muslim, such as Europe and the U.S.? Whatever your political, personal, or religious views, whether you want to manage diverse workforces or understand the forces shaping global economics, it’s essential to get past the common myths about Islam, and understand its reality.

### About the Authors

Bernard Lewis is Cleveland E. Dodge Professor of Near Eastern Studies, Emeritus at Princeton University. Widely acknowledged as one of the West’s leading experts on Islam, he is author of the best-sellers *The Crisis of Islam: Holy War and Unholy Terror* and *What Went Wrong: Western Impact and Middle Eastern Response*. Lewis’s current research interests include the history of the Ottoman Empire and the relations between Europe and Islam from early through Ottoman to modern times. Lewis coined the term “clash of civilizations,” and has advised government officials and policymakers in the U.S., UK, and the Middle East.

Buntzie Ellis Churchill served for 23 years as the President of the World Affairs Council of Philadelphia hosting dozens of world leaders from Mikhail

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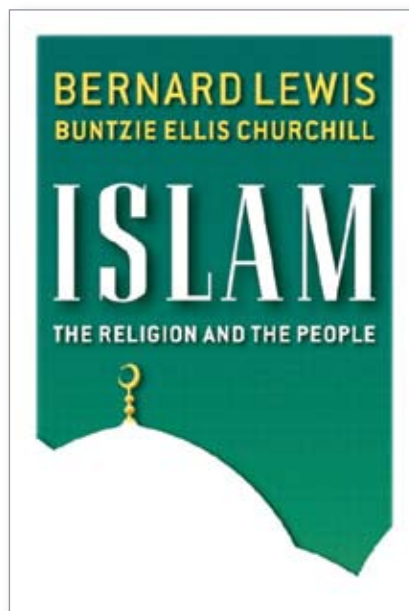
Gorbachev and Margaret Thatcher to Henry Kissinger and Colin Powell. A member of the Council on Foreign Relations, she has served as a trustee of many nonprofit organizations, including the Pennsylvania Institute of Technology and Drexel University. She has been awarded several honorary doctorates.

### **Unlocking Opportunities for Growth: How to Profit from Uncertainty While Limiting Your Risk**

By Alexander B. van Putten and Ian C. MacMillan

There is a fundamental flaw in the way most companies invest in innovation. They are using investment analysis tools that bias them against the uncertainty that is inherent in real innovation, and lead managers to limit risk by avoiding their best opportunities. This book introduces a breakthrough alternative: Opportunity Engineering. Drawing upon recent advances in financial analysis, the authors show how to engineer the risk out of uncertain opportunities, so you can pursue more high-payoff innovations.

Readers will learn how to escape from the “go/no-go vise,” and implement more flexible decision-making that considers all the business alternatives, models, and opportunities associ-



ated with each project. These include: opportunities to redirect projects “on the fly;” to sell the venture or its intellectual property; to scale up, slow down, or postpone projects; and to spawn joint ventures or mergers.

Discovery Driven Planning (DDP) helps define the scope of investment opportunities, identify key drivers of potential profits, document your assumptions, and tease out key project challenges and vulnerabilities. Then, for projects that offer potential, move on to CheckPointing: systematically structuring ways to limit downside exposure and boost potential upside.

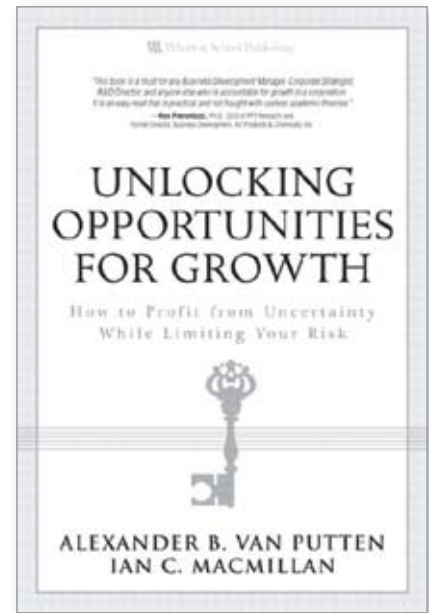
*Unlocking Opportunities for Growth* shows how to approach business innovation investments such as new products, new markets, contract negotiations, alliances, and joint ventures, as a Wall Street insider would stock and bond investments. You can finally start

making business uncertainty work for you, not against you.

#### About the Authors

Alexander B. van Putten lectures on entrepreneurial management at the Wharton School. He is managing director of Triad Consultants, which consults on strategy and business planning for clients ranging from Procter and Gamble and MetLife to Bayer. Formerly SVP of Chrysler Capital Realty, he has also built three successful companies revolving around arbitrage and finance.

Ian C. MacMillan is the Dhirubhai Ambani Professor of Innovation and Entrepreneurship, Professor of Management, and Director of the Sol C. Snider Entrepreneurial Research Center at Wharton. His areas of research include new venture management, entrepreneurship, and strategic management. ♦



## Wharton Finance Conference 2008

*Finance: Past, Present and Future*

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- \* **Please visit our web site for information on speakers, panels and to order tickets - [whartonfinanceconference.com](http://whartonfinanceconference.com)**

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# Alumni Association Update

## WhartonConnect: Taking our online Global Community to new heights! [www.whartonconnect.com](http://www.whartonconnect.com)

TOMMY LEONARDI



TAMA L. SMITH, WG'90

### DEAR ALUMNI,

It is my pleasure to announce the launch of our new online community — *WhartonConnect*.

### A Tool Designed by and for Wharton Alumni

Designed exclusively for Wharton alumni, this initiative is the result of a successful partnership between the School and our Wharton Alumni Association Board and Alumni Clubs network — to build a stronger sense of community and connection amongst our 84,000 alumni. This exciting tool serves to increase information access and learning to enhance your ability to communicate and

network with fellow alumni. Some of the key features include:

- Single sign-on for access to all alumni resources
- Extensive and easy-to-search alumni directory
- Easier personal profile management
- Dynamic network linking alumni across the globe
- Enhanced access to Wharton's online resources
- Global events calendar

### Continuing Our Tradition of Building a World-Class Board

In addition to the announcement of *WhartonConnect*, we are pleased to introduce to you seven new members who have joined our Board in July 2008. These alumni have pledged to lend their spirit and expertise to furthering our mission to enhance alumni engagement worldwide. They are:

- **Fadi Abou-Arbid**, WG'03, Partner, Amwall-Alkhaleej Commercial Investment Co.; President, Wharton Club of the Middle East (Saudi Arabia)
- **Evan Betzer**, WG'99, Principal, Stoneworth Financial; President, Wharton Club of Houston (Texas)
- **Aidan Collins**, WG'07 (WEMBA), Partner, Bain & Company (California)
- **Karen Meador**, WG'02, Vice President, Children's Medical

Center; President, Wharton Club of Dallas (Texas)

- **Khadir Richie**, WG'02, Investment Banker, RBC Capital Markets (California)
- **Elli Steit**, WG'65, Managing Director of PRM International Access (Israel)
- **Ajit Surana**, WG'86, Managing Director, Dimensional Securities; President, Wharton Club of India (India).

### Next Steps for You...

- Log onto [www.whartonconnect.com](http://www.whartonconnect.com) to review and update your profile. You will also be able to locate and reconnect with fellow Wharton alumni. If you need assistance, contact Alumni Affairs at [alumni.af-fairs@wharton.upenn.edu](mailto:alumni.af-fairs@wharton.upenn.edu) or call +1.215.898.8478.

Spend some time on *WhartonConnect*. This site is version 1.0 and there are more improvements to come — so consider ways that we can make *WhartonConnect* a most dynamic online community — and email your suggestions to me.

Enjoy!

Until,

**Tama L. Smith, WG'90**  
**Board Chairwoman, Wharton Alumni Association**  
**President, Tama Smith & Associates, Inc.**  
**E-mail: [tsmith@tsassociates.com](mailto:tsmith@tsassociates.com)**

## New York Club Holds Speaker Event With Professor Friedman

On June 9, Wharton alumni had the privilege to once again reminisce and absorb the teachings of Wharton's Stewart D. Friedman, practice professor of management and found-

ing director of Wharton's Leadership Program and of Wharton's Work/Life Integration Project. The event was a 'sell-out,' filling Room 24C at the law firm of Patterson Belknap Webb Tyler, LLP, to capacity. With no room inside, the independent bookseller stationed himself outside with copies of Friedman's latest book, *Total Leadership: Be a Better Leader, Have a Richer Life*, for purchase.

Tapping into common desires for more integration of work, self, community, and home, Friedman emphasized that leadership should exist in all realms of life and that achievement does not require a trade-off but finding mutual value amongst the four domains of life. Finding this mutual value is what Friedman refers to as a "four-way win."

Participants were guided through exercises to identify their core values and





WHARTON CLUB OF NEW YORK

WHARTON PROFESSOR STEWART FRIEDMAN SPOKE ABOUT HIS BOOK, *TOTAL LEADERSHIP*, AT THE WHARTON CLUB OF NEW YORK.

divided into small groups to place percentage values of importance and focus on the various domains in their lives. Results were then discussed, analyzed, and exchanged to promote four-way wins.

The message boiled down to three key principles for action:

- Be real and act with authenticity,
- Be whole and act with integrity and
- Be innovative and act with creativity.

The results will create sustainable change not only for you but also for the important people around you as you position yourself to be a more productive leader and a more fulfilled human being.

– Jennifer Gregoriou, W’78, Chair, Wharton Club of NY Speaker Series

## Club News in Brief

To honor the 20th anniversary of the **Wharton Club of Spain**, the board and other alumni of the club led by **Pelayo Primo de Rivera**, WG’94 the club’s chairman, on July 2 were received by His Royal Highness Prince Felipe.

The event took place in the Palace of the Zarzuela, residence of the Royal



WHARTON CLUB OF SPAIN

PELAYO PRIMO DE RIVERA ORIOL, WG’94, WHARTON CLUB OF SPAIN CHAIRMAN, WITH HIS ROYAL HIGHNESS THE PRINCE OF ASTURIAS.

Family in Madrid, where Wharton alumni were officially introduced to Prince Felipe, followed by an official session of journalist photographs. Afterwards the board and the alumni were invited to hold an informal chat with Prince Felipe, during which the Wharton School and the Wharton Club of Spain were presented in detail to His Royal Highness. Several Wharton gifts, including a cap, T-shirt, and a laser pen drive, were given to the Prince and Princess as mementos of the event.

After the audience with His Royal Highness, the Wharton Club of Spain organized a lunch in a nearby restaurant for the alumni present at the event as part of the continuing anniversary celebration. The Wharton Club of Spain currently has about 200 members.

**The Wharton Club of Monterrey** is now an official Wharton Alumni Club! On July 7 members of the alumni club of Monterrey, Mexico, gathered for the official kickoff of the club with a workshop from Stuart Diamond, Wharton practice professor of legal studies and adjunct professor of law. Professor Diamond traveled exclusively for this gathering from Philadelphia. “We have a new administration very committed to this club, and we had a great event with one of Wharton’s best negotiations professors, Stuart Diamond,” commented Club President **Rodrigo Fernandez**, WG’04.

“We had a great response from the alumni living in Monterrey, the business newspaper interviewed Professor Diamond, and the social newspaper cov-

ered the event; alumni were extremely happy, our event was a success,” wrote **Diego Cortes**, WG’04, event coordinator.

The club is already planning its second gathering with another great Wharton professor at the end of this year. It plans to have two annual gatherings with Wharton faculty, plus other gatherings with politicians or important alumni/businessmen.

## The Wharton Club of the United Kingdom

has begun a series of events around careers and career change. Even during tough economic times, there are events within one’s company which affect one’s job prospects — one statistic cited was that the average CEO’s term is only 2.7 years, so change at the top can affect changes lower down the chain.

The club started off with an event hosted by the London office of PIMCO, the asset management firm, to set the macroeconomic background. Michael Amey, EVP and UK fixed interest portfolio manager, set the stage. The next event included Chris Higgins, senior associate director, MBA Career Management at Wharton, who described the team and tools available through Wharton’s Alumni Career Services. The most recent event was addressed by Deidre Spencer, a career consultant who specializes in MBAs.

Further events are planned for the fall, including *How to Win at Office Politics and Career Switching from For-Profit to Non-Profit Organizations*.

So far, the meetings have been very well attended by those who a) are out of work, b) feel they are at risk, or c) want to “manage their careers before someone else does it for them.”

On July 22 the **Wharton and Penn Clubs of Boston** had the exclusive privilege of having a preview of the new Mandarin Oriental Boston. The event was hosted by Robin Brown, the hotel developer of CW Boylston. Both clubs were treated to a unique round table discussion and a hard-hat tour of this five-star facility. Adjacent to Prudential Center, this project includes 150 hotel rooms, 25 rental apartments, and 50

# Alumni Association Update

## WHARTON ALUMNI ASSOCIATION BOARD OF DIRECTORS

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Karun Nagra, WG'09  
Ben Schnakenberg, WG'09  
Radhika Sen, W'09  
Andrew Stern, W'10  
Jing Zhang, WG'09

### EMERITUS SOCIETY REPRESENTATIVE

Milton Silver, EE'50, WG'52

condominiums, all of which have already sold for \$2 million to \$12 million. Keeping with the theme of the evening, Robin Brown spoke of his career and offered insight to what it takes to develop a first-class facility.

Event chair **Wendy Dalwin**, WG'96, attributed the great success of the evening to the superb effort and considerable presence of Robin Brown. Those who attended were motivated and learned about the value of perseverance.

**The Penn-Wharton Alumni Club of Malaysia** has so far organized a pair of receptions this year, leading off with an event in March that was hosted by venture capitalist-turned food and beverage entrepreneur **Jiro Suzuki**, WG'95, at his stylish boutique bakery and cafe, The Loaf, located in Kuala Lumpur's fancy new Pavilion shopping mall. Our invited guests at this reception included alumni from Chicago GSB.

Then in May, the Club played host to the visiting Southeast Asia Global Immersion Program students. The reception and dinner was hosted by **N.K. Tong**, WG'94, CEO of Bukit Kiara Properties. Apart from a great meal that was catered at the site of the company's latest property showroom, the students got a briefing on the the real estate market by one of Kuala Lumpur's leading developers of upmarket condominiums.

**The Wharton Club of Shanghai** welcomed Global Immersion Program (GIP) students and new admits from the region to its monthly Wharton-INSEAD alumni happy hour on May 27. More than 30 alumni and students enjoyed the event at French-style restaurant and bar Le Equilles. To contribute to the relief operation for China's May 12 Wenchuan Earthquake, the club collected on-site donations at this gathering. All the amounts collected have been donated to the local Civil Affairs Bureau after the event.



FROM LEFT TO RIGHT: PROFESSOR TATSUHIKO KAWASHIMA, KOICHI ITO, WG'93, PRESIDENT AMY GUTMANN, DEAN THOMAS S. ROBERTSON, AND KEISUKE MURATSU, WG'75, PRESIDENT OF THE WHARTON CLUB OF JAPAN.

**The Wharton Club of Japan** held a January 15 reception for Penn President Amy Gutmann and Wharton Dean Thomas S. Robertson, who were visiting Japan for the first time. 180 Penn and Wharton alumni, young and senior, gathered and shared good time with President Gutmann and Dean Robertson. The club held its annual general meeting on May 16 when 120 alumni welcomed and celebrated newly admitted students. ♦

## Wharton Leader

### Scott Prince, W'85

#### Seeding the Future with SkyBridge Capital

**W**hether finessing derivatives at a mega-firm or wrangling a new investment model at an entrepreneurial one, Scott Prince is not afraid to tackle any financial environment.

Since 2006, the managing partner at SkyBridge Capital, the seeding firm he founded in 2005, has taken on a relatively new niche market: SkyBridge Capital is, in a sense, a hedge fund's hedge fund. It primarily seeks out financial organizations to give seed money to without necessarily investing in their portfolios, thus gaining profit with a cut of the seeded company's management fees. "At some point in their early state, sometimes it is first and sometimes when they are up and running, we give those businesses capital and help them institutionalize and grow themselves," he explained.

#### Seeding a Career With Impact

Prince's own early state began when he graduated in 1985. Like many Wharton alumni, he headed to New York for a job, rooming with a couple of friends in close quarters.

"It's hard to believe now, but there were three of us in this 1,000-square-foot apartment for \$2,000 a month, which none of us thought we could afford then. We put up two extra walls, just to each have a bedroom," laughed **Steven Hazen**, W'85, Prince's best friend since their junior years at Wharton. Prince left the flat after a year to marry his college sweetheart, Sharon F. Lonner, after she graduated from Brandeis University. "He was the smart one," added Hazen. "He always was."

In the two decades since that crowded Manhattan existence, Prince has made a big mark. He got his MBA from the University of Chicago and had a number of jobs at Goldman Sachs & Company, becoming a partner in 1998 and co-head of equities trading and of global equity derivatives through 2004. He left Goldman to help launch Eton Park Capital Management, where he led the firm's derivatives business and was global head of trading.

Prince believes that moving from a mega-firm like Goldman Sachs to a place like SkyBridge Capital has given him a more entrepreneurial edge, especially in the current credit-crunch environment where bigger firms feel they have to be increasingly conservative, particularly in mid-range investments.

"Having been in the business for more than 20 years, I have the organization and skill set to see the opportunities," said Prince. "Being at a place like SkyBridge allows me to take advantage of that, to capitalize on those opportunities and move more quickly."

Despite the gloomy financial news of late, Prince is optimistic. "I was attracted to this end of the business because of what I saw in the trends of the market today," he said. "I think there will continue to be a secular growth in the alternative investment sector."

Big companies, Prince believes, are likely to shy away from anything but "the mega-investments" of at least \$50 to \$100 million. That leaves a lot of room for SkyBridge and its niche.

"Coming to us is a great way for an institution to get through its next two or three years. We felt it was the right business model to get talented early-stage managers and have an ownership stake in them," he said.

#### Finding an Opening

With that lack of big-firm response to smaller or newer financial institutions' call for funding, the opening for companies like SkyBridge could become even greater.

"It's pretty hot stuff at this point," said Martin Asher, the director of the Research and Scholars Programs at Wharton, to which Prince and his wife, Sharon, have contributed, establishing a Joseph Wharton scholarship in finance. "What is challenging there is the research and due diligence, which is difficult. They have their own methodologies, which are no doubt complex, but Scott has been successful so far."

None of his previous or current successes have changed Prince's demeanor, said Hazen, who runs a family-based New York apparel manufacturing firm. "He keeps up with his old friends, not just the high-powered people he has dealt with. Five of us take a ski trip every year and we meet for golf whenever we can."

Prince, also a member of Wharton's Undergraduate Executive Board, said his industry's next generation will likely face an entirely different landscape.

"I tell young people to ask for help and always challenge with questions," he said. "If you are not in here challenging me and asking me questions, you will thwart your growth. It is the self-motivated in this business who will grow. If you are insecure and don't ask questions, you will not make it in a complex business like this."

— Robert Strauss

## Wharton Leader

### Nicole Piasecki, WG'90 High Flier With Boeing

At her 8<sup>th</sup>-birthday party, Nicole Piasecki could not figure out why all the parents were lingering after bringing their kids.

“Since I had grown up with helicopters going in and out of my backyard, I just didn’t know that having one for flights at my birthday party was so unusual,” said Piasecki, whose father, Frank, invented the big twin-rotor helicopter and was an innovator in the helicopter business for a half-century.

Nicole Piasecki stayed fascinated with flight and is today the president of Boeing Japan and vice president of Boeing International. Her love for the business came honestly: She spent weekends rummaging around her father’s office.

“I guess you could say I started in the industry at age 3,” she said by phone from Tokyo, where she is based. Ironically, Boeing eventually bought Frank Piasecki’s first company, Piasecki Helicopter, from Vertol Aircraft. After that company’s sale to Vertol, he started Piasecki Aircraft Corp., which is still headquartered in the Philadelphia suburbs, where Nicole Piasecki grew up. “My father worked all the time, so we seven kids had to be taken to the office on Saturdays or he would never see us.

“I was doing, you might say, engineering on the drafting tables when I was quite young,” said Piasecki. “My dad exposed me to the concept of design and solving engineering problems. The idea of flight was not only fun, but a way to learn how to do practical things.”

#### Tough Challenges for Aviation

These days, said Piasecki, the problem to be solved in the aviation industry — how to meet the air passengers’ needs — is, to be sure, complicated by high oil prices and concerns for the environment. Despite the current chaos in the commercial airline business, Piasecki said, air travel and transport is simply a fact of modern life and its problems need to be solved.

“Relative to global GDP, air travel is growing at a two percent higher rate,” she said. “As an industry, we have made great progress in environmental concerns, but you would be hard-pressed to find

someone who, five years ago, would have predicted oil prices this high.

“That said, aviation will certainly be one of the last businesses using fossil fuel. We have not figured out a way around that,” she said. “But we are doing all sorts of things to develop new technologies to limit emissions and so forth, so I think the air industry has a really robust future, long-term.”

COURTESY OF BOEING



But Piasecki sees the industry’s roadblocks as well.

“After 9/11, people just began getting fed up with the air transportation system,” she said. “They got tired of the inefficiencies of the security system, getting manhandled by the airlines, the time it took to clear on every flight. It wasn’t special, and, on the other hand, it wasn’t efficient either.”

Piasecki remembers going to the airport in patent leather shoes and a dress as a child. Planes took off when they said they would, meals were free and tasty, and air travel as a whole was an adventure as well as a convenience.

“The problem in our industry is that it takes five years to develop a new aircraft, and it will stay around for the next 60 years,” she said. “So we are an industry that asks, ‘What are the toddlers of today going to be doing? How will they travel and live?’”

John Feren, a Boeing vice president and one of Piasecki’s former bosses, cites Piasecki’s combination of drive, competitiveness, and charm as a key to her success. “She has courage and refuses to be intimidated, even in the male-dominated culture that is Boeing and Japan. It is hard not to be a member of her fan club,” he said.

#### A Standout in Every Crowd

Piasecki studied engineering at Yale, where she was also an all-Ivy lacrosse player, before getting her MBA at Wharton. Despite her aviation roots, Piasecki felt she should know more about both the business and design ends of the industry. At Boeing, she worked in marketing and sales before getting into her current international expertise.

**Gregory Piasecki**, WG’97, who is younger than his sister by nine years, said his immediate family’s epiphany on Nicole’s outside influence came when they attended her Yale graduation.

“They were reading out all these amazing awards — students who had done really significant stuff,” Gregory said. “Then they start talking about this amazing athlete, not only the MVP, but someone who went out of their way to be a leader, and on and on. We’re all rolling our eyes and thinking, ‘Oh, come on.’”

“And then they say, ‘Nicole Piasecki,’ and we are all shocked and embarrassed,” he said. “But inside we knew, and we still know, how special Nicole is.”

#### The Edge of Asia

With a long, strong history of operating in Japan, Piasecki feels confident in Boeing’s global future. It is no secret, she said, that the next huge airline markets will be China and India. Boeing has long had manufacturing operations in Japan as well as the United States, but 35 percent of the new 300-seat Boeing 787 Dreamliner, which will be flying commercially within a year, is being built in Japan, and 100 percent of the composite materials used for the body of the jet — which is making it more fuel efficient — are from Japan.

“We have been in Japan for 30 years, so we have been fortunate to have a long relationship here, which is important for any industry. Ours is truly world-wide, and you need to be in Asia with good relationships to be successful,” she said. “In Japan, the definition of the relationship is more important — it is personal and you have to have that trust. To be a global business, you have to know what is paramount in all parts of the world.”

— Robert Strauss

# Leadershipspotlight

MARC B. WOLPOW, W'80

**When he first arrived at Penn as a freshman in the fall of 1976, Marc Wolpow had no idea how the school would change his life's direction.**

"I entered not in Wharton, but in the College of Arts and Sciences," he says. "I was thinking about pre-med."

Then, his freshman year, everything changed. Wolpow took an accounting class, and he was hooked. He transferred into Wharton the following year.

"Wharton was really my first formal introduction to business," he says. "It really interested me both academically and as a potential career. I loved being in an environment of business students and faculty, and getting a broad view of the business world at the nation's leading undergraduate business school. Yet I knew nothing about any of it before I arrived at Penn."

For Wolpow — now co-chief executive officer of Audax Group, a leading middle-market private equity firm — that Wharton conversion sunk in deep: In addition to contributing financially to the School, he now serves on the Undergraduate Executive Board; regularly hosts Wharton events in the Boston area, where he lives; and comes back to Wharton about once a year.

"Several years ago I got involved supporting the School financially," he says. "I was reaching a stage in my life where I had the means to give back."

Wolpow's road from Wharton to that level of success is easy to track. After his undergraduate career, Wolpow received an MBA from Harvard Business School and a JD from Harvard Law, and went to work on Wall Street. He worked for a year at Donaldson Lufkin & Jenrette, Inc., and spent three years at Drexel Burnham Lambert, Inc., before spending nine years in Bain Capital's private equity and debt investment businesses, where he served as a managing director. In 1997, Wolpow established Sankaty Advisors, Inc., an affiliate of Bain Capital that invests in bank debt, high yield bonds, mezzanine loans, and special situations.

Then in 1999, he and partner Geoffrey Rehnert started Audax Group, which today manages close to \$4 billion in investments in more than 100 companies, primarily in the United States. "They're all privately held businesses with a wide range — from traditional manufacturing to dental offices to daycare centers to consumer products companies," Wolpow says. Audax owns outright about half of the companies with which it deals.

"My partner and I run the business and have more than 150 employees who identify good investments, make the investments, and report to us. My job is to hire good people and make good investment decisions."

And his hard work has paid off: When asked what he likes best about his job, Wolpow doesn't miss a beat before replying with a simple, "Making money."



"I like when investments are successful, and I don't like it when they're not," he continues. "I get a charge out of investing for a profit. We've been successful beyond my expectations, particularly given how difficult this environment is."

His financial success has enabled him to provide a good life for his family, including his wife, Robin, two teenage daughters, and a 10-year-old son. He is also now able to donate money to the causes and institutions that matter to him, including Wharton. Wolpow recently made a gift to endow a Faculty Scholar Award.

"The Dean is the CEO of the School, and he recommended where I could make a gift that would be most useful," he says. "I trust it'll be used to retain young, outstanding faculty — talented faculty who have the potential to become fully tenured professors."

A desire for others to get the same things out of Wharton as he did is what forms the basis for Wolpow's ongoing involvement. It's why he continues to provide Wharton leadership in the Boston area, and why he remains so closely connected to the School.

"My support of the School is based upon my gratitude for the education I received and the direction I received embarking on a business career," he says. "Without Wharton, I never would've gone in this direction. It got me on the right track at an early age, and I've been fortunate to see the fruits of that labor. When I started, I didn't have a penny to my name. But thanks to Wharton, I've been very successful." ♦