

WHARTON

A L U M N I M A G A Z I N E

Fall 1995



COMPETITION AND CHANGE IN FINANCIAL SERVICES

ANTHONY M. SANTOMERO,
DIRECTOR OF THE WHARTON
FINANCIAL INSTITUTIONS CENTER,
AND KATHLEEN HOLMES,
MANAGING DIRECTOR

INVITATIONS TO JOIN THE



IN

PHILADELPHIA:

Wharton Alumni Weekend

Friday, May 17; Saturday, May 18;
Sunday, May 19, 1996

- MBA Reunion Dinners for the Classes of 1991, 1986, 1981, 1976, 1971 and 1966
- Executive Education Session
- Gala Dinner
- Alumni/Faculty Exchanges
- Wharton Town Meeting
- Parade of Classes
- Picnic Lunch
- Farewell Brunch

Registration materials will be mailed in late winter. For more information, call Alumni Affairs at (215) 898-8478.

IN

LONDON:

Wharton European Alumni Symposium

March 28, 1996: Welcome Dinner

March 29: Day-long Conference

Location: Claridge's Hotel

"Europe 2000: Dynamo or Dinosaur?"

The conference, organized by Wharton's European alumni clubs, will concentrate on European industry, its political environment and its ability to compete in a fast-changing world market.

For more information, contact:

Cynthia Alers, WG'88

President, Wharton Club of London

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England

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COVER ARTICLE

Part of the agenda set by Center director Anthony M. Santomero and managing director Kathleen Holmes is understanding what makes some financial institutions thrive and others fail.



Photograph by
Peter Olson

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THE SEARCH FOR BALANCE

Dear Wharton Alumni,

Many of you may have seen an article that ran in the Sunday *New York Times* on Father's Day that highlighted a recent study conducted by Wharton Management Professor Peter Cappelli (*New York Times*, June 18, 1995). The study revealed that, contrary to popular wisdom, employees who invested time and energy in having a strong family life were actually more successful in their careers than those who sacrificed their home lives for their jobs. Although I was delighted to see the study prompt such a wonderful article on Father's Day, I couldn't help but think it would have been equally appropriate for the article to have run on Mother's Day — or on any day for that matter. Certainly, this is an area of deep concern for working men and women alike.

We've long heard anecdotal evidence about the challenges that workers face with regard to their personal lives in the fast-paced, ever changing business environment. Yet many of us have questioned the expectation in many industries and organizations that the job comes first and one's family comes — or should come — a distant second. As the father of four young children myself, I'm personally aware of the importance of, and tensions involved in, balancing work and family life!

We've seen the concerns of those who seek greater flexibility between the conflicts of work and family life surface in many forms: in the demand for company-sponsored, on-site day care; in issues arising from employer-provided health care benefits and family leave; in the development of job sharing and flex time; in telecommuting; and in experiments like the so-called "mommy track." And while the Cappelli study is encouraging, many receive it with more than a little skepticism. Can we really "have it all"? A successful, high profile career and also time for dinners with the family, school plays, family vacations and little league games? And even time for friends and personal interests?

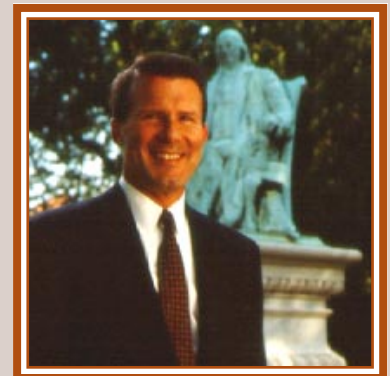
Much more good research needs to be done in this area, and I'm happy to report that Wharton faculty are pressing

ahead on studies into the relationship between work and personal life, and on developing curricular material to assist employees, managers and businesses in the search for balance. Stewart Friedman, adjunct associate professor of management, is conducting a longitudinal study of Wharton students and alumni to measure expectations and accomplishments in career and personal goals. His work with corporations has resulted in the production of a resource guide to help employers develop training and policies in this area. And our MBA students explore issues affecting both career achievement and personal satisfaction in their first-year leadership course.

The work being done here at Wharton clearly suggests that there may well be a productive happy medium that is better than the all-or-nothing work-family choices we've made in the past. While the School is helping to chart the course for individuals interested in reaching it, employers have a real stake in this as well: Cappelli's study indicates a strong correlation between personal life satisfaction and worker productivity. This suggests that employer support for their employees' lives outside the company may be as meaningful a long-term investment as professional development and training. We can help corporations realize that both investments can yield concrete value to their bottom lines through increasing the productivity of their workforce.

I'm proud of the role Wharton faculty members are playing in exploring these vital and long unaddressed issues. It is just one more way the School can contribute to the conduct of business and the quality of life in our society.

Thomas P. Gerrity



RECORD YEAR FOR ADMISSIONS

The number of applicants for 750 places in Wharton's MBA program jumped 27 percent this year, from 5,019 in 1994 to 6,354 in 1995.

The record increase reflects a number of factors, says Samuel T. Lundquist, director of Graduate Admissions. *Business Week's* ranking of Wharton as the number one graduate program in the country no doubt had an influence, as did the development of the new curriculum and Wharton's higher international profile.

"More faculty have spent time overseas teaching and conducting research than in past years, and the admissions office itself has increased its recruiting activities both in the U.S. and internationally," says Lundquist. His department visited 12 countries this year — with an emphasis on South America and Asia — as compared to eight countries previously.



WELCOME TO THE CLASS OF 1999: INCOMING UNDERGRADUATES SETTLE DOWN ON THE STEPS OF STEINBERG HALL-DIETRICH HALL DURING A GET-ACQUAINTED LUNCHEON SEPTEMBER 3.

The number of women applicants increased 24 percent this year over last, and also grew as a percentage of the pool: They totaled 28 percent of the applicants this year compared to 26.5 percent last year. International applications rose 18.5 percent, with the greatest growth coming from China and India.

Projections indicate that this year's yield — the number of students who accept Wharton — will set a record at approximately 70 percent. In addition, average GMAT and GPA scores are at an all-time high.

"Students tell us on their applications that their number one source of information about the School is alumni they know," says Lundquist, who was recently elected chairman of the board of trustees for the Graduate Management Admissions Council, a professional association whose goal is to promote graduate management education. "It's the network. Alumni seem to endorse the School very strongly, which has a direct influence on admissions."

On the undergraduate level, applicants to the class of 1999 totaled 2,301, as compared to 2,048 the previous year. Early admission candidates numbered 345, compared to 294 in 1994. ▼



... AND TO THE CLASS OF 1997: FIRST-YEAR MBA STUDENTS LINE UP FOR FOOD AND INTRODUCTIONS DURING A MEXICAN FIESTA AT THE LEHMAN BROTHERS QUADRANGLE.

WHARTON IS FIRST, AGAIN

Wharton has ranked #1 in the first survey of undergraduate business programs conducted by a major business publication.

The survey, in which Wharton tied for first place with the University of California at Berkeley, was conducted by *U.S. News & World Report* as part of its "Best Colleges" issue. The results

were announced in September.

Wharton also ranked in the top five in 8 of 10 academic departments, including #1 rankings in finance, marketing and real estate. The School ranked in the top five



in entrepreneurship, international business, general management, accounting and quantitative analysis.

The survey comes on the heels of last year's #1 ranking of Wharton's MBA program by *Business Week*. ▼

HOW COMPANIES COMPETE IN EMERGING TECHNOLOGY-BASED INDUSTRIES

What happens when an emerging technology comes along that promises to create a whole new industry, much the way advances in recombinant DNA research spawned genetic testing and CT scans revolutionized medical diagnostic imaging?

The answer to that question lies at the heart of a new research program at Wharton that will look at how established firms as well as start-ups compete in emerging technology-based industries.

The focus of the program is on technologies that actually “create new industries, new strategies, new economic opportunities and in many cases new companies,” says George Day, director of Wharton’s Huntsman Center for Global Competition and Innovation and a director of the new program.

“But we will also be looking at the experience of established companies trying to capitalize on emerging technologies. These companies face a huge amount of ambiguity in terms of defining what the market is, who their competitors are, what customers want and so forth. They are used to working with reasonably mature technologies in well-defined industries. It’s a whole new ballgame.”

Although the program has not targeted a definitive list of industries to research, suggested choices so far include wireless data communications, biotherapeutics, digital imaging, opto-electronics, superconductors, software reengineering and advanced materials — all created over the past two decades by technological breakthroughs.

“The opportunities presented by these technologies are rarely clear,” says William F. Hamilton, director of Wharton’s Jerome Fisher Program in Management & Technology, and another emerging technologies program participant. “Different methods for evaluating potential are needed as are different organizational schemes, financing mechanisms and alliances ... It gets down to the fact that you can’t organize a hot, fast-moving and unpredictable business the same way you organized an established, traditional one.”

Besides its focus on a new “subfield” of management and technology, the program is unique in its attempt to coordinate related faculty research that is either underway or

already completed. In addition to Day, who is also the Geoffrey T. Boisi Professor of Marketing, and Hamilton, the Ralph Landau Professor of Management and Technology, the core group guiding the new program includes Harbir Singh, associate professor of management, whose research looks at corporate growth through acquisition and alliances; Jitendra Singh, professor of management and an authority on organizational evolution and change; Sidney Winter, Deloitte & Touche Professor of Management, who has made significant contributions to understanding how industries evolve, and Adam Fein, a PhD student studying marketing and distribution patterns.

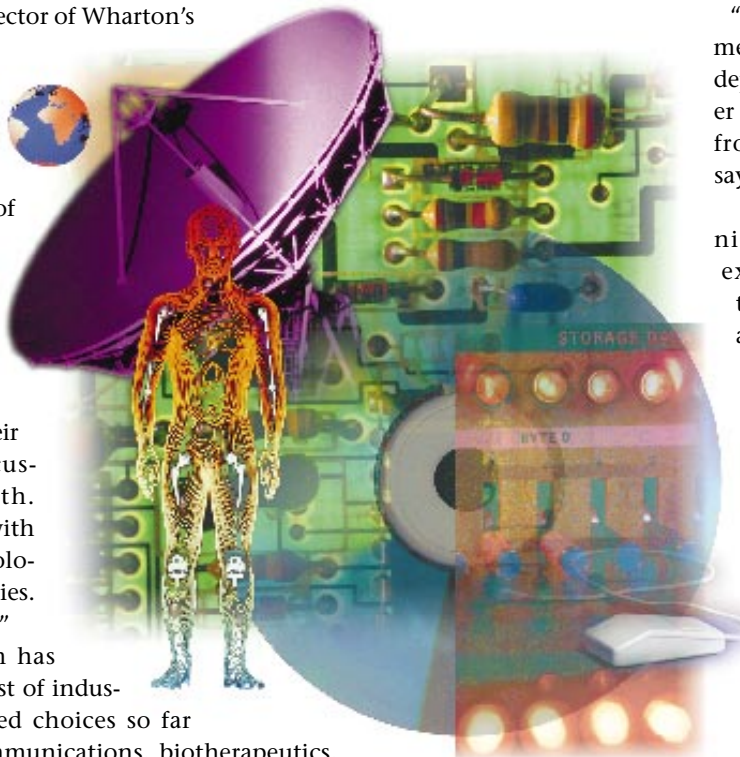
“We are creating an environment where people from other departments can come together and look at the same topic from different perspectives,” says Day.

In addition to telecommunications and CT scanners, examples of new industries that have emerged in the aftermath of a major technological innovation could include: ball-point pens (from fountain pens), computerized word processors (from mechanical and electrical typewriters), digital handheld calculators (from electromechanical calculators), microwave ovens (from gas/electric ovens) and transistors (from vacuum tubes).

Michael Tomczyk, managing director of the new research partnership — formally called “Competing in Emerging Technologies” — offers an explanation and an example to illustrate the program’s scope. First, assume that an emerging technology-based industry is the result of a three-step process. It starts with a scientific advance or breakthrough, followed by technological implementation, which leads to commercial application (market opportunity).

In that scenario, Tomczyk says, there is a “point in time when the technology is clearly ready to be marketed. Now assume your company will be impacted by this new technology. You have to decide how to react. If you’re an established firm, do you start investing now so that you will be ready when the commercial breakthrough comes? Do

Continued on page 6



EDUCATION UPDATE FOR SOUTH AFRICAN LEADERS

Thirty members of South Africa's African National Congress (ANC) are set to attend a two-week executive education session at Wharton in January. The session is aimed at teaching high-level members of the relatively young Johannesburg-based South African government how to manage and lead effectively.

"It is important that South Africans be empowered with knowledge and skills in all fields, including management," notes M.C. Ramaphosa, secretary general of the ANC, in a letter to Wharton. The program, to run January 15-27, will "enhance our leadership capabilities so that the knowledge gained can be mobilized toward reconstructing and developing [our country]," he adds.

Wharton's involvement comes at a time when South African President Nelson Mandela is trying to encourage the global business community to once again invest in South Africa. Part of his effort includes assuring investors that the government has a pool of skilled and sophisticated managers ready to provide assistance to outside firms.

The program is scheduled to include such courses as "The Role of the Central Bank," "Understanding Financial Markets," "Commodity Markets," "Towards Privatization," "Job Creation and Measuring Productivity," "Entrepreneurship and Creating Change," and "Attracting Foreign Investment in South Africa." ▼

15 NEW FACULTY JOIN WHARTON

Stephen Hoch, an expert in the field of consumer decision making, retail strategy tactics, and the decision processes of marketing managers, has joined Wharton's Marketing Department.

Hoch, who has a PhD from Northwestern University, an MBA from UCLA and a BA from Stanford, was most recently the Robert P. Gwinn Professor of Marketing and Behavioral Science at the University of Chicago's graduate school of business.

"Hoch is one of the field's most highly regarded scholars," notes Professor David Schmittlein, chairperson of the Marketing Department. "He has won numerous awards, including the Alpha Kappa Psi Award for

the best paper in the *Journal of Marketing*, both in 1989 and 1994." He is best known for one particular paper in which he demonstrates that a once popular discounting practice by grocery store retailers is not profitable relative to the alternatives.

Hoch joins 14 other new faculty at the School. They include:

Finance: Roger Edelen, assistant professor (PhD candidate, University of Rochester); Urban Jermann, assistant professor (PhD, University of Geneva); David Musto, assistant professor (PhD candidate, University of Chicago), and Nicholas Souleles, assistant professor (PhD candidate, MIT).

Legal Studies: Alan Strudler, assistant professor (PhD in philosophy and JD from University of Arizona, Tucson).

Management: Geoffrey Garrett, associate professor without tenure (PhD, Duke); Anne Marie Knott, assistant professor (PhD, UCLA graduate

Continued on page 6

IT'S HERE

A book entitled *Re-designing the Firm* — researched, written and edited by Wharton professors and bound together with a forward by Wharton Dean Thomas P. Gerrity — is now available in bookstores.

Published by Oxford University Press, the book addresses the question of how firms can compete effectively in a changing business environment.

The project dates back to 1992 when Edward Bowman, Reginald H. Jones Professor of Corporate Management, and Bruce Kogut, professor of management, challenged 17 other Wharton professors to work across disciplines in an attempt to study how organizations can restructure themselves to become more flexible, more innovative, more global and ultimately more successful. Bowman and Kogut are currently co-directors of the Reginald H. Jones Center for Management Policy, Strategy and Organization.

Through their own research, and with the input of senior executives from major corporations, the authors look at such topics as the organization of the global multinational firm, corporate governance, the ways in which firms can adapt to changing markets, the importance of partnerships and alliances, the efficient use of suppliers, and the benefits of improved operations management.

"Faculty members from diverse departments were commissioned to work as teams to examine key areas of organizational transformation," writes Gerrity in the book's forward, noting that the interdisciplinary approach to solving business problems is reflected in Wharton's curriculum. "Each chapter is a synthesis of more than one perspective." ▼



HOCH

TECHNOLOGY

Continued from page 4

you wait until the new technology starts affecting your industry and there are clearcut lines of commercial development evolving? Do you start your own internal research effort, or hire someone externally to do that? Do you buy or partner with a company that has effectively developed the research but needs an established player to attack the market? Or do you wait and license the technology after it's fully commercialized, hoping you haven't been superseded by the competition, and then sell the licensed technology to your market?

"Both new and existing companies need to decide how to cope with these new trends, changes, demands, challenges, opportunities and threats," says Tomczyk. "Established firms in particular often have trouble coping with this process: timing their market entry, adapting new management practices, identifying the core competencies required to operate in the new environment, and deciding when and how to enter the new market. Successful companies are often surprised to discover that business practices that made them a leader five years ago are suddenly a disadvantage."

A key word is "speed." In emerging technology-based industries, says Hamilton, who has done extensive studies of the biotechnology industry, "decisions have to be made much faster. You don't have the time for long extensive assessments. Virtually every dimension of activity is different."

Biotechnology itself is an interesting field to study, says Day, because it starts with a broad base of theoretical research and extends in a variety of directions that are themselves creating narrower industries, such as biotherapeutics, as well as biotechnology products for both veterinary and agricultural uses.

The program will help coordinate and support the activities of Wharton faculty in the fields of international management, marketing, economics and operations. Corporate sponsors from several different industries are being invited to help guide the research, participate in industry discussion forums and plan special workshops/symposia to be hosted by Wharton. The program is part of the Huntsman Center for Global Competition and Innovation. ▼

EXPERIENCE NEEDED

Wharton's Center for Human Resources is undertaking a major study of the changing relationship between employers and employees, and would like to hear from you about your experiences. The Center's research focuses specifically on new sets of obligations between employers and employees, changes in career expectations and mobility, and other examples of a new "contract" emerging in the workplace.

If you have a story to tell, please contact Professor Peter Cappelli, co-director of the Center, at (215) 898-2722, or Cappelli@Wharton.upenn.edu ▼



Leaders for the Future

Today's business environment demands new kinds of leaders: innovators who can think and function effectively in the boardroom and the workplace, decision makers who can see both the big picture and the detail, pacesetters who are

savvy about technology and attentive to local culture and global context.

Help keep Wharton at the forefront in educating leaders for the changing business world. Support the 1995-96 Wharton Annual Fund by sending in your gift today. For your convenience, we accept Visa, Mastercard and American Express.

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FACULTY

Continued from page 5

school of management); Gabriel Szulanski, assistant professor (PhD, INSEAD); Mary Tripsas, assistant professor (PhD candidate, MIT); Michael Useem, professor (transfer from the Department of Sociology in the School of Arts and Sciences).

Operations and Information Management: David Croson, assistant professor (PhD candidate, Harvard University); David Ellison, assistant professor (PhD candidate, Harvard University); Noah Gans, assistant professor (PhD candidate, Columbia University Graduate School of Business) and Karl Ulrich, associate professor without tenure (MIT). ▼



THE WHARTON
FINANCIAL
INSTITUTIONS
CENTER:



BECOMING
A “CENTER OF
INFLUENCE”

WITH THE PARTICIPATION OF FINANCIAL SERVICES FIRMS, AN AMBITIOUS CROSS-DISCIPLINARY RESEARCH EFFORT AT WHARTON IS ANALYZING ALL SECTORS OF THE INDUSTRY. AND OFFICIALS IN THE PUBLIC POLICY ARENA HAVE BEGUN TO TAKE NOTICE.

It wasn't long ago — you don't have to go back further than the 1950s — that U.S. financial institutions could be neatly pigeonholed by function.


Banks and thrifts took deposits and made loans to businesses and consumers. Insurance companies sold health, property and life insurance policies. Securities firms underwrote and issued marketable securities and offered brokerage services. Pension funds saw to it that workers could count on retirement income. And mutual funds — which offered unsophisticated products at a time when money market and cash management accounts did not exist — were sold to a relatively small number of people.

Government regulation kept these institutions separate and distinct, and firms and customers alike had little reason to complain. Institutions turned profits, and individuals and businesses were able to secure financing at stable interest rates. International competition was non-existent and information technology was in its infancy.

It was a largely comfortable, predictable system within which financial institutions fulfilled their roles well. But U.S. finance has undergone an upheaval in the last 40 years, and the tidy certainties that the industry once enjoyed have gone the way of hula-hoops, 10-cent hamburgers and *Father Knows Best*.

Driven by deregulation, changing market demand and technological advances that lowered costs and allowed firms to achieve economies of scale, financial institutions have moved far beyond their traditional lines of business. Competition is greater today, and so are the risks of instability and insolvency.

Banks now make securities products available to customers. Retail brokerage firms like Charles Schwab Corp. compete with banks by offering asset-management accounts that allow customers to write checks. Companies whose core businesses were never financial services — such as AT&T and General Motors — have made forays into the credit-card business. Mutual funds are as well-known to Americans as passbook savings accounts used to be. And foreign firms are key providers of financial services in the United States.



A NEW APPROACH

As researchers at the Wharton School and elsewhere analyzed these changes over the years, their work — like the institutions they studied — tended to be compartmentalized. Research typically focused on issues confronting particular types of institutions. But the Wharton Financial Institutions Center, recognizing that the most critical research issues today cut across traditional categories, is taking a new approach: it is studying financial services collectively — as an *industry*. To carry out its ambitious cross-disciplinary research effort, the Center has brought together not only specialists in finance, but experts in such areas as management, statistics, human resources and engineering.

“The Financial Institutions Center has embarked upon a research program to address the key drivers of the fortunes of the financial sector,” says Anthony M. Santomero, the Center’s director and Richard K. Mellon Professor of Finance. “What we have done is try to address those issues central to the evolution of the industry — efficiency issues, risk-management issues and structural evolution issues.”

Kathleen Holmes, the Center’s managing director and senior partner of Furash & Company, a financial services consulting firm, notes: “There isn’t a common database or language or metrics of performance across all types of financial institutions. While institutions feel they compete with one another ... there’s no way to evaluate how institutions are doing against their competitors.”

A “CENTER OF INFLUENCE”

At the Center, she adds, “We’re trying to create a research community that puts Wharton on the map in financial services research on a much broader and deeper basis than ever before We’re trying to create a center of influence here.”

The Center began operations in 1992 when it received \$3.4 million from the Alfred P. Sloan Foundation — the largest grant ever awarded to study the financial services industry. In June 1995 the foundation awarded the Center an additional \$2.5 million for further research.

Pivotal to the Financial Institutions Center’s purpose is its emphasis on working closely with executives of financial institutions to ensure that its research not only serves the

needs of academics, but also addresses real-world problems faced by financial services companies. Wharton researchers engage in field work — visiting companies to conduct interviews and collect data — and invite industry representatives to campus to elicit their insight on issues that concern their companies. Over the past three years, the Center has sponsored 11 conferences.

The Center also has established links with industry through its board of directors, which is chaired by George J. Vojta, vice chairman of Global Merchant Banking at Bankers Trust Co. Other Center board members include Stephen L. Brown, chairman and chief executive officer of John Hancock Financial Services; Robert H. Mundheim, managing director, Salomon Brothers Inc., and Thomas C. Wanjert, chairman and CEO of AT&T Capital Corp.

“We assembled a first-rate board of industry leaders that reflects the broad array of financial institutions,” says Richard J. Herring, professor of finance, who served as the Center’s director from 1992 to the summer of 1995 and continues to conduct research for the Center. “We’ve used [these individuals] pretty intensively as a sounding board, to react to research proposals and to gain access to leading financial institutions.”

PRIME THRUSTS: PRODUCTIVITY AND RISK MANAGEMENT

To date, the lion’s share of the Center’s research has focused on two topics — improving productivity, efficiency and performance in financial services organizations, and risk management.

The first phase of the work on productivity has involved a major study of retail banking by three researchers — Patrick T. Harker, UPS Transportation Professor for the Private Sector and

**THE CENTER WORKS
CLOSELY WITH FINANCIAL
INSTITUTION EXECUTIVES
TO ENSURE THAT ITS
RESEARCH ADDRESSES
REAL-WORLD PROBLEMS
FACED BY FINANCIAL
SERVICES COMPANIES.**

R RETAIL DELIVERY SYSTEMS IN THE FINANCIAL SERVICES INDUSTRY

The Wharton Financial Institutions Center surveyed more than 300 of the nation’s largest banks to determine how they are faring in their attempts to create advantage through information technology, customer service and human resource management.

Summaries of three of their findings are presented here.

INFORMATION TECHNOLOGY

Many banks have been looking for high-tech solutions to solve problems of productivity and service quality. In 1990, financial institutions spent \$61 billion on hardware, \$18 billion on software, and \$75 billion on computer services. These costs have climbed every year since.

professor of systems engineering and operations and information management; Larry W. Hunter, Paul Yeakel Term Assistant Professor of Management, and Frances Frei, a former Wharton doctoral student in Decision Sciences now teaching at the University of Rochester. Initial findings from the retail banking study, which involved a survey of more than 300 large commercial banks, were presented in June 1995 at a conference of industry representatives titled “Creating Comparative Advantage in Retail Delivery Systems” (see research sidebar).

Among other things, Holmes notes, the productivity research is probing several questions: “Why is it that the banking industry hasn’t adopted high-involvement workplace practices to create efficiency and value? Why aren’t financial services companies more worried about understanding poor quality? Nobody tracks how much inaccurate checking account statements to customers cost banks to fix. They don’t look at customer risk. This is exactly the situation the auto industry was in until the Japanese set new standards of quality.”

With the retail banking study well underway, Harker, along with J. David Cummins, Harry J. Loman Professor of Insurance and Risk Management, and Peter Cappelli, professor of management, have begun to analyze the efficiency of the insurance industry.

The Center’s study of risk management deals with one of the most critical issues facing financial companies. Traditionally, each kind of financial institution specialized in managing a particular type of risk. Commercial banks for example, managed

credit risk in lending, investment banks managed market risk in trading and underwriting, and insurers managed event risks in property/casualty and life products.

But since institutions today are less specialized and offer products that spill over the boundaries that once divided them, most firms must manage a broad array of risks, including default risk, interest-rate risk, market risk and liquidity risk.

The research on risk is being conducted by Santomero, Herring and David F. Babbel, associate professor of insurance and finance. The researchers want to know: How does each sector of the industry measure and control the risks at the heart of their businesses? How can systems be established to determine if the industry and its various sectors are taking on the proper amount of risk?

One concern involves determining the appropriate limits that an institution should impose to reduce risk. “There are examples of institutions that went bankrupt because of over-concentration,” says Santomero. “Look at Texas banks, the mortgage industry and commercial real estate lending in the Northeast.”

RISK MANAGEMENT: MORE ART THAN SCIENCE

According to a report summarizing their research on risk, the Wharton scholars said they found “unevenness in the industry’s understanding of the process and science of risk management within the individual sectors of the financial services industry

But the Wharton Financial Institutions Center study found that although banks are pumping massive amounts of funding into information technology (IT), they are not taking care of the “nuts and bolts” of the process.

Many of the banks seem to be managing IT inefficiently, the researchers argue, and 75 percent of the 300 surveyed have no formal structure to improve IT. As a result, only the largest projects receive the management committee’s attention, are approved, and have some formal structure. Smaller decisions requiring less capital are not dealt with firm-wide, and changes are made with little or no coordination.

System integration is not achieved in many banks either, because decisions relating to that process are often made without taking into account the business processes that the technology is supposed to support. For instance, a

bank might implement a \$100 million system to allow it to sell investment products more efficiently. But it may have no electronic means of automatically changing a customer’s address at his or her request, as is the case with half of the surveyed firms.

HUMAN RESOURCE MANAGEMENT

Research in the manufacturing sector has found that high performance workplace practices improve quality, improve productivity, and are necessary to leverage new technology. But the Wharton researchers found that retail banks lag behind other industries in this area.

Banks experiment with a number of different high performance workplace practices, such as increased employee involvement, investments in training, and compensation based on perfor-

mance incentives, but the impact tends to be small, short-lived and hard to predict — if the initiatives have any impact at all.

Part of the problem is that banks are implementing individual high performance initiatives without a coherent, systematic approach to the management of human resources. For example, some banks spend a lot of money to train and empower employees, but still do not redesign jobs to give employees the authority to waive a \$5 fee.

Similarly, many banks have tried to implement sales-based cultures, with commission-based pay and sales-supportive technology. But they have not trained employees in selling, nor have they adapted their hiring or promotion practices to ensure effective sellers are in the right positions.

**WHARTON RESEARCHERS
HAVE “GONE INTO THE FIELD
DOING ANALYSES OF THE
RISK SYSTEMS IN PLACE IN
MAJOR COMMERCIAL BANKS,
INVESTMENT BANKS AND
INSURANCE COMPANIES.”**

and ... wide variation in emphasis on specific elements of risk management across sectors. Evaluations of risk-management practices at the firm level showed even more striking differences in practices. It is clear that

firm-level risk management today, regardless of the sector being analyzed, is more of an art than a science.”

Santomero says researchers have “gone into the field doing analyses of the risk systems in place in major commercial banks, investment banks and insurance companies. We go with a team of five or six people — faculty and PhD students — and work with the top executives of each firm. We’re doing an audit of the practices of risk management in the industry and contrasting that with best practices and highest knowledge. The hope is that this audit will prevent firms from taking on risks that are excessive.”

ALTERNATIVE FINANCIAL SYSTEMS

In addition to the two core projects on productivity and risk management, the Center also has sponsored research on a third topic — the implications that financial systems of other countries hold for the modernization of the U.S. financial system. In a study commissioned by the Swedish Productivity Commission, Herring and Santomero have analyzed the role of the financial sector in economic performance in Sweden. The study showed how the financial sector can improve the quantity and quality of real investment and thus increase per-capita income.

In a series of papers, Franklin Allen, Nippon Life Professor of Finance and Economics, has explored the consequences for economic performance of alternative financial systems. Specifically, he contrasted the German system — with its heavy reliance on universal banks that have both investment and commercial banking powers — with the U.S. system, where greater emphasis is placed on financial markets.

In addition, in a 1995 book titled *Financial Regulation in the Global Economy*, Herring and Robert E. Litan, deputy assistant attorney general in the Justice Department’s Antitrust Division, analyzed the regulatory and supervisory problems that arise among differing national financial systems.

As part of its goal to become a “center of influence,” the Center wants to be a leader in research that has an impact on public policy. Already, researchers affiliated with the Center have been asked to contribute to policy discussions.

Santomero has appeared before the House Banking Committee to discuss competitive pressures on the financial services industry. Herring has explored regulatory issues at the Governors Meeting of the World Financial Services Forum in Davos, Switzerland, and Allen has led discussions about universal banking at the Center for Economic Policy Research in London and the National Bureau of Economic Research in the United States. This fall, Center researchers are scheduled to appear in Washington before the Federal Trade Commission on antitrust issues.

STUDENTS IN THE FIELD

The Center also has made contributions to Wharton’s educational mission. Through the spring of 1995, 24 doctoral students worked on Center research projects, 30 MBA students took part in a field-study course sponsored by the Center, and 13 undergraduate students supported Center-sponsored research in research assistant positions.

“In the first year we offered a field-based research course,” Holmes says. “We took [MBA] students to three sites and helped them look at problems that management was trying to address and that bring some reality to the theory taught in finance courses.”

Over the next few years, the Center will continue analyzing topics related to productivity, risk management and comparative financial systems. Two academic conferences organized by Santomero and Gary B. Gorton, professor of finance — on risk management in insurance companies and risk management in commercial banks — are scheduled for 1996. Harker also plans to hold five industry conferences in 1996 on issues related to productivity in financial services.

In its next major research project, led by Donald B. Keim, professor of finance, the Center will conduct a comprehensive

ENGINEERING PRODUCTS FOR CUSTOMER VALUE

Based on preliminary survey findings this year, Patrick Harker, chairman of Penn’s department of systems engineering, and Larry Hunter, assistant professor of management at Wharton, discussed what steps banks should take to achieve convenience, precision, efficient costs,

adaptability, and market penetration.

Banks should align practices, policies, procedures, and IT to ensure value-creation. Banks must determine their goals in their retail delivery systems and use them as the templates to assess management choices and implement practices the company adopts. This approach ensures that every decision will work towards achieving desired results.

For example, banks believing local market adaptability and agility are key to meeting national competition might give their local marketing managers the authority to customize product pricing and delivery to meet the specific needs of their customers.

Banks should build the customer’s perspective into product processes. Some products are more important to certain



N BANK MERGERS AND MUTUAL FUNDS

analysis of the mutual funds industry. Researchers will examine the major functions performed by mutual funds — back office operations, distribution and investment management. They will analyze the implications of the phenomenal growth of the mutual fund industry — whose assets grew from \$293 billion in 1983 to \$2.6 trillion in 1995 — for the competitive structure of the financial services industry and the nation's economic performance.

Looking back on the research conducted so far, Santomero says, "We're most proud of the fact that we have defined the agenda to be consistent with what appears to be the major issues facing the industry."

The financial industry "ought to see the Center as a source of industry knowledge and up-to-date research on industry practice and innovation ... In terms of dollars and faculty participation and in scope of years, it is clearly the most ambitious research effort that Wharton has ever seen." ▼

This story was written by Stephen Morgan, a Philadelphia area freelance journalist and former director of media relations at Wharton.

types of customers than others. Banks committed to serving each of these customer groups individually should extend this approach into their product-process designs. For example, would a customer rather have the sales rep or teller draw up a CD redemption check? Instead of speculating about what the customer wants, banks should ask them.

Banks should align human resources practices with value-creation objectives. As banks create their workplace management policies, they must ensure that job design and incentive programs support the bank's value-creation goals. If not, re-engineering efforts will be ineffective.

Harker and Hunter found that bank employees have a good feel for customer preferences and the ways in which bank processes can be streamlined to improve customer service. Banks should use these

Bank mergers took place at a fevered pitch in 1995 and there is no reason to think the pace will slow any time soon, say Anthony M. Santomero, director, and Kathleen Holmes, managing director, of the Wharton Financial Institutions Center.

Bank mergers are being driven by several factors. For one thing, America is "over-banked," says Santomero. "There are too many institutions and too many branches. Part of the reason for the recent merger activity is to eliminate redundancies."

In addition, he said, some mergers represent an "expansion of franchise." First Union Corp.'s recent purchase of First Fidelity Bancorp, New Jersey's biggest bank, and PNC Bank Corp.'s purchase of Midlantic Corp. are examples of an expansion of geographic franchise that illustrates the ongoing nationalization of the U.S. banking market.

"The pace of merger activity is extraordinary," says Holmes. "It's fueled by the increase in value of market capitalization of financial services companies. They're using that value to drive for market share and market position and operating efficiency. But the second part is overcapacity. So now you're getting a window in time where it's affordable for these banks to consolidate."

Santomero and Holmes agree that bank mergers will continue. One reason is that the geographical limitations that prevented banks from merging across state lines were artificial and are being phased out because of changing regulations.

What's more, some product lines have gone national. "When we grew up, there were no credit cards at all and all lending was at your local bank," Santomero says. "Now credit cards are a national business, not a local business."

Bank mergers grab plenty of media attention, but Santomero and Holmes say other sectors of the financial services industry are also feeling turbulence.

"Investment banks have undergone substantial change in cross-industry merger activity," says Santomero. "They are now heavily involved in global capital markets and they have undergone substantial change in key players."

In addition, "securities firms have been expanding their product array and significantly increasing their services to the household sector."

Looking ahead, the challenge for investment banks "is to manage trading risk in esoteric products, such as derivatives, swaps and options, and to control their network of global real-time trading," says Santomero. In the insurance industry, he adds, "insurance companies are looking more like diversified financial firms. A recent property-casualty cycle has been weathered and they're looking for new markets and expanded opportunities."

Holmes says the mutual fund industry, like the banking sector, will witness increased consolidation. "A number of banks started their own proprietary funds and found that economies of scale weren't there," she notes. "They'll sell those funds, and you'll see more fund complexes come together to drive operating efficiencies."

The industry also will see increased segmentation, as mutual fund companies tailor products to meet specific customer needs. For example, "life cycle" funds provide an asset mix that changes as fund owners grow closer to retirement. ▼

employees as a primary intelligence source.

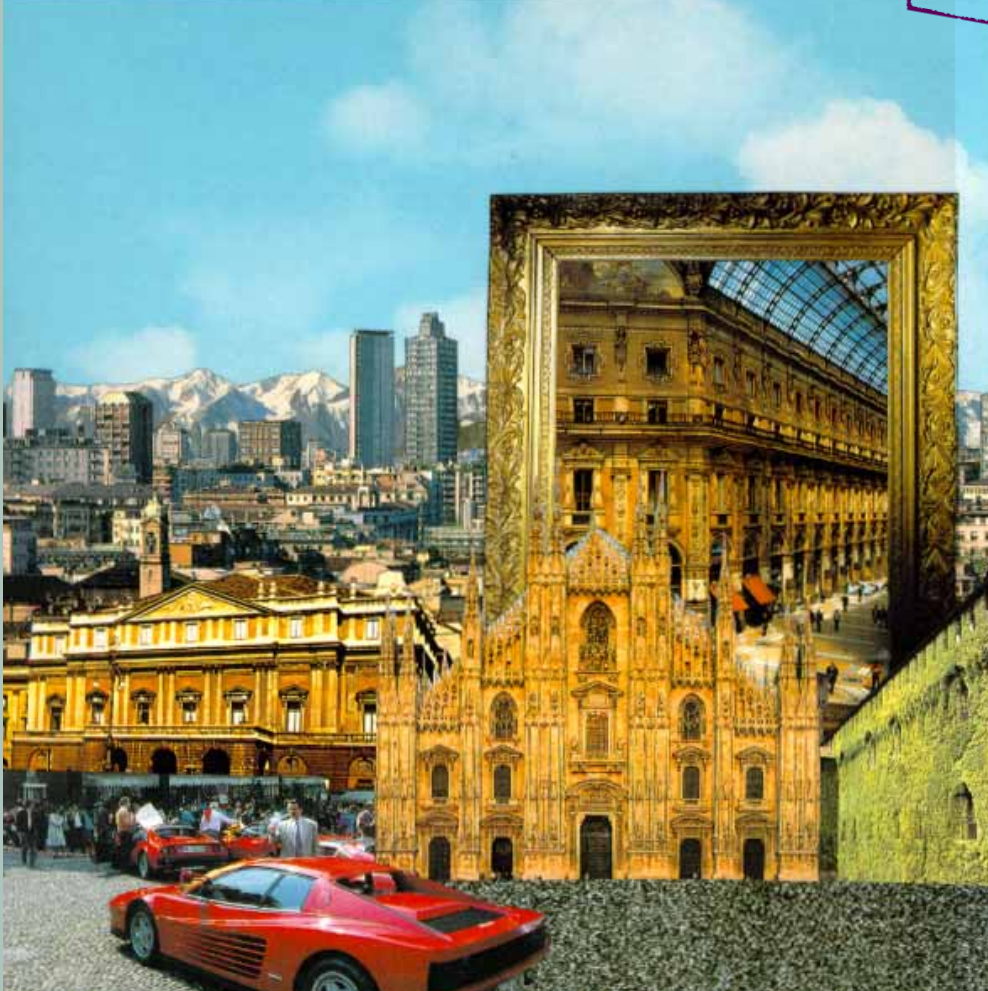
"There is no panacea to the customer-value puzzle," the authors note. "Creating customer value, building a high-performing organization, and embracing a commitment to quality take hard

work and attention to detail. Managing customer sales-and-service processes effectively is an important element of a comprehensive commitment to creating value for customers and shareholders."



ALIVE AND WELL AND WORKING IN ...

MILAN



OUR SERIES ON ALUMNI IN DIFFERENT CITIES MAKES ITS SIXTH STOP IN MILAN, HOME TO APPROXIMATELY 1.7 MILLION RESIDENTS AND FIRMLY ENTRENCHED AS BOTH THE BUSINESS AND HIGH FASHION CENTER OF ITALY. WHILE ROME DRAWS MORE TOURISTS, MILAN DRAWS MOST OF THE COUNTRY'S MAJOR CORPORATIONS, INCLUDING MULTINATIONALS LIKE IBM, 3M, MICROSOFT, APPLE AND HEWLETT-PACKARD. IN ADDITION TO ITS CHARM, MILAN BENEFITS FROM ITS LOCATION — CLOSE TO THE MAJOR CITIES OF EUROPE — AND ALSO ITS IMAGE OF EFFICIENCY. MILAN, SAYS ONE WHARTON ALUMNA, "IS A CITY THAT WORKS." ♦ IN THE FOLLOWING PAGES WE PROFILE SEVERAL WHARTON ALUMNI WHO LIVE AND/OR WORK IN MILAN. MINDFUL OF THE CITY'S REPUTATION AS A PLACE "THAT OFFERS SOME OF THE BEST FOOD YOU WILL EVER TASTE," SAYS ONE ALUMNUS, WE HAVE INCLUDED OUR USUAL LIST OF RECOMMENDED RESTAURANTS AND HOTELS.

**CORRADO PASSERA, WG'80:
MANAGING DIRECTOR, OLIVETTI SPA**

Asked to describe his strongest quality as a leader, Corrado Passera answers: "The ability to put together and motivate a team of very talented people who focus on the solutions rather than the problems, and who can address even the most serious difficulties with the attitude that they can be overcome."

That ability is serving Passera well, given the substantial restructuring that Olivetti has been undergoing since Passera's appointment as managing director in 1992. Although traditionally an office equipment/computer manufacturing company, the \$6 billion Olivetti today derives almost two thirds of its revenues from systems and services and is aggressively investing in telecommunications and multimedia. It holds a controlling stake in Omnitel Pronto Italia, an international consortium which is about to launch Italy's second cellular phone network, and has grouped its other telecommunications and multimedia ventures into a subsidiary called Telemedia.

The move to speed up entry into these areas has spawned alliances with a large number of companies, including Bell Atlantic, Airtouch, Hughes, Mannesman and Redgate.

Passera's master plan for the company, endorsed by Olivetti chairman Carlo De Benedetti, "has five objectives," he summarizes. "To select businesses where Olivetti already is or can become a leader at the European level, to grow more than the market, to reduce costs more rapidly than the reduction in margins, to build up telecommunications and to reshape the old company in a focused way in each of its areas of business (office products and printers, personal computers, systems and professional services)."

Olivetti has suffered from heavy restructuring charges in the last few years and experienced Treasury losses in 1994 and an erosion of market share in the highly competitive personal computer sector. Yet Passera stresses the importance of reaching the operating break-even point last year thanks to the reduction of selling, general and administrative costs (SG&A) from 28 percent to 20 percent in 1993 and 1994.

In order to be profitable in our business," he adds, "SG&A must be closer to 15 percent than to 20 percent."

Whatever obstacles Olivetti faces, Passera himself is highly regarded by both investors and industry observers, according to press reports. His connection with Olivetti dates back to 1977 when, after graduating with honors in business management from Bocconi University in Milan, he spent one year with Olivetti as a management trainee.

Following graduation from Wharton, he worked as a banking and finance consultant for McKinsey in Italy from 1980 to 1985. For the next three years, he was assistant to Carlo De Benedetti at CIR SpA and, from 1988 to 1990, general manager. After one year as COO at Arnaldo Mondadori Editore SpA, and a year and a half as vice chairman and COO at Espresso - Repubblica Group, he moved to Olivetti.

Passera was born in Como, Italy, and lives in Milan with

his wife and two children, ages 9 and 8. He enjoys reading, sailing and traveling.

"Information technology and telecommunications are converging into the new world of information and communication technology," says Passera. "In its 90 years of life, Olivetti has already gone through a similar cultural and managerial transition when it went from being a mechanical company to an electronic company and then to an IT company. We are ready for the next phase."

**ALESSANDRO SIGNORINI, WG'75:
DIRECTOR, MARKET DEVELOPMENT, PIRELLI CAVI SPA**

"We do not go to foreign countries just to put our flag up and say Pirelli is here," notes Alessandro Signorini, who is in charge of the cables export division of Pirelli, a \$5.6 billion tire and rubber products company based in Milan. "We want to be serious participants in the country and also give our technical and managerial know-how to the project."

As director of market development, Signorini is in charge of both sales and joint ventures for the \$700 million cables export business. His work takes him primarily to Indonesia, Malaysia, China and other Asian countries, but also to cities in Eastern Europe. About 40 percent of his time is spent on sales and 60 percent on joint ventures.

The work can be both frustrating and rewarding. "Each time you go, you find different mentalities, different approaches, different types of problems. It's a long-term process but in the end we have been successful in completing several joint ventures and are in the middle of establishing several more."

Signorini was born in Naples and attended the University of Naples before coming to Wharton. After graduating, he spent a year in long-term planning at SME, two years in new business development at Eurogest, three years in the export division of Alivar and seven years as controller, international activities, at Sogene.

From 1989 to 1993 he was director of subsidiaries at Benetton. He joined Pirelli Cavi in 1993 as group controller for the worldwide cables division, and one year ago, was promoted to his current position. He and his wife and two children live in Milan.

Pirelli has had subsidiaries all over the world for much of this century, including, most recently, 100-percent owned operations in the U.S., Brazil and Argentina. "Now times are changing," Signorini says. "We are willing to set up joint ventures because that's what our local partners want. They say they are capable of managing the new company, though there is often long discussion on who should make the major decisions for the benefit of the joint venture. But we work things out," Signorini adds, "And we don't give up."



ROLANDO POLLI, PHD'68:
DIRECTOR, MCKINSEY & CO.

As you get older, says Rolando Polli, who up until May was manager of McKinsey's Italian office, "you try to make your geography a bit simpler. Geneva, Paris and Milan is more doable than other combinations."

Polli should know. Like many consultants, his career since joining McKinsey in 1969 has been a game of international hopscotch. He started out in Milan in 1969, became a partner of McKinsey in 1976, then in 1977 transferred to Paris, and in 1979 to Toronto. In 1981 he became manager of McKinsey's Madrid office but also co-managed the Italian office, "which was a bit of an oddity," he admits. In 1985 he went back to Canada and then in 1986 back to Italy, where he was manager of the Milan office until May. He remains a director of McKinsey, based in Geneva but with clients and offices in Milan and Paris as well.

"Milan is by far the center of economic life in Italy," says Polli, who retains three large clients in the city. "The recession in 1992-93 was difficult, and at the same time we had the 'clean hands' investigation when lots of managers resigned or had to leave. Working in Italy was somewhat pyrotechnic then: You didn't know if the guy you worked for would be sent to prison, or what. But now the economy has picked up. We have a growth rate of three percent, a little better than the European average. And more people are employed again."

McKinsey's Rome and Milan offices have 130 professionals between them, with the majority of their clients in the services and manufacturing industries and about 35 percent in the financial institutions sector.

Polli was born in Milan and graduated from Bocconi University in 1962. He and his wife, who is English, live in Geneva and have two children, a daughter who recently graduated from Dartmouth and a son who is at Stanford.

Although Polli studied marketing at Wharton, "over time I became more of a financial institutions man. I have moved a lot in my career. Focusing on financial institutions was a useful way to adapt to a new country."

Polli was born in Milan and graduated from Bocconi University in 1962. He and his wife, who is English, live in Geneva and have two children, a daughter who recently graduated from Dartmouth and a son who is at Stanford.

MAGGIE DUFRESNE, WG'86:
PROGRAM COORDINATOR, AMBROSETTI GROUP

Maggie Dupresne calls it her "nonstop MBA." As a program coordinator with the Ambrosetti Group, a 60-person consulting and business seminar firm headquartered in Milan, she organizes seminars for business leaders in Italy on subjects ranging from new theories of management to the recently-formed World Trade Organization to the European political situation.

"Italians here are coming out of the same recession that America experienced a few years ago," says Dufresne. "Therefore hot topics include subjects like how to restructure after a recession and the benefits of business reengineering. But Italians are curious about everything, not just management issues. I find them more interested in international affairs than the average American, partly because Italy is small and it is just one country in the European Union. Other Europeans are the same way — very eager to understand what is going on outside their own borders. And obviously decisions made in Europe have a big impact on the Italian economy."

Dufresne is the contact person for speakers, one third of whom are business school professors, including several from Wharton. Also invited are members of the current government. "We do that frequently," she says, "partly because the government changes often, but also because key members change. We have had the prime minister, the treasury minister, commissioners of the European Union in Brussels, the former head of GATT and the current head of WTO, among others." The speakers come to different parts of Italy for anywhere from half-day to full-day sessions.

Dufresne also does workshops for foundations and private groups. In the course of a year, she has contacts with approximately 100 speakers.

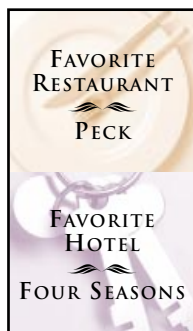
Dufresne grew up in Springfield, Mass., and graduated from Smith College. She worked for a year in Boston as an administrator in a psychiatric clinic, then moved to Italy with her husband, who is Italian and a professor of business history at Bocconi University. In Italy she spent five years working for her husband's father, the owner of a shipping and maritime agency, before returning to the U.S. to attend Wharton.

She and her husband have a son, 7. They live in Milan.

"I consider Milan one of the most efficiently organized cities in Italy in terms of getting things done," she says. "There is a business mentality here. When I schedule a meeting with someone for 11 a.m., the meeting starts by 11:02. In Rome, an 11 a.m. meeting doesn't start until 11:45. It can be very frustrating if you are trying to stick to a schedule."

ALBERTO LOTTI, WG'82:
GENERAL MANAGER, GESTIRAS, RAS

Alberto Lotti, head of the mutual fund management division of the giant insurance company RAS, says his biggest challenge externally as head of the 50-person investment arm is to increase market share from its current 7.5 percent up to 10 percent. Internally, his priority is to grow and train portfolio managers. "We have trouble finding qualified candidates and our turnover rate is high because we have many competitors," says Lotti.



Aside from that, the investment business is going well. Gestiras runs 15 mutual funds of all kinds, including equity, bond, domestic, international and emerging economies, with about \$10 billion under management. "We are mainly value players," he says. "We have a moderate attitude toward risk and we tend to buy assets we believe are undervalued."

Lotti was born in Milan and graduated from Bocconi University. He joined RAS in its research unit in 1982 and eventually was put in charge of the company's U.S. division, located then in New Jersey (and since sold). After that he joined the investment team, and two years ago, was named general manager.

He admits to being very good at soccer, playing in what spare time he has on an amateur men's soccer team. He also lectures on international finance to university students.

"The Italian economy is doing well," Lotti notes. "We are growing at four percent a year and of course we have a big advantage from the weak currency. Right now, our economy seems to be the strongest one in Europe."



**PAOLO BORDOGNA, WG'86:
VICE PRESIDENT AND PARTNER, BOSTON
CONSULTING GROUP**

Paolo Bordogna was born in Bergamo, Italy, an old town about one hour outside of Milan. He has chosen to settle there with his wife and two children, ages 7 and 5, even though it is more of a weekend home for him than anything else.

"I travel a lot," he says with understatement, noting that this past year alone, his work with one particular client has taken him to South America, Turkey, England, Spain and Germany. "I follow my multinational clients wherever they go," he says.

Bordogna has been with BCG since he graduated from Wharton, first in their Paris office, and then in Milan. About 50 percent of his clients are in banking in Italy and the other 50 percent in the industrial goods and high technology sectors with operations worldwide.

Bordogna did his undergraduate work in engineering in Milan and spent 18 months as a brand assistant for Procter & Gamble in Rome before attending Wharton. For the past three years he has lectured on managing technology and organizational issues at Wharton's International Forum in Bruges.

On winter weekends he skis, and in the summer, plays golf and flies helicopters. "BCG started in Italy with a limited network, but we are now big and well-established," he says. "It helps that the Italian economy is very strong. With



so much changing it's an interesting time to do business here. Telecommunications was privatized this year, and the banking sector is going through a period of mergers and acquisitions. It's a lot of fun."

**GLORIA LEPORATI, WG'82:
MUTUAL FUND MANAGER, GESTIRAS, RAS**

Gloria Loporati seems to have balanced an interest in academics with a successful career in money management. She taught international finance at Bocconi University for five years after graduating from Wharton, and then, in 1987, was hired as an economist and Japanese portfolio manager at Gestiras, the investment arm of RAS (where she reports to Alberto Lotti, WG'82, profiled earlier).

Currently Loporati is responsible for Gestiras' fixed income and foreign exchange rate investments. She has about \$700 million under management, plus an additional \$50 million in Asian equities. The rate of return for her largest fund is approximately 9.18 percent. "It's been a very volatile year," she says. "The value of our foreign currency holdings have been reduced ... Even if we believe the lira is the best possible investment, we have to keep in the international markets."

The job is clearly demanding in that it "requires the ability to screen, process and interpret an enormous flow of information," she says. But all that is doable. What is stressful, she adds, "is people. I find managing a staff more difficult than dealing with economic variables."

Loporati decided to come to Wharton back in 1980 because "she is and always has been a fan of the U.S., and I like math." She is still in touch with friends and several professors from Wharton, and RAS recently sent several managers to the School's executive education courses.

Unlike her boss, who is an avid soccer player, Loporati says she is "totally devoted to doing nothing. I might take up tennis again, but if I were asked to describe my favorite sport it would be to go to the seaside and lie down."

**ISAAC DOUEK, WG'70:
PRESIDENT, LICENSING AND DEVELOPMENT
GROUP (LDG)**

When he first entered the fashion business back in the 1970s, says Isaac Douek, fashion houses tended to be poorly run, led by designers with few business skills and no professional managers to back them up.

Today, says Douek, the business has changed. Although the fashion industry slumped through a three-year recession in the early '90s and is just beginning to level out, most of the

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KEEPING HER BALANCE

DEPUTY DEAN JANICE BELLACE IS NOT ONLY WHARTON'S TOP ACADEMIC OFFICER BUT ALSO A LEADING INTERNATIONAL LABOR LAW SCHOLAR

Last summer, Janice Bellace received an invitation from the government of the Ukraine to participate in a seminar on labor and employment law. As professor of legal studies and management at Wharton and an expert on multinational labor relations and comparative labor law, Bellace would be part of a team whose mission is to help this newly independent country write its own labor law code.

The same week the Ukraine invitation arrived, Bellace, who is also deputy dean of the Wharton School, held a meeting with administrators to discuss the Wharton Curriculum Navigator — a proposal to provide MBA students with new levels of online course information in a format that would allow cross-referencing of relevant data in such areas as scheduling, faculty expertise and course readings. “The Europeans have a good word for this — ‘transparent’,” says Bellace. “The information was always there, but it was hidden. This new program would make it transparent, easier for first-year students to access.”

For Bellace, the Ukraine and the Navigator are a reminder that, like most academic deans, she is constantly juggling two roles — high-ranking administrator and legal studies scholar. Her credentials to manage this dual career challenge are impressive:

On the administrative side, Bellace brings to the job a greater familiarity with the Penn community than any of her predecessors. She earned her undergraduate and law degrees from Penn and Penn Law School in 1971 and 1974, respectively, and has been on the Wharton faculty for almost 20 years, first as a lecturer in the Legal Studies Department (1977), then an assistant professor (1979), associate professor (1984) and full professor (1993).

In addition, from 1990 to 1994 Bellace was vice dean and director of the Wharton Undergraduate Division. During her tenure, she shepherded through significant changes to the



undergraduate curriculum, broadening the number of courses offered and introducing a strong international component.

On the academic side, Bellace, who also received a Master of Science in Industrial Relations from the London School of Economics and Political Science in 1975, has been general editor of the *Comparative Labor Law Journal* since 1985, and on the executive board, U.S. Branch, of the International Society for Labor Law and Social Security since 1986. Last year she was appointed to the Committee of Experts on the Application of Conventions and Standards of the International Labor Organization. She is well-known in the academic community for her research over the past decade in three main areas: the

rights of fair dismissal, employment protection in the European community and the issue of comparable pay for work of equal value.

She is a strong proponent of the need for both undergraduate and graduate students to experience other cultures and learn new languages. As a faculty member, she has been a visiting academic in England at the University of Southampton, University of Warwick and London School of Economics, and in Belgium at Katholieke Universiteit Leuven. Her two children, ages 8 and 10, have attended a French language camp in Minnesota for the past two summers, and her husband Geoffrey Latta, travels abroad frequently as head of international compensation services for a management consulting firm. Bellace herself has a working knowledge of French and Italian.

As for the choice between administrator or academic, Bellace appreciates what she calls the “creative tension” that the two roles can generate, but sees herself eventually going back into teaching and academic research.

The following pages offer brief glimpses of Bellace as both administrator and scholar.

PHOTOGRAPH / PETER OLSON

THE ADMINISTRATOR

When Bellace assumed the role of deputy dean on July 1, 1994, an administrative assistant handed her a list of job responsibilities, organized by month. It was less than two pages, double-spaced. It didn't take Bellace long to realize that the brevity was misleading.

Many of the issues that the deputy dean is required to handle weren't on the memo, including, for example, mediating faculty complaints, settling disputes over office space and offering career advice to junior faculty. More predictable are her responsibilities in the areas of curriculum change, personnel decisions, promotions and tenure offers, committee and department chair appointments, research centers, quinquennial review committees and lawsuits.

Although her job is often described as "chief academic officer," Bellace compares herself also to a corporate chief operating officer. Much the way a COO is frequently responsible for high-level human resource issues, Bellace works closely with the faculty at Wharton to ensure that departments operate at optimum efficiency in delivering courses across the divisions and that research is facilitated through various forms of support. The personnel aspect of her job is especially crucial this year given that the vice deanships of three divisions — undergraduate, graduate and doctoral — turned over in July. "The deputy dean makes sure the transition is smooth and institutional knowledge isn't lost," says Bellace, who retains oversight authority for all three deanships.

Although the past year has brought a number of accolades for Wharton — including top rankings in business magazine polls and the School's successful completion of its \$200 million fundraising campaign — Bellace cites a number of initiatives that she would like to undertake over the next 12 months. They include:

▀ **HIRING.** "At the moment, our departments are running very well, but three of them — finance, marketing and, to some extent, accounting — are very short of people. This comes at a time when demand from students in these subjects is greater than ever.

"Overall our class sizes are larger than we would like. We hope to grow the size of the faculty slightly over the next five years."

▀ **RESEARCH.** "Research is what makes us the number one business school. It's extremely important to the faculty and it's what attracts them to Wharton. I think we can offer faculty more support in writing, producing and distributing research.

"We're also looking at how we can help the faculty become more international through, for example, an increased number of exchange programs, more faculty seminars abroad, and support for research in the area of global strategic management."

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THE SCHOLAR

Bellace's research areas include American labor and employment law, European equal employment law, multinational labor relations, and comparative labor law. In the last year alone, she has traveled to international law conferences in Italy, England, Switzerland, Japan and Belgium.

Below she offers comments on areas that she has either researched or lectured on both in the U.S. and abroad.

INTERNATIONAL LABOR MARKETS: For executives and entrepreneurs, the U.S. is the best country to work in. First, executive compensation as a multiple of the average industrial worker is much higher than in other countries. In addition, high salaries here don't get criticized the way they do elsewhere, such as in Great Britain and increasingly in Germany, even though in the U.S., salaries and perks are more public because of SEC reporting requirements on executive compensation.

In Japan, the measurement is different. Perks are not included in salary figures, so a Japanese executive's lifestyle is often 'higher' than his compensation figure might indicate.

Second, there is broad agreement that management acts in the interest of the company, but what that actually means is open to debate. In the U.S. it tends to be measured by shareholder value. In certain European countries, the notion is broader. Top management acting in the best interests of the company must consider not just shareholders but also employees and the geographic community in which the firm is located. The structure of company boards reflects this. In large German companies, one half of the seats on the top board are held by shareholders representatives and one half by employee representatives.

Also, the role of government in many European countries is much different than in the U.S. In Europe, government is seen as having a role maintaining a social market. It is intended to have some role in ameliorating the impact of capitalism on the labor market. That is not the case in the U.S. Here, for the most part, labor law is seen as creating some minimums, such as the minimum wage, minimum safety standards, and so forth, and then allowing certain avenues for procedural fairness, such as laws against discrimination. It doesn't attempt to regulate the labor market to the extent you find in continental Europe.

One of the huge problems for the European Union at the moment is that the United Kingdom has an entirely different approach to labor law than other member states on the continent. In the effort to harmonize labor law, the British approach doesn't mesh well.

For example, civil law countries — which include all the countries of western Europe except the U.K. and Ireland — tend to want comprehensive legislation. They prefer codes to regulate things, and they want rights and obligations

Continued on page 18

THE ADMINISTRATOR

▣ **UNDERGRADUATE CURRICULUM.** “The undergraduate curriculum is due for a review next year once the first class to have gone through the full four years graduates. So far, it’s going well. The leadership component [Management 100, a required course for all incoming freshmen which focuses on teaching leadership, communication and teamwork] has received relatively good responses, but we still want to improve it.

“We also need to look closely at what students bring to Wharton from their own backgrounds — written communication skills vs. oral communication skills, for example — and then structure the program accordingly.

“The foreign language requirement should be analyzed as well. [As of three years ago, undergraduates must either be proficient in a foreign language when they come to Wharton, or must become proficient in one while they are here.] We don’t have complete data on how many students came in at the proficiency level, or how many semesters of a foreign language students took to meet the proficiency requirement. We need that data to determine whether the requirement serves a useful purpose in the curriculum.

“We also want to analyze how students are constructing their course load to make use of the global environment category. [Students are required during their four years to choose three international courses out of a list of 80, including many from the School of Arts and Sciences.] It would be interesting to determine whether students make choices based on a particular region, or a time period, or are they simply taking three courses that are offered at convenient hours.”

▣ **MBA CURRICULUM.** “Here we want to look at several areas, including strengthening Management 653 [where first-year students analyze a case that combines material from other core courses in order to get a cross-functional perspective on particular disciplines/strategies].

“Right now, the first-year load is very heavy, particularly in contrast to the second year. There may be room for some consolidation in the first-year core, or shifting to the second year.

“We also want to revisit the leadership course [a required class for all first-year MBA students designed to teach teamwork, communication and negotiation skills], which is on an upward trajectory but still needs fine-tuning.

“We should consider expanding the global immersion programs [half-credit minicourses offered to first-year MBA students which include a four-week overseas trip in May to study the target country’s economy, culture, history and politics]. At the same time, I don’t feel the program should be required, since many students are international and/or have already traveled abroad extensively. For them, it may not be a cost-effective way to spend their money or time.

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clearly laid out. Common law countries, by contrast — such as the U.S. and U.K. — see the law coming in only when there is a dispute. Otherwise they say to the different parties, ‘You voluntarily set your own standards.’ Laws are relatively non-interventionist. So the idea that the law would in minute detail set closing hours for shops hasn’t occurred to us. But on the continent that is common. Until very recently, shops in Germany were ordered by law to close at 6 p.m. In Italy, private employment agencies are unlawful because the state is seen as the appropriate body for overseeing the labor market and preventing exploitative recruiting practices.

EUROPEAN WORKS COUNCIL: At an international colloquium in Belgium earlier this year, we discussed a new directive aimed at all companies operating in more than one country within the European Union. Starting in 1996, these companies will have to supply certain information to their European Works Council in such areas as size of work-

force. This is to give employees information on the company they work for. The feeling in Europe is that if shareholders know what the company is doing, so should the workers. Up until now, legislation of this type has been on a national basis: e.g., Germany has its own works council law, as does Belgium. The problem from an employee’s viewpoint is that if you work for a company that has subsidiaries in several countries, you may not get the full picture.

I’m surprised this hasn’t gotten more coverage in the U.S., because with all the U.S. companies that have subsidiaries in Europe, we will be the number three country affected, behind Germany and the U.K.

AGING OF THE WORKFORCE: One of my interests in the past decade has been the changing nature of work, the move from

an industrial society to an information society. If we go back to an industrial society, we see that what is important is strength and speed, and the ability to conform to a stringent work discipline. A worker’s usefulness declined after it had reached a peak in his mid 30s to early 40s. Such a system impacted negatively on women because women weren’t as strong as men and because child bearing and child rearing kept them out of the labor force during some of the peak career time. Women were shunted to the margins of the labor force and were essentially a secondary labor market.

The whole way we viewed the labor market was that by age 45 you had topped out, and at age 55, you were sliding out and by age 65 you were certainly out, if not before.

But when you look at the type of work we do today, strength is irrelevant. Speed is not, but it’s mental speed vs. manual speed. The ability to work under close supervision is no longer necessary. In fact, just the opposite. People have

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More and more students are coming in with laptops rather than PCs, which means we need more outlets, more modem bars and more assignments that can be downloaded.

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“Classroom facilities are another priority. More and more students are coming in with laptops rather than PCs, which means we need more outlets, more modem bars, perhaps more assignments that can be downloaded, and so forth. Undergrads may be ready for this as well.”

Bellace is particularly interested in women’s educational and employment experiences as they relate to business careers. The number of women entering Wharton’s MBA program has remained relatively constant over the past few years, she says, for a number of reasons. First, there was a big increase in the 1970s and early 1980s, because demand, which had been pent-up for so long, was finally released. That demand has now leveled off. Second, more and more women are aware of how difficult it is for a woman, especially if she has children, to sustain careers.

And third, fields like law and medicine are more clearly certifiable than business. “If you go to law school you’re a lawyer; if you go to medical school, you’re a doctor. You have a license that shows this. Your competency is proven. That’s not true in business. It’s not always clear to many women how they will prove themselves,” Bellace says.

Also, there is a lack of knowledge as to what a career in business means. “TV doesn’t glorify this field the way it does some others, like medicine or law. So if you ask a 17-year-old to consider a career in accounting, often she’s not really sure what that means.

“We need to get to people earlier about how one prepares for certain jobs. I still find it surprising that at the high school level girls are not being asked by college counselors what they see themselves doing in five years. Young men understand more clearly that what they do in college has a direct connection to their entry into a career, whereas young women still tend to view college as a place where you explore academic fields that appeal to you but don’t always offer a direct connection to career entry. That’s not necessarily bad, as long as women realize that they will most likely need to get an advanced degree in order to enter certain fields.

“Basically, men are still urged to think more pragmatically than women.”

Bellace’s appointment as deputy dean in July 1994 followed four years as vice dean and director of Wharton’s undergraduate division.

“When Tom Gerrity became dean (in 1990), it had never occurred to me to do an administrative job. But after speaking to him about the undergraduate position, it seemed like a great challenge,” says Bellace, noting that part of the job’s appeal was the faculty decision in 1990 to implement a new and more internationalized undergraduate curriculum, a process that was completed two years ago.

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to be able to work without close supervision. They have to be self-paced, self-monitoring and work well in teams.

All this changes the way we look at work. First of all, the male/female difference becomes irrelevant. Also, age becomes much less important. If somebody can think quickly and possesses great judgment, what difference does it make if he or she is 55 or 35? If someone is 52 and applies for a job, what should employers think? They should think that this person has 18 more years in the labor force, maybe more. But that is not the way we are accustomed to looking at someone who is 52.

The baby boom has had an enormous impact on this phenomenon. Most baby boomers won’t be able to afford early retirement at 57 because they will still be paying for their children’s education. Many see themselves working until they are 70.

One effect of this is that employers must look more closely at the issue of career progression, in the sense of making jobs more interesting for their employees. People who feel they have topped out and there is no place to advance tend to become less committed, less satisfied. Sometimes people talk about leaving their jobs almost as a form of escape. ‘I wish I could set up my own business.’ Not because they want to stop working but because they see decreasing fulfillment in their current employment. Starting a business might be the solution for some individuals, but it’s not the solution for a quarter of the labor force.

WOMEN IN THE WORKPLACE: In looking at the issue of equality for women, there is always the question of whether the glass is half empty or half full. If you compare 1965 to 1995, you find tremendous differences.

The first, and the one that is frequently overlooked, is the ability to control fertility. Women coming out of college or high school are no longer assumed to be working for a temporary amount of time before they stop to have a baby. This is not the pattern, especially for college-educated women. Right now, 75 percent of women who have a college degree and babies under the age of one are in the labor force.

As to whether women still face prejudice from male managers, it’s relative. Go back to 1965 again. I don’t think a woman who was 22 with a college education could get a career track job. Now managers do realize that women are here to stay. They are just trying to figure out if this particular woman is the one who will stay. Studies have shown that most younger women assume they will not leave the workforce and will work for most of their lives. And in fact, a greater number of students entering college as freshmen are women, more than 50 percent now as compared to about 30 percent in 1965.

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"I feel that was probably where I made my greatest contribution," says Bellace, whose accomplishments included the creation of exchange programs for students in Milan and Hong Kong, and semester abroad programs in Lyons and Madrid. "In the course of four years, I was able to conceive of, and get approval for, an International Studies Program, a unique, integrated dual degree program between Wharton and Penn's School of Arts and Sciences." ▼

MILAN *Continued from page 15*

major houses like Valentino, Armani and Versace are professionally run and flourishing.

Douek himself mixes both fashion experience and a strong business background as president of Licensing and Development Group, a three-person, family-run consulting firm that specializes in licensing and franchising for fashion and brand names. He is also a consultant on the fashion industry for a large Japanese investment bank, and frequently lectures on business and fashion for universities.

After he graduated from Wharton, Douek, who was born in Cairo and earned his undergraduate degree in engineering from the University of London, worked for BCG in Boston and then Milan. When BCG pulled out of Italy in 1974, Douek, after a short spell with an Italian clothing company called Marzotto, joined Valentino Couture as director of licensing and development. He set up licensing agreements in Europe, the U.S., South America and the Far East for eyewear, perfumes, cosmetics, ceramics and sportswear, among other products.

He left Valentino in 1981 and started LDG, first in Rome and later in Milan.

He acts as a broker between fashion companies and/manufacturers/distributors.

Since most of the large fashion houses have their own licensing departments in-house, Douek typically works with smaller houses, defining their priorities and then contacting, and negotiating with, potential partners for licensing and franchising. He would like to expand his business to fashion firms in Europe and also to pharmaceutical companies in both Europe and the U.S.

Douek and his wife, whom he met in 1975 during a business trip to Beirut, have a son, 17, who attends the French school in Milan.

Milan is Douek's choice of residence because it's "where industry is located, and it's more efficient, nearer to the heart of Europe. Take the car and you are in Switzerland or France in under two hours." But he also likes Rome, "for the tourism, the weather, and a better cost of living." ▼



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Consequently, another huge difference today is that companies now find it worthwhile to invest in human capital needs, i.e., to provide more workplace training and more opportunities for women to advance. Back when Betty Friedan wrote *The Feminine Mystique*, a woman might have graduated summa cum laude from Vassar, but companies generally were not willing to spend resources on improving her skills. At age 37, a woman of that generation was 'less' than she had been at age 22.

A third difference is the nature of work. That's where you see the wage gap closing because of the greater premium on education. Women can compete on educational grounds and they do it quite well. The data shows that the wage gap is closing. Why? In the 1960s, it was said that women were underpaid. It could have been that men were overpaid, particularly in certain jobs that didn't require much education or high skill level. Now that is no longer true. Instead, pay increases in many of the overwhelmingly male, blue-collar jobs have not kept up with inflation. In relative terms, these jobs have fallen behind, which has led in part to the angry high-school educated male phenomenon.

AMERICAN LABOR LAW: One of the problems in American labor law at the moment is that a great deal of it comes from the New Deal. As I mentioned earlier, we are at a different economic stage now, which means many of the basic notions in our law are obsolete.

For example, much of our labor law makes an incredibly sharp distinction between workers and supervisors/managers. Workers are the ones who don't think and who do as they are told. Once you think and have discretion, then you are not covered anymore by the National Labor Relations Act. That's a meaningless distinction. We expect our workers to think and make decisions. The Fair Labor Standards Act with its distinction between exempt and non-exempt workers is an artifact that made sense in the 1930s but doesn't now.

The statute that really surprises me is the American With Disabilities Act. It sailed through Congress because our political leaders realized there was widespread support for it, even though it can impose significant burdens on employers. We might talk about anti-discrimination laws being unpopular, but then when you ask which ones should be repealed, there isn't widespread support for repealing any specific statute.

I agree that laws can be burdensome, but as I said in an article, law is society's response to the market ... In democratic countries, law is the non-violent way citizens express their will. The challenge for a lawyer doing research in a business school is to balance this democratic imperative with the need of a free market to operate efficiently. ▼

FACULTY ON TOUR: THE KOREAN EXPERIENCE



Ask faculty members who spent a week in Korea last spring what they were most impressed by and they will invariably mention the Samsung Human Resources Development Center.

At Samsung Electronics, one of Korea's most powerful family-run industrial groups, employees receive 21 days of on-the-job training a year at a cost to the company of \$2,000 per employee. "Koreans value education tremendously," says Jean Lemaire, professor of insurance and actuarial science and one of five faculty members who participated in the international seminar to Korea last May. "Every day Samsung employees view a video containing news related to the company. An educated work force is one of Korea's major assets."

Lemaire was joined on the trip by Leonard M. Lodish, Samuel R. Harrell Professor of Marketing; Eric Johnson, professor of marketing, operations and information management and psychology; Philip Nichols, Ronald Koenig Term Assistant Professor of Legal Studies; Scott Armstrong, associate professor of marketing, and Jeffrey Sheehan, associate dean for international relations.

The faculty visit came at a time when Korea is increasingly viewed by the West as an economic powerhouse undergoing dramatic changes in the way it does business, both at home and abroad. The skyrocketing costs of both land and labor is forcing the country to switch from a manufacturing orientation to a more service-oriented one. At the same time, labor unions are demanding higher wages for their employees, threatening the prosperity that made these demands possible and creating the danger that Korean industry could become uncompetitive worldwide.

Meanwhile, a move towards internationalization — opening up markets to imports and promoting more competition — has brought pressure to deregulate what has been a highly regulated, government-controlled economy. The chaebol — a group of family-run conglomerates that dominates Korea's economy — is reportedly beginning to adapt to market forces by establishing new plants abroad and introducing more efficiency and focus into their operations.

In the midst of these changes, Korea's booming economy is expected to grow by eight percent a year and the standard of living for most Koreans is improving rapidly. "It's a brand new game, both for the Koreans and the rest of the world," says Sheehan. "It means tremendous opportunities but also many risks."

In addition to touring Samsung Electronics and its education facility, the Wharton contingent visited a

shipbuilding facility owned by Daewoo Heavy Industries and an auto manufacturing plant owned by Hyundai Motor Co. Faculty members heard presentations on Korean politics, industrialization and unification; visited an observation tower on the border of North Korea; and individually contacted companies and/or organizations that reflected particular research interests.

Lemaire, who is editor in chief of the bulletin of the International Actuarial Association, visited with the Korean actuarial association and also spoke to a group of insurance executives and regulators on Korea's current efforts to deregulate the auto insurance market. Lemaire was involved in Europe's efforts at auto insurance deregulation several years ago and recently published a book that studied the rate-making systems of, among other countries, Korea. His lecture received extensive coverage in the Korean press.

Len Lodish, whose research interests include marketing experimentation, sales force decision support, and promotion and advertising strategy, saw significant changes ahead for Korean retailing. "Currently, most products like appliances and fashion accessories are available at franchise stores that sell just one brand and sell it on consignment," he says. "That's obviously inefficient, because the consumer has to go to different stores if he or she wants to compare goods. In addition, the stores probably don't sell as much per square foot as they could if they had more brands to offer. So it's a matter of time before Circuit City and others come over to Seoul, and in fact Price Club has already made the move."

Of course it's not easy for foreign companies to enter the Korean market, Lodish adds, because a Circuit City or Price Club trying to stock Korean merchandise in their outlets will find resistance from the current system. "It's only when Korea opens up the market to imports, which is beginning to happen now, that competition becomes feasible," he says.

Eric Johnson, who has done research on the role of trust and perceptions of fairness, "found that, compared to the U.S., agreements here are meant differently. In Korea, you agree on a set of principles, not the technical details. Koreans care that the spirit of the agreement is carried out rather than the legal stipulation. Americans

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ANGEL CORCOSTEGUI, WG'80, PHD'82: BANKING ON BEING NO. 1

When Banco Central and Banco Hispano Americano merged in 1991, executives of the newly-formed Banco Central Hispano set up a consolidation plan designed, over the course of four years, to merge the two existing corporate cultures and create a more aggressive, efficient and profitable operation.



Three years into the implementation of that plan, the bank also hired its first chief executive officer. In 1994, Angel Corcostegui left his position as managing director of commercial banking, capital markets and international banking at competitor Banco Bilbao Vizcaya to head up Banco Central Hispano, now the fourth largest bank in Spain.

After a little more than one year on the job, Corcostegui clearly feels he made the right move. "In two to three years from now, BCH will be the leading bank in Spain," he predicts. "We already have a number of major strengths, including, first, our large retail banking network in Spain, with 2,600 branches operating all over the country. Second, we offer very powerful financial services to large corporations, from corporate banking to capital markets and cash management.

"Third, our international operations are growing with strong presences in South America, Europe and the U.S. And fourth, we have an impressive industrial group with holdings in some of the largest Spanish corporations in the following sectors: oil and petrochemicals, telecommunications, electric utilities, construction, food and real estate."

Corcostegui, 43, was born in Bilbao, Spain, and educated at Jesuit schools. Although his father was a doctor —

was his grandfather, great grandfather, great-great grandfather and now, two brothers — Corcostegui senior felt strongly that his children should have an education in the world beyond Spain. "From the time I was seven, I spent all my summers in foreign countries," Corcostegui remembers. "My father would gather together me, my three sisters and three brothers and distribute the destinations. 'You are going to France this year, you to Germany, you to England.' He always said that we had to know not only the different languages, but the different cultures. And I am following the same philosophy with my own children. My two sons spent one month this summer in Germany and one month in New York state."

Corcostegui studied civil engineering at Santander where he met his future wife Ana, an architecture and interior decorating student.

After a six-month tour of duty as a soldier in the Sahara Desert, Corcostegui decided to pursue a business career rather than civil engineering. "I chose Wharton because of its quantitative bent and also because the U.S. was then about eight to 10 years ahead of the rest of the world in business and finance," says Corcostegui, who spoke fluent French and German at that time, but needed to take an intensive three-month English course before entering Wharton.

While pursuing his MBA and PhD, he worked part-time for the World Bank in Washington, D.C. and for Chase Econometrics in Philadelphia. After graduation, he spent six years with a multinational industrial conglomerate based in New York.

"To me, the greatest virtue of the U.S. is its utter lack of fear in the face of change. When an American sees a company floundering, he first identifies the problem, designs the change and plunges ahead to implement it. Early on in life Americans learn that they must innovate. They are not afraid to change companies and even professions, if necessary. That is not the case in most of Europe."

In 1987, Corcostegui was recruited to be the assistant general manager of Banco de Vizcaya, the fifth-ranking bank in Spain at that time. One year later, the bank merged with Banco Bilbao to become Banco Bilbao-Vizcaya. Corcostegui was promoted to director and general manager of BBV in 1988 and to managing director and general manager of commercial banking, capital markets and international banking in 1990.

In 1994, he was approached to become the CEO of Banco Central Hispano. "The bank needed one last push to complete the merger plan," he says. "It was a tremendous opportunity."

Corcostegui says his biggest challenge at the bank right now is to improve earning power and also the quality of service. "I am making the client the center of gravity in our organization. This is simple to say, but extremely demanding to do, because it forces our group to constantly review

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STEFANIE SHELLEY, WG'89: ON THE FRONT LINE AT GE CAPITAL

Stefanie Shelley got her first taste of consulting and problem solving when she worked as a senior consultant for the Small Business Development Center during her two years at Wharton.

Six years later, she is still involved in problem solving, but on a much different scale.

As director of quality at GE Capital, the financial services arm of GE Company, she is responsible for “developing a company-wide approach to better understanding the needs of GE Capital customers and creating the processes and culture necessary to meet those needs.

“It’s the first time as a company that we are implementing a unified and consistent strategy across the 25 businesses that make up GE Capital,” says Shelley, 32, who reports directly to GE Capital’s president. The 25 businesses, with total assets last year

of \$154 billion, range from mortgage insurance, commercial real estate and consumer credit cards to auto financing, computer services and truck leasing.

Shelley has been on the fast track at GE — changing jobs within the company three times in 1994 alone — since she first joined its strategy and business development group in 1991. She spent two years leading efforts to improve business performance in everything from new product development to cycle time reduction to sales force effectiveness.

Her major contribution was to help develop a common approach to supplier management and sourcing across the whole company. Not only was she able to help the GE businesses achieve significant price reductions and quality improvements, but she was also in a highly visible position that brought her into close contact with Jack



Welch, GE’s chairman and CEO, and led, in March 1994, to a new job at GE Capital, one of GE’s 12 business units.

At GE Capital, Shelley started a new business venture designed to sell the company’s sourcing expertise by packaging it into products for customers.

Out of that effort came two major initiatives: 1) a corporate charge card targeted at small businesses that offered corporate discounts on products from GE partners and 2) a trans-

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PETER J. TATE, W'67, WG'69: THE EVOLUTION OF AD AGENCIES

Where do York peppermint patties, Michelin tires and the beaches of Bermuda intersect?

Answer: In the Madison Avenue office of Peter Tate, executive vice president of DDB Needham Worldwide and account manager for some of the ad agency’s largest accounts — including Hershey Foods, Michelin Tire and the Bermuda Department of Tourism. Tate is also COO of the 350-employee New York office and responsible for helping to attract new business and set company policy and strategy.

In the 17 years he has been at DDB Needham, Tate has seen enormous changes both within his company and throughout the ad industry. DDB Needham, which is owned by publicly-traded

Omnicom Group Inc., has grown into the fifth largest ad agency worldwide, with international billings last year of \$6.7 billion and domestic billings of more than \$3 billion.

That growth, says Tate, has come during a period in which the role of ad agencies has changed from providing its clients with one type of product — advertising and commercials — to providing clients with “core communication concepts,” which go beyond TV/radio commercials and print ads to include sales promotions, corporate identities and logos, philanthropic and sponsorship involvement, and interactive communications.

Often it has been the clients, rather than the ad agencies, who have led the way in adapting to a changing business environment, says Tate. “Traditionally ad agencies have been the innovators. But recently we have been playing catch-up ball ... Thirty years ago, companies didn’t do their own marketing. Now many have their own internal communications department with just about every capability except the creative one.”

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G G L O B A L

MORE AND MORE FIRMS AND INVESTORS ARE REALIZING THE POTENTIAL PROFITS OF TAPPING INTO NEW FOREIGN MARKETS. AT THE SAME TIME, GOVERNMENTS ARE WORKING TO CREATE POLICIES AND ESTABLISH AGREEMENTS THAT ENCOURAGE INTERNATIONAL TRADE. WHARTON RESEARCHERS EXAMINE ISSUES RELATED TO BOTH SIDES OF THE MOVEMENT TOWARDS GLOBALIZATION.

BUILDING BLOCS OR STUMBLING BLOCS?

Numerous regional trade agreements have been created over the last few years: The European Union has grown to 15 countries, NAFTA is solidly in place, and trade pacts are being discussed in the Asia Pacific region. Will these efforts at regionalization turn the world economy into a series of closed and competing regional blocs as in the 1930s? Or, are the agreements stepping stones that will lead to an open global economy?

Stephen Kobrin, professor of management and director of the Lauder Institute of Management and International Studies, argues that the emerging global economy reflects fundamental changes in the scale and complexity of international activity; it is here to stay. A future world economy divided into restricted regions is very unlikely for a number of reasons:

Regional markets are too small. As development costs rise and product life cycles shrink, many high-tech industries require global markets to stay technologically competitive. Regional blocs are too small to absorb the cost, risk, and complexity of late-20th century technology. In most high-technology industries, strategic alliances are trans-regional.

Regional borders cannot be closed. A world of closed regional blocs assumes that cross-border transactions can be controlled. But borders are almost irrelevant in today's international financial markets, where \$1 trillion worth of foreign exchange is traded daily. There are severe limits on any government's ability to "defend its currency" now that huge flows of electronic transactions can be consummated in the blink of an eye, regardless of the distance. The border problem will only worsen as more and more businesses move into wireless data communications. Why should regional borders be less permeable than national borders?

Geography is no longer relevant as a basis for the organization of markets. The concept of a world organized by mutually-exclusive territories came into being in the 1600s and has lasted for well over 300 years. All of this has changed in the last few decades. The international financial market of today no longer recognizes these national borders. Its domain is now electronic rather than geographic. When transactions consist

of electronic impulses transmitted at the speed of light, borders and geography lose their meaning as organizational constructs. At the end of the day, regional markets are no more than national markets writ large.

"The emergence of an integrated global economy during the past decade is a result of basic structural changes, dramatic increases in the scale of technology, and the corresponding development of network forms of organization," Kobrin says. "It is not a momentary outcome of a particular constellation of political forces."

Stephen Kobrin, William H. Wurster Professor of Multinational Management: "Regional Integration in a Networked Global Economy," May 1995

DO MNCs LEARN FROM EXPERIENCE?

Globalization allows multinational corporations access to foreign markets, cheap labor, and other advantages. But foreign entry does not come without costs. Adjusting to a foreign culture can be an expensive process. Does the type of ownership affect a company's ability to adapt to new cultures, and once established abroad, can a company use its experience in adjusting to new cultures?

Johannes Pennings, professor of management, and Harry Barkema and John Bell of Tilburg University in the Netherlands examined 225 foreign ventures of 15 European firms since 1966 and found that ownership structure is significantly associated with success in foreign markets.

The researchers found that a joint venture with a foreign firm or the acquisition of an existing company in a new country is more likely to fail than a wholly-owned subsidiary or start-up. Each entry into a new foreign market requires that the expanding firm adapt to a foreign culture. But in a joint venture, the firm must also become familiar with its partner's corporate culture. In an acquisition, the company has to accommodate both the target firm's national and corporate cultures.

Firms reduce cultural barriers over time as they learn from their previous expansion experiences, the researchers found. Firms that expand abroad acquire site-specific knowledge that ranges from local culture to institutional characteristics. A



company that builds a strong base close to its home culture and gradually moves into regions whose cultures differ from that of its home country is less likely to fail than a company that precipitously enters a region with a different culture. A firm more likely to fail enters countries that have extremely different cultures than their recent expansion nations.

"The results show that expanding firms can move along a learning curve in such ventures, especially when they choose their expansion path so that they can exploit previous experience in the same country and in other countries in the same cultural block," the study concludes.

Harry Barkema, John Bell, and Johannes Pennings: "Foreign Entry, Cultural Barriers, and Learning," Strategic Management Journal, forthcoming

ARE FOREIGN EARNINGS WORTH MORE?

During the last 20 years, U.S. firms have substantially expanded their operations outside of the United States. In an effort to keep investors better informed, accounting regulators such as the Securities and Exchange Commission and the Financial Accounting Standards Board have mandated that firms provide data on foreign operations. To date, there hasn't been much evidence on the value relevance of these foreign disclosures. Gordon Bodnar, assistant professor of finance, and Joseph Weintrop of New York's Baruch College explored the question of whether earnings from an MNC's foreign operations impact the value of the firm.

Bodnar and Weintrop examined the annual earnings of 457 firms from 1985 to 1992 and, based upon the financial statements, broke down their earnings in two categories: income earned domestically and income earned from foreign operations. The researchers found that changes in both areas of earnings had a significant impact on annual returns. However, the researchers found that news of strong earnings in overseas operations have a much greater impact on the firm's annual stock return than a reported boost in domestic earnings. (If foreign and domestic incomes rise to the same levels, the impact of the increase in overseas profits on a firm's change in value is more than twice that of domestic profits.)

Bodnar says his findings reflect a growth story. Since foreign operations have generally represented a small proportion of most U.S. firms' total operations, and given the relative size of the potential foreign market, the overseas markets offer the potential for greater growth than the already more exploited domestic market. Because successful foreign operations suggest opportunities for greater growth abroad, they are interpreted by the market as a sign of high future foreign earnings. The expectation is often stronger than the expectation of high future earnings from successful domestic operations.

Gordon Bodnar and Joseph Weintrop: "The Valuation of Foreign Income: A Growth Opportunities Perspective," January 1995

FDI SMOOTHS THE PATH TO CAPITALISM

Leaders of countries that are shifting from socialism to capitalism are often ambivalent about foreign direct investment (FDI). They are concerned that foreign firms may displace national companies and that the objectives of the foreign investors may conflict with their own country's development goals. They are also wary of transferring wealth or control to foreign owners. But does FDI actually help these countries in the long run? How can countries smooth the path for foreign investors?

Through statistical analysis and interviews with managers of foreign MNCs and government officials in Russia, Poland, East Germany and Latvia, Bruce Kogut, professor of management, has found that FDI has a potentially significant impact on transitional countries and on the governance of their firms.

FDI not only brings in new capital, new technology, and new ways of work organization; it can also provide examples of superior methods of supervision, authority, and incentive structures. Foreign firms also implement a superior method of organizing and external control.

Faced with increased competition from these foreign competitors, domestic firms must take steps to ensure their place in the changing marketplace, or else be squeezed out. In this way, FDI forces domestic companies to improve their business strategies and processes.

Kogut argues that governments of countries shifting to privatization should take steps to ensure the process moves ahead as smoothly as possible. Some of his recommendations involve:

Competition policy. Governments should create policies that always encourage competition. To avoid conflicts among its agencies, governments should not screen investment applications.

Privatization and ownership. Should a nation preserve ownership over a few key enterprises? Kogut argues that a nation shouldn't preserve ownership in industry, as it can threaten reforms during a period of vulnerability. If the state must keep some control, Kogut says it should do so in industries where the nation has strong capabilities and from which it is able to borrow or buy technology easily from world markets.

Experimentation. Foreign companies can bring with them vastly different ways of organizing work, human-relations policies and other assets. In this sense, the subsidiaries of MNCs can act as templates for successful business practices to be replicated in the local environment. "Ill-conceived restrictions could hinder the adaptive learning process," says Kogut.

Bruce Kogut: "Direct Investment, Experimentation, and Corporate Governance in Transition Economies," in Corporate Governance in Central and Eastern Europe, The World Bank, forthcoming ▼

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CORCOSTEGUI *Continued from page 22*

our approach to clients, and to continuously change our market segmentation, our products and our pricing.

"A second priority is to improve productivity, to develop and have a much more efficient business model. In three years, our work force has been reduced from 32,000 to 24,000 without losing market share, mainly by improving our operational systems. It is the only way to survive in Europe's extremely competitive financial services industry." ▼

SHELLEY *Continued from page 23*

portation management program for GE customers that allows them to achieve the same discounts that GE Capital receives from rail, trucking and ocean carriers.

After 10 months with GE Capital Business Services, Shelley was recruited for the new position of quality director at GE Capital. She began the new job in November. "In many businesses, quality is often thought of as whether a product works or not," she says. "Because we have so many diverse financial services businesses here, we are using state-of-the-art techniques to better understand key drivers of customer loyalty and retention. For example, if you want an auto lease or a credit card, what service experiences really matter to you and which ones will keep you coming back to us? In a service business you have to understand what the customers want and work to deliver that every time. If a customer wants financing in 24 hours, you have to work on providing it in 24 hours."

Shelley grew up in Princeton, N.J. and was an economics major at Colgate. Between college graduation and Wharton she worked in corporate finance at Bankers Trust.

She lives in Manhattan to be near friends, siblings and Long Island beaches. Her "absolute passion" in life is running, which she does in the morning before her hour-long commute to GE Capital in Stamford, Ct. "When I'm not working," she says, "I'm either exercising or socializing." ▼

TATE *Continued from page 23*

Within the industry itself, the biggest challenge facing ad agencies is to differentiate themselves from each other, according to Tate. "Increasingly, agencies of the same type and size are regarded as commodities by a lot of their clients. When I got out of Wharton, firms like Ogilvie & Mather, J. Walter Thompson, Grey and Ted Bates each had a unique personality and style. But then through the mergers and acquisitions of the '70s, '80s and early '90s, everyone got homogenized and the individual companies were perceived as one."

Tate says that DDB Needham, which itself was created by a merger eight years ago, has been able to forge its own identity through a series of memorable and enduring ads, including the Michelin tire campaign.

The challenge from the beginning, he notes, was to take

Michelin's relatively limited ad budget (approximately one third that of its biggest competitor, Goodyear), and strategically position the Michelin brand in a way that would, in advertising words, "preempt a category generic benefit." Everyone is "interested in a tire that is dependable, safe and reliable," Tate says. DDB linked these attributes to Michelin tires through a series of ads featuring babies sitting on, around, and upside down in the tires.

The baby ads have achieved universal awareness and "likability" in the U.S. "A campaign in a quasi technical category that lasts 10 years is almost unheard of," he says.

Tate has also played a pivotal role in the Hershey account, which under his management has grown to become the second largest account in the New York office. The Wharton connection helped. Tate was hired at DDB in 1978 by a Wharton graduate — Paul Paulson, WG'59 — specifically to handle Hershey. And within Hershey, Tate was assigned to a group of people that included Jay Carr, WG'69, now president of Hershey International, Frank Cerminara, WG'72, vice president, commodities procurement, and Leah Longan, WG'74, director of marketing.

Prior to joining DDB, Tate spent six years at Ted Bates Advertising, and two years with Young & Rubicam. While at DDB, he has also been responsible for such accounts as Olympus, CIGNA, Campbell's (Mrs. Paul's), Liz Claiborne, Allied-Signal and Pepsi Cola, among others.

Tate, 49, and his wife, a vice president with Natwest Bank New Jersey, have two daughters, one at Lehigh and the other at Ohio Wesleyan. They live in Princeton. ▼

KOREA *Continued from page 21*

have a hard time with that."

Another — and more apparent — difference between Korean and U.S. society is the economic role played by women. Women comprise less than five percent of the workforce, yet they have a clearly dominant role with respect to household budgeting, discretionary spending and financial planning.

"The custom in Korea is that the husband goes out and works, brings home a paycheck and turns it over to his wife," says Lodish, who learned about this arrangement during his visit to a Chrysler dealer. "She puts the money in her own account and gives her husband an allowance. She is the one who decides on all the major purchases, including investments, insurance and cars."

Wharton's interest in Korea reflects not only the country's growing role in international trade, but also the fact that Korea is home to more than 100 Wharton MBA and PhD graduates. Many alumni — led by Sehoon Lee, WG'75, president and CEO of Hankuk Glass Co. — helped arrange activities, lectures and social events for the visiting faculty. The trip was funded by six Korean companies, all of them headed by, or associated with, Wharton graduates. ▼

NEW LEADERSHIP FOR THE ALUMNI NETWORK

As part of its efforts to expand the range of services to alumni, Wharton has appointed Marguerite (Marti) A. Harrington, WG'76, director of alumni affairs.

Prior to coming to Wharton, Marti spent 18 years in the health care industry, most recently as vice president, planning, for Mercy Health Corporation. She is a graduate of the health care program at Wharton and was a Thouron Fellow at the London School of Economics. She is included in the 1995-96 edition of *Who's Who of American Women*.

Since graduation, Marti has been among the School's most active alumni volunteers. She was chair of the Alumni Association from 1989 to 1991, a founder of the Wharton Club of Hartford, and currently serves as vice president of career management for the Wharton Club of Philadelphia. Marti is a member of the board of directors of the Wharton Health Care Alumni Association, and in 1982, received that organization's Alumni Achievement Award. Marti's e-mail address is harringm@wharton.upenn.edu

As alumni director, Marti will be responsible for strengthening the existing alumni program, which includes the alumni club network, reunions, directory production, and student interaction. In addition, she will be developing new initiatives that will allow graduates to more effectively network with one another, including career management programs, on-line services and industry-based affinity groups.

Teaming with Marti in expanding the focus of the alumni network will be the Wharton Alumni Association's Executive Committee, which also has new leadership. Samuel F. Gorman, W'66, WG'67, is chairman of the Executive Com-

mittee. He has been a member of the board since 1991, and during the past year, served as chairman of the Strategic Planning Committee. Sam is a Certified Public Accountant and an audit partner with Ernst & Young in Houston. He has been president of the Wharton Club of Houston since 1992.

The new president of the Executive Committee is Dana Michael, W'82, a senior manager in Ernst & Young's mergers and acquisitions group in New York. A board member since 1989, Dana has been chair of the Student Affairs Committee for the past two years, with responsibility for developing outreach programs to "future alumni." Dana and Sam will be leading the 22 members of the Executive Committee as they partner with Alumni Affairs in developing new initiatives to strengthen ties among alumni as well as with the School.

At the Association's Annual Meeting in May, five alumni were elected to the Executive Committee. They include:

Julie Daum, WG'79, a director at Spencer Stuart in New York City; *Matt Greene, WG'89*, senior vice president at Utendahl Capital Partners, L.P. in New York City; *Gerald L. Robinson, W'54*, senior vice president at Manchester, Inc. in Philadelphia; *Terry White, WG'91*, with MCI Metro in Vienna, Va.; and *Richard Wien, W'79*, a financial growth advisor with Economic Growth Group, Inc. in New York City. ▼



HARRINGTON