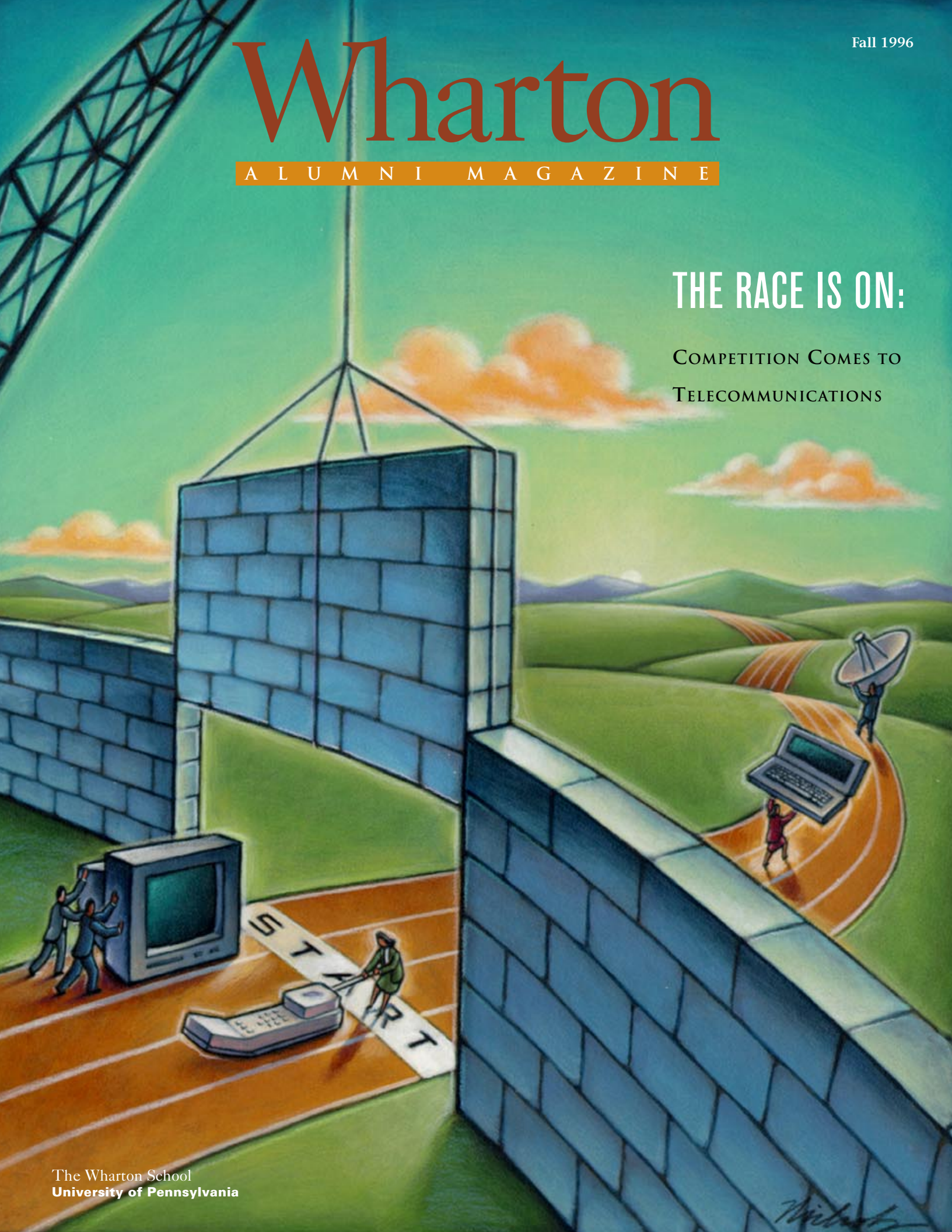
Fall 1996

Wharton

ALUMNI MAGAZINE

THE RACE IS ON:

Competition Comes to Telecommunications



The Wharton School
University of Pennsylvania

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IN PHILADELPHIA

Wharton Alumni Weekend

Friday, May 16; Saturday, May 17; Sunday, May 18, 1997

- Five-year MBA Reunion
- Executive Education Sessions
- Dinner
- Alumni/Faculty Exchanges
- Wharton Town Meeting
- Picnic Lunch and Parade
- Farewell Brunch

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

1996 Wharton Alumni Weekend

IN PARIS

The 2nd Wharton European Forum

Organized by The Wharton Club of Paris in cooperation with the Office of Alumni Affairs and the Executive Education Division

Thursday, June 19 and Friday, June 20, 1997

Details and registration information to follow

1996 European Alumni Forum: from left, Gerard J. Thulliez, WG'71, senior partner, McKinsey & Co.; Jan-Michiel Hessels, WG'69, chairman, Vendex International; L. John Clark, W'63, WG' 68, CEO, BET plc; Janice Bellace, Deputy Dean, Wharton and Klaus Zumwinkel, WG'71, CEO, Deutsche Bundespost

IN SHANGHAI

The 4th Asian Regional Alumni Meeting

Organized by The Wharton Club of Shanghai in cooperation with the Office of Alumni Affairs and the Executive Education Division

Friday, May 30 and Saturday, May 31, 1997

Details and registration information to follow

1996 Asian Regional Alumni Meeting: Guest Speaker Anson Chan, chief secretary of the Hong Kong government

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ALUMNI MAGAZINE

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Features

Departments

Cover Article

The opportunities created by new competition in the telecom industry are enormous, as are the stakes — approximately $1 trillion in annual revenues by the 2000.

Illustration by Garry Nichols 7

Editorial Staff

Editor
Robbie W. Shell

Staff Writers
Tom McMahon
Mike Baltes

Editorial Assistant
Dorothy Gillam

Design
Warkulwiz Design Associates

Editorial Office
344 Vance Hall, 3733 Spruce St.
Phila, PA 19104 (215) 898-8478
Fax (215) 898-2695
alumni.affairs@wharton.upenn.edu

Administration

Thomas P. Gerrity
Dean and Reliance Professor of Management and Private Enterprise

Robert E. Mittelstaedt
Vice-dean and Director
Wharton Executive Education

Marti Harrington, WG'76
Director of Alumni Affairs

Class of 2000: The Best and the Brightest

On Saturday, August 31, 1996, the new millennium arrived on our doorstep — quite literally! Penn's undergraduate Class of 2000, including more than 400 Wharton first-year students, converged on campus with fanfare befitting their status as our brightest and most talented class ever.

That Wharton is the choice of the nation's best undergraduate students is a wonderful endorsement of our program. This year alone we saw a 20 percent increase in the number of applicants, and a 30-point rise in the average SAT score of this pool. Each year, our students come off the blocks ready and eager for a rigorous academic experience that will prepare them for business leadership in the next century.

We are unique in the Ivy League in offering undergraduate business degrees. In fact, most of our peers in the top and second tiers of business schools do not have an undergraduate division. What really sets us apart, however, is our unfailing commitment to innovation across the board. Our defining mission of redefining leadership for the next century has enabled us to develop programs at every level of business education that set the standard in the field.

The demands of our academic program in no way diminish the wonderfully energetic contributions of Wharton undergraduates to the Wharton and Penn communities.

Our mission also demands constant renewal. In 1992, the Undergraduate Division undertook a thorough assessment and retooling of its offerings to ensure that our program focuses most effectively on five major emphases:

- depth and rigor in skill-based teaching in the traditional business functions and cross-disciplinary expansion
- personal leadership skills
- new areas of knowledge, including information and communication technology
- globalization
- practical application

The demands of our academic program in no way diminish the wonderfully energetic contributions of Wharton undergraduates to the Wharton and Penn communities. They play key roles in student government and club activities, on student-faculty-administrative committees, in the Greek system and on athletic teams. I am particularly proud of the service they give to our West Philadelphia neighbors in a variety of volunteer efforts.

And even in a very tight job market, Wharton seniors are interviewed by an average of 22 firms and receive an average of three offers. A survey of alumni five years after graduation indicates that fewer than a third go on to pursue an MBA, while 40 percent continue in their careers without any graduate degree. Our program prepares them to compete successfully as they enter and as they advance in their careers.

The roster of Wharton undergraduate alumni includes accomplished leaders in virtually every industry, in multinational corporations and entrepreneurial ventures, and in economic and public policy-making positions in nations around the globe. Likewise, they remain involved with the Wharton and Penn community after graduation, serving on advisory boards at the School and University levels, delivering lectures on campus, generously supporting activities through personal and corporate gifts, recruiting, and mentoring current students.

The promise of Wharton's Class of 2000 is, I believe, still greater. Under the very able leadership of Vice Dean Richard Herring (profiled on pages 18-21) and our world-class faculty, our undergraduate division will continue to advance into new areas to keep pace with the interests of our students and the demands of global business and management. I know you will enjoy watching — and being a part of — this unfolding future.

Thomas P. Gerrity

Looking for Work - And Finding It

Wharton's most recent MBA graduates are, professionally speaking, popular; increasingly entrepreneurial; still attracted to the consulting industry, and eager to move abroad for job opportunities. They are also record breakers.

According to the School's Career Development & Placement Office, a record-setting 97.1 percent of the 1996 MBA graduates reported at least one job offer as of July 15. More than 96 percent, another record number, reported accepting jobs in 47 different industries. "These figures are amazing," notes Andrew Adams, director of CD&P. "This year the biggest complaint I had from recruiters was that there weren't enough students to hire."

Consulting continued to be the industry of choice for close to a third of the students — 31.8 percent compared to 27.7 percent last year. Investment banking/brokerage attracted the second highest number — 19 percent compared to 17.6 percent last year — and commercial banking the third highest, 8.8 percent compared to 13.3 percent in 1995.

Sixteen students from WG'96 indicated they will be starting their own businesses, up from 12 last year.

The entertainment and leisure industries, which have never accounted for more than 0.5 percent of the job acceptances of any Wharton class, hired 2.0 percent of the Class of 1996, up from 0.3 percent last year. Increases were also noted in the pharmaceutical/health care products industry — 2.9 percent compared to 1.6 percent last year — and the software/printing/publishing industry, 1.5 percent compared to 0.6 percent in 1995.

"With the entertainment, media and communication industries exploding the way they are, students are seeing real opportunities today that didn't exist or were difficult to find five to six years ago," notes Adams. "The breadth of industry represented by the recruiters continues to expand," he adds. "They are looking for a higher level of management talent than in the past."

By function, consulting was preferred by 35.6 percent of the class, compared to 34 percent last year; investment related functions were a close second, with 34.4. percent of the class compared to 36.6 percent last year. The third most popular function — marketing — experienced a decrease (the fifth year in a row), coming in at 7.4 percent compared to 7.8 percent in 1995.

As has been true since 1993, close to one-quarter of the class took positions abroad: 10.6 percent in Asia, 8.5 percent in Europe., 3.1 percent in Latin America, 0.4 percent in Canada and 0.1 percent in Australia.

Positions with international responsibility were reported by 53.4 percent of the class.

ILLUSTRATION / MICHAEL ROGALSKI

New Faculty:

Legal Studies Professor Tackles International Business Ethics

Are there absolute ethical standards that apply to all business arrangements and relationships, or do ethical standards vary depending on where a particular transaction takes place?

New legal studies faculty member Thomas Donaldson, who holds the Mark O. Winkelman Professorship, has spent his career focusing on questions like these in the context of international business ethics. The field has grown enormously over the past two decades with the expansion of the global marketplace and the need for managers to operate in diverse cultures.

While empirical studies on international business are part of the literature, "not many people have tried to wrestle with the normative questions, like whether as a business person you should go along with certain practices in a particular country, whether you should challenge them, why or why not," says Donaldson. "We are just now getting our arms around this."

Continued on page 6

News Flash!

For the second time in a row, Wharton has been named the number one business school in the U.S. by *Business Week* magazine in its biennial ranking of MBA programs. The poll, published in the October 21 issue, places Wharton ahead of the University of Michigan (#2), Northwestern (#3), Harvard (#4) and the University of Virginia (#5).

Wharton Hosts 35 Future Business LEADers

"I see my father get up every morning and go to the bank, and he still loves what he does. You hear that if you get a job you like, you never have to work for the rest of your life. That's what I'm aiming for."

Luisa Patino is a senior at Westminster Christian School in Miami, Fla. She was one of 35 participants in this summer's Leadership, Education and Development (LEAD) Program, an intensive month-long introduction to business offered every summer at Wharton and nine other business schools to talented minority high school students from around the country.

"Most of us don't yet know what we want to do," says Patino, whose father is a Wharton graduate. "Some of us are musical, some artistic. Some are mathematically-oriented, others are good in science. So it's a very enriching atmosphere to be in. Everyone here is in the top two percent of their class. We have learned so much about different business areas and perspectives, and we have also learned a lot from each other."

Those students chosen for the LEAD program at Wharton have demonstrated leadership ability, academic achievement and enthusiasm for exploring careers in business. They receive scholarships covering such expenses as tuition, room, board and transportation.

Once on campus, participants attend classes led by Wharton professors and business leaders, take fields trips to corporations in Philadelphia, New York and Washington and present case study conclusions to corporate executives.

LEAD PARTICIPANTS: "CAMARADERIE, SYNERGY AND SELF-CONFIDENCE"

PHOTOGRAPH / ANTHONY B. WOOD

This year the students — who are African American, Hispanic and Native American — visited McNeil Consumer Products Co., Campbell Soup Co., FannieMae, McKinsey & Co., Rohm & Haas, Merck & Co., SmithKline Beecham Corp., Lucent Technologies, Black Enterprise Magazine and American Express Co. They toured the Philadelphia Museum of Art, the Holocaust Museum in Washington D.C. and the Baltimore National Aquarium.

Five to seven of the LEAD students each year come back to Wharton as members of the freshman class.

"It's been one of my most enjoyable experiences, to every year see 35 of the top minority high school students work together as a unit to learn the principles of business, and to develop among themselves camaraderie, synergy and self-confidence," notes Harold J. Haskins, operations director for the LEAD program and director of student development support planning at Penn. "They learn that everything has a business foundation. The education they receive here is useful no matter what career they end up pursuing."

Tribute to a Popular Accounting Professor

Rufus Wixon, a professor of accounting at Wharton for 31 years and a major figure in the accounting education field, died in June at age 84.

His family requests that donations be made to The Rufus Wixon Scholarship Fund, established in 1986 by Stephen J. Garchik, W'75, WG'76, president of The Evans Company, a commercial real estate development firm in McLean, Va.

"Rufus Wixon made a real difference in my Wharton experience and in the education I received," says Garchik. "He was one of those rare teachers who supported students' complete development. He always went to bat for us, and he was a great adviser and mentor. I vowed that as soon as I had any money I would do something to show my appreciation for that singular, special attention he offered."

Wixon taught at Wharton from 1949 to 1980 and served for two terms as chair of the accounting department. He was the author of *Budgetary Control,* and co-authored *Problems for Essentials of Accounting* and *Principles of Accounting,* among other publications.

In addition to his teaching, he was a respected consultant on accounting theory for government and industry.

For information on the Scholarship Fund, which each years contributes financial aid to an undergraduate accounting major, call Diana Cutshall at (215)-898-0122.

Two New Chairs Created: Existing One Filled

The trustees of the University of Pennsylvania have established an endowed professorship at Wharton in honor of John B. Neff, H'84, recognizing his outstanding service and performance as chairman of the investment board of the University's Associated Investment Funds.

Neff

The John B. Neff Endowed Professorship in Finance will go to a senior faculty member who has expertise in investment and/or portfolio management and a demonstrated ability to join theory and practice. The chairholder must also be an outstanding teacher of undergraduates and graduates with a strong ability to communicate the practical uses of theory in financial management and policy.

Neff was one of the top-performing money managers in mutual fund history until his retirement in 1995 from Wellington Management Company where he was senior vice president and a managing partner. At Wellington he was best known as manager of the highly successful Vanguard/Windsor Fund.

Under the leadership of Neff, who is teaching a course in finance this fall at Wharton, Penn's endowment has risen from $200 million in December 1979 to approximately $2 billion as of June 1996. The endowment's investment performance over the same time period has been among the best nationwide, earning an average annual return of 15.7 percent. The stock component of the endowment, managed directly by Neff, earned a 19.1 percent average annual return over this period.

A chair in international management has been established at Wharton with a gift from Alfred and Luella Slaner.

The chair honors Felix Zandman, chairman and CEO of Vishay Intertechnology, a Fortune 500 company founded by Zandman in 1962. The company manufactures and markets electronic components to the computer, telecommunications, military/aerospace, industrial and automotive industries.

Alfred Slaner was a former chairman of the board of Vishay and a close friend of Zandman's. The two were also second cousins. Zandman, a Holocaust survivor, was given financial support by the Slaner family when he was a student in France and later when he founded Vishay.

Slaner, who died earlier this year, headed up what became the Kayser-Roth hosiery company and is credited with developing Supp-Hose nylon support hose.

Lucille Slaner is an expert on fusion energy, former mayor of Scarsdale, N.Y., and former president of the Scarsdale League of Women Voters.

The Felix Zandman Professorship in International Management will go to an outstanding scholar and teacher who has a strong background in the management of global enterprises and can focus on issues critical to managing international corporations.

Bellace

PHOTOGRAPH / TOMMY LEONARDI

Janice Bellace, deputy dean of Wharton and a leading international labor law scholar, has been named the Samuel A. Blank Professor of Legal Studies.

Sam Blank, who graduated from Wharton in 1929 and from Penn Law School in 1932, was founder and senior partner of the Philadelphia law firm now known as Blank, Rome, Comisky & McCauley. The chair was established in 1995 with a gift from Nancy L. and Robert S. Blank, a 1965 graduate of Penn Law School, and Carol B. and Jeffrey C. Blank.

Bellace earned her undergraduate and law degrees from Penn and Penn Law School in 1971 and 1974, respectively, and has been on the Wharton faculty since 1977. Her research over the past decade has focused on three areas: the rights of fair dismissal, employment protection in the European community and the issue of comparable pay for work of equal value.

DONALDSON

PHOTOGRAPH / TOMMY LEONARDI

Continued from 3

An article by Donaldson in the September-October issue of the *Harvard Business Review,* entitled "Values In Tension: Ethics Away From Home," offers a general framework for understanding values abroad, especially when there is potential conflict between home and host regulations. For example, environmental standards may be lower in a Third World country where a company is trying to expand; does the company adhere to the home standards, the host standards, or something in between?

Along with Thomas W. Dunfee, Joseph Kolodny Professor of Social Responsibility in Business and professor of legal studies and marketing at Wharton, Donaldson has created a vocabulary to help further the discussion of ethical issues. They use the term 'moral free space' to describe "any culture or company's right to, within limits, define its own standards and norms." The term 'hypernorm' refers to a "core human value that trumps another norm generated by a particular company or industry." A hypernorm would be relevant, for example, in cases of child labor law violations, which Donaldson would argue should not be tolerated by the global business community even if the host country or industry where these violations occur condones the practice.

However, the Japanese custom of giving gifts to business contacts should be dealt with differently. While the practice is not acceptable in the U.S., Donaldson nevertheless suggests "tolerance and flexibility" in business relations with Japanese partners. "I don't think there is a hypernorm that trumps this particular ritual, unless you start talking about secret payments to Japanese politicians or large bribes to purchasers of jet airplanes," he says.

Donaldson comes to Wharton from Georgetown University Business School, where he was professor of business ethics for seven years. Prior to that he taught for one year at the University of Virginia's Darden School and for 11 years in the philosophy department of Loyola University. He attended the U.S. Naval Academy, and earned a BS in business and a PhD in philosophy from the University of Kansas.

In addition to numerous articles, he has written two books — *The Ethics of International Business* (Oxford University Press, 1989) and *Corporations and Morality* (Prentice-Hall, 1982). He recently co-edited a book with Dunfee called *Classical Sources of Economic Ethics* (Dartmouth Press, forthcoming) and also co-edited *Business as a Humanity* (Oxford University Press, 1995).

He and Dunfee are at work on another book with the working title of *Business Ethics as Social Contracts*. The authors suggest the idea of a social contract — an implicit set of agreements that prevails in an economy, an industry and even a company — as the key to articulating people's ethical rights and responsibilities.

"The broad question is whether any ethical inquiry can escape subjectivism," Donaldson notes. "But our view takes things to a large extent out of the province of what you or I think as individuals and puts it in the province of understanding what groups of people think.

"We argue that economic institutions are far more plastic, far more malleable, than institutions such as the family or the nation state. So you can set up a stock market, a company or a business relationship in many different ways, and the reason why it is especially important to get at the shared beliefs, or implicit agreements about norms, is this remarkable plasticity ... You still need basic ethical theory, but you also need to pay attention to the structures of the economy and the prevailing beliefs in the communities that make up the economy."

The book, Donaldson notes, is an attempt to create a theory that will be useful for analyzing business ethics issues. One chapter, for example, will offer rules of thumb for practicing managers — i.e., how you take integrative social contracts theory and distill it to practical rules that managers can use.

"If you're a manager, you want to assess what your responsibilities are and what social contracts apply to the problem at hand. For example, how do you respond if you are the head of an airline company in the context of a plane crash? Integrative social contract theory suggests the answer will be different in Japan than in the U.S."

Donaldson is one of 11 new faculty at Wharton this year. Others include:

ACCOUNTING: Assistant Professor John Core, formerly at MIT

FINANCE: Assistant Professors Simon Gervais, PhD candidate from Berkeley; Armando Gomes, PhD candidate from Harvard, and Kenneth Kavajecz, PhD candidate from Northwestern

MANAGEMENT: Assistant Professors Anne Cummings, PhD candidate from the University of Illinois, and Mauro Guillen, formerly at MIT

MARKETING: Associate Professor Wes Hutchinson, formerly at the University of Florida at Gainesville, and Assistant Professor Eric Bradlow, PhD from Harvard

OPERATIONS AND INFORMATION MANAGEMENT: Assistant Professor Lorin Hitt, PhD candidate from MIT

STATISTICS: Assistant Professor Catalin Starica, PhD from Cornell

FEATURE

WAR OF THE WIRES

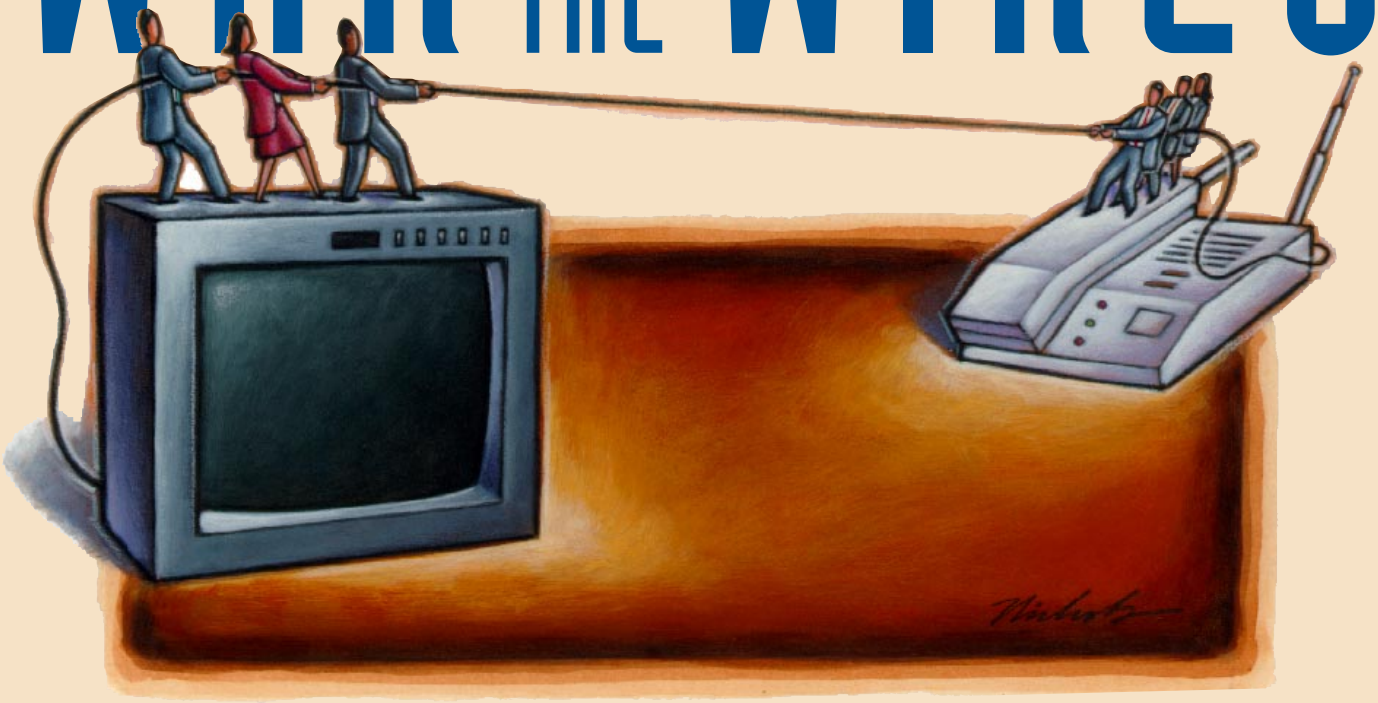


ILLUSTRATION / GARRY NICHOLS

With the passage of the 1996 Telecommunications Act, telecom companies are gearing up for the competitive battle of their lives

That rumbling noise you hear on the horizon isn't a volcano. It's the sound of the telecommunications industry exploding into a frenzy of mergers, acquisitions and new ventures as telecom companies scramble to win the ears, eyes, homes and offices of consumers.

In short, it's the sound of unbridled, unprecedented competition. The 1996 Telecommunications Act, signed into law by President Clinton on Feb. 8, removes the barriers that for decades have prevented local, long-distance, cable TV, broadcasting and wireless services from invading each other's turf. The stakes are enormous: Approximately $1 trillion in annual revenues that analysts predict will be generated in telecom services by the year 2000.

Already, the Regional Bell Operating Companies (RBOCS) have set in motion the steps needed to enter the $76 billion long-distance market; long-distance companies like AT&T, MCI and Sprint have applied to enter the $105 billion local market; cable companies have linked up with phone companies; phone companies are acquiring cable companies and entertainment giants like Time Warner, Inc. are offering local phone service.

As everyone knows, this story is not primarily about telephones. Telecom companies understand that their future success hinges on their ability to add on, integrate and deliver a host of additional information and entertainment services to homes and offices. "We realized several years ago that if you only offered local telephone service, you would quickly be out of business," says John Gamba, W'61, senior vice president of Philadelphia-based Bell Atlantic, one of seven RBOCs in the U.S. "We needed to get into video, information services and long distance through wirelines and/or wireless. The Telecommunications Act provides the means to achieve an important component of our strategy by opening up the long-distance market. It would be difficult to be the world's best communications company if you couldn't offer long-distance."

The smartest companies are already gaining footholds — either by acquisitions or joint ventures — in the wired, wireless (including cellular) and satellite markets, thereby positioning themselves to sell consumers some combination of long-distance and local calling, interactive TV, wireless, cable, information services and Internet access.

"Telecommunications used to be described as POTS, plain old telephone service. Now it has turned into PANS, pretty awesome new services," notes Mary Beth Vitale, AMP'93, an AT&T vice president who is responsible for creating a new AT&T operation that will offer local telephone service in the 14-state territory and service mix of U S West, the Denver-based RBOC. AT&T, in addition to its long-distance and cellular service, already offers satellite - TV and Internet access and has applied for the interconnections that will allow it to provide local service in all 50 states.

Other telecom companies have their own versions of diversification. U S West, for example, is merging with Continental Cablevision Inc. in order to enter — through cable lines — the local phone markets of its rivals. San Francisco-based Pacific Telesis Group (PacTel), together with Bell Atlantic and Nynex, have formed Tele-TV. Meanwhile RBOCS Ameritech in Chicago, SBC Communications, Inc. in San Antonio and BellSouth in Atlanta, along with GTE, have formed Americast with Walt Disney. Both alliances intend to develop interactive TV programming, a service that allows viewers to select TV programs on demand. Tele-Communications, Inc. (TCI), Cox and Comcast Corp. cable companies are in a joint venture with Sprint to build a Public Communications Service (PCS) network that can offer digital wireless telephone service and thereby compete with wired local calling. They also have plans to offer telephone service over the wired cable TV network.

Mergers and acquisitions clearly bring scale and synergy to the rush to offer consumers one-stop telecom shopping. Bell Atlantic's pending merger with New York-based Nynex will make it the second largest telecommunications company in the country and fourth largest in the world. SBC Communications is merging with PacTel and adding on new services. Time Warner Inc.'s acquisition of Turner Broadcasting System, Inc. turns the new entity into one of the largest media companies in the world, with $20 billion in revenues from cable TV, telephone service and the Internet, not to mention books, magazines and movies.

"There are big fortunes to be made in the changes taking place within telecom," notes Daniel Raff, associate professor of management at Wharton. "Technical innovations and broadening user population clearly are going to affect a company's strategic plans ... Whole new markets are opening up, and opportunities exist to get the jump on old established firms that are set in their ways."

All of which begs the question: Given the relentless speed with which new technologies appear in the marketplace, just what is a telecommunications company these days? The broad answer seems to be: Anything that offers the ability to deliver information over distances — from telephone companies to cable companies to Internet service providers (like Netcom) to on-line service companies (like AOL).

"The traditional telecom market used to be the voice communication market," notes Eric Blachno, WEMBA'95, a securities analyst at Bear Stearns who covers data communications and data networking. "But now it is so much more than that, especially with the proliferation of networking technologies and PCs. The data communications market is growing far more rapidly than traditional voice markets, which means that the long distance, local and cable operators are trying to get into the information business."

Sitting on top of this mountain of activity is the Internet. Although initially ignored by most of the telecom community, the Internet's dizzying popularity — and its potential for combining information services with entertainment — assures it a key place in any telecom package of the future. Internet access is already available via the telephone network, cable modems, by satellite or through wireless connections. "The Internet is a real wild card," notes Brian Roberts, W'81, president of Comcast Corp. "It represents great opportunities but also has the potential to fundamentally change the economics of telecommunications."

Roberts, among others, sees the changes set in motion by the Telecommunications Act as an endless vista of opportunity. "If you look at telecom, there always seem to be more competitors at the end of the day. There are now six TV networks where for decades there were three. There are now more than 100 cable networks whereas there were only a couple of dozen in the mid-80s. That's the great thing about this industry. You can keep coming in with new entrepreneurial ideas, establish yourself and maybe partner up, consolidate or merge with another business. It's still a market with great potential for new entry."

Gerald R. Faulhauber, professor of public policy and management, agrees. "Here you have an industry that 15 years ago was incredibly sleepy, like the water company, suddenly pushed into something that is undefined and changing incredibly fast. The smart telephone companies, like Bell Atlantic, realize that in terms of their traditional business, they can't get any better at it than they are now. So the question is, what are they going to do?

"What is *anyone* going to do who is looking for opportunity in the telecom field? Is the telephone company where he should be looking? The cable company? The Internet provider? The web designer? What can any individual or company do that will best leverage all this new capability?"

Wired, or Not: Technology Put to the Test

The telecom revolution is above all about technology. Companies will rise or fall in the next seven to ten years depending to a great extent on the answers to such questions as:

- Who will win the battle of the lines? Will the telephone line or the cable line be the main hook-up for services going into the home?
- Who will win the battle of the screens? Will the screen

that people use in their homes for communication and entertainment (including movies and TV shows) be the television screen or the computer screen?

- Can cable do it all? Can cable companies, which already have high capacity lines going into 66 percent of people's homes, also deliver interactive video and voice service?
- What will the all-purpose "information appliance" look like? Will the computer become a telephone? Will the television become a computer?
- Who or what will deliver the Web? Which technology — wired, wireless or satellite dishes — will deliver the Internet to increasing hordes of cyberspace cruisers?
- How big can the information pipeline be? Can bandwidth — the pipeline through which digital information moves back and forth — be broadened enough to allow more, and faster, transmission of the services that customers want and at prices they can afford?

The quiz will be not what AT&T, MCI, TCI or AOL stands for, but what is meant by such acronyms as ADSL (asymmetric digital subscriber line), ISDN (integrated services digital network), DBS (direct broadcast satellite), PCS (personal communications services), and HFCs (hybrid fiber coaxial networks).

Consumers are already bombarded weekly with new and amazing feats of technology: Five Baby Bells are working with ADSL modems as a way to provide customers with high-speed Internet access; Sony and Gateway have introduced PCs that can, to varying degrees, offer enhanced video, including TV transmissions and movies; AT&T's cellular company has introduced a new cellular phone that can integrate voice and Internet services; Microsoft's Bill Gates and Craig McCaw are proposing a project called Teledesic composed of hundreds of satellites that would provide links to personal computers and allow two-way, high-speed connections; cable companies are deploying high-speed modems from Motorola and other companies that deliver data to PCs several hundreds times faster than today's phone lines.

Meanwhile, while the Telecommunications Act has clearly established a new agenda for the telecom industry, Congress has left much of the detail work of setting rules and rates to the Federal Communications Commission.

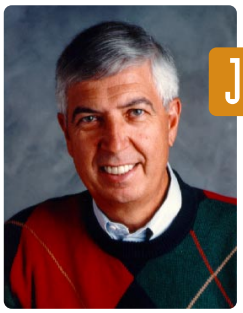
One example of the FCC's ability to affect the health of individual companies involves interconnection policy. "There is no way a consumer wants to pay for physical connections to multiple networks providing the same local telephone service," notes Dennis Yao, associate professor of public policy and management and a former commissioner of the Federal Trade Commission. "For there to be true competition, there has to be sharing of network facilities among local exchange carriers. In Philadelphia, Bell Atlantic has control of the local connection into your home, but now rules are being implemented that allow new entrants like AT&T an opportunity to use or resell some of Bell Atlantic's local exchange services.

"Let's say the FCC sets a price at which Bell Atlantic has to sell AT&T use of its local exchange services at some percentage below its retail price. It may be that the discount the FCC or the states set does not reflect actual economic costs and will favor one company over the other. That will have consequences not just for Bell Atlantic and AT&T, MCI and Sprint, but also for the other competitive access providers, like wireless companies. Decisions by the FCC will help determine telecom's winners and losers."

Indeed, the whole issue of who wins and who loses in the telecom wars will be based on so many factors that few players are willing to name names, except to say that they expect to be one of the winners — along with you and me.

"The ultimate benefactor of the 1996 Telecommunications Act is the consumer, who will be offered a package of services bundled together by one provider," says Timothy Samples, AMP'94, vice president, domestic wireless operations, at U S West Media Group. "But I also think the benefits won't be immediately recognizable. Consumers will be faced with a myriad of complex offers from telecom companies. I think it will take them a while to sort these offers out and really understand what they are buying."

On the following pages, alumni who hold key positions in five of the leading telecom companies discuss the new marketplace and their own company's strategic initiatives.



John Gamba, W'61

Senior Vice President, Bell Atlantic

Company Highlights:

- Pending merger with New York-based Nynex
- Invested $100 million in CAI wireless to provide TV
- Constructed fiber-based competitive cable interactive TV system in Dover Township, N.J.
- In conjunction with PacTel and Nynex formed Tele-TV, a consortium to develop interactive TV programming
- Was first RBOC to offer long-distance outside its region to cellular customers and wireline customers
- 1995 revenues: $13.43 billion

"Bell Atlantic's vision, which has been in place for several years, is specific. We see ourselves as becoming the world's best communications, information and entertainment company.

It's clear that scale is important. So part of our strategy is our proposed merger with Nynex, which will make us the sec-

ond largest telecommunications company in the country and fourth largest in the world. It gives us a very lucrative growth market in the Northeast corridor from Maine to Virginia.

We feel that we will be a winner in this new marketplace for a number of reasons. For example, we have the the infrastructure to serve the whole range of customer requirements. We have the ability to package communications, information and entertainment services to capture and retain the high value customer. Customers can come to us for wireline, wireless, voice, video, long-distance and data. In addition, we have just launched an Internet access business.

We are using the technology available to us to initially enter the video business with wireless technology. We will be serving our customer in Norfolk, Va., with a service that is better than the cable TV companies. We also have a fiber-based cable TV business in New Jersey which, again, offers service superior to cable's. Through the Nynex and PacTel consortium, we can provide the content for our information and entertainment offerings.

I realize that other telecom companies have similar visions. The successful one will be the one that can package these services, price them, and provide high quality and value. It will have sufficient scale and scope to get at the market opportunities. In short, it will look like the new Bell Atlantic.

In addition, we have been at the forefront of technology. We have ISDN available throughout our region; we were the pioneers who pushed the envelope of ADSL; we have two million miles of fiber cable already in place; our wireless cable service in Norfolk is bringing cable TV not through a wire but through a transmitter and antenna; we also have a major corporate commitment to a fiber-based switched digital full-service network to all of our customers.

Our commitment to our customers is second to none with a reliability and service record that is excellent. We will build on our positive customer relationships as we offer Internet access, a video package and high speed data connectivity along with our traditional wireline and wireless voice services."

Brian Roberts, W'81

President, Comcast Corp.

Company Highlights:

- Owns America's third largest cable TV company
- Owns cellular networks serving more than 700,000 customers
- Owns electronic retailing service QVC
- Owns Philadelphia's NHL Flyers and NBA '76ers, and is creating cable sports networks around these teams
- Member of Sprint Spectrum partnership
- Partner in Primestar, a direct broadcast satellite operation
- Part of a partnership that owns Teleport Communications Group
- Majority owner in Eastern Telelogic Corp.
- Part of a programming partnership on the West Coast
- 1995 revenues: $3.5 billion

"Our goal is to be the first choice of all our potential customers for all of their electronic communication needs. Our strategy has three integrated component parts — wired, wireless and content.

On the wired side, we have 4.3 million cable subscribers in 19 states. We are partners in Teleport Communications Group (TCG) and majority owner of Eastern Telelogic Corp., both of which are competitive access providers that offer less expensive means of reaching the long-distance network. We also have cable/telephone networks in the United Kingdom; our track record there has been very successful in getting as much market penetration for our telephone service as for our cable service.

In the wireless area, Comcast Metrophone, also known as Comcast Cellular One in some markets, has about 700,000 subscribers in our greater Philadelphia market, which has just about the highest overall cellular penetration of anywhere in the U.S. We are the leading provider in that market. We are also a partner in Primestar, a direct broadcast satellite operation that serves more than a million homes.

On the content side, we have a 57 percent interest in QVC and a programming partnership on the West Coast called C3 — Comcast Content and Communication. C3 has a broad mandate to produce all forms of video and film content.

We consider our ownership of the Philadelphia Flyers and '76ers to be an integral element of our content strategy. We will be using the non-broadcast rights from the two teams and from the Philadelphia Phillies, which means we will be able to create new regional sports networks.

We are starting off as an established competitor in video. On the telephone side, we will weigh all our options in entering the local telephone business. In the meantime, we have another service to offer — a dedicated cable modem which will connect through your cable line to the Internet and commercial on-line services. We are also developing some new proprietary on-line services with a cutting-edge company called @Home. The key advantage we see in the cable modem is that it will make us the leader in providing interactive service. A cable modem can carry data to and from your home at speeds several hundred times faster than traditional telephone connections and at very affordable prices.

We are upgrading our cable network with fiber optics, which will make it more cost effective and more robust than the telephone line. Wireless is an important part of our strategy, from cellular and paging services to personal communications services and direct broadcast satellite."

Mary Beth Vitale, AMP'93

Vice President, local service organization, western region, AT&T

Company Highlights:

- Owns AT&T Wireless Services, the largest cellular network in the U.S.
- Offers unlimited Internet access for $19.95 a month to its long-distance customers
- Markets DirecTV's satellite-TV service
- Split into three separate companies — telecommunications, telecom equipment and computer operations — to focus more sharply on each part of the telecom business
- Has signed agreements with 20 competitive access providers (CAPs) in major cities in the U.S.
- 1995 revenues: $47.28 billion (after divestiture of Lucent and NCR)

"Our strategy is to offer local and long-distance service, wireless, entertainment through our DirecTV, and Internet access through our Worldnet product, and package all that together so our customers can have one-stop shopping for all their needs.

Up until now it's been a monopoly on the local side, and consumers have not had a choice. But competition is good. What we saw when the long-distance market opened up in 1984 [when AT&T, as part of a federal antitrust suit, agreed to spin off its 22 local companies into seven independent Baby Bells] was that prices for long distance went down 60 percent. Where there was once one long-distance company, today there are more than 500. We see similar things happening now. Customers will benefit from more innovation, more products and better prices.

We hope to gain a 30 percent share of the local market in the next couple of years nationwide.

As now allowed under the Telecommunications Act, we are currently negotiating with U S West for a total services resale because it is the easiest and quickest way for us to get into the local business in the short term. We are also negotiating to buy unbundled parts of U S West's network to connect with our own facilities. Since we have not been able to reach an agreement yet, it now goes to the public utility commission in each state for arbitration. These PUCs have until Dec. 1 to decide what the agreement should be, although we will also continue our own negotiations with U S West. One of the biggest unresolved issues so far is the price we should pay U S West for these interconnection rights.

AT&T will definitely be a strong competitor in the telecommunications field. Quality has always been paramount with us, as reflected in the honors we have received, including the Malcolm Baldridge Award for customer satisfaction and service. The 1984 divestiture put us in a position to learn how to market and how to compete. We have been at it for 12 years.

There will be many uses of technology out there to choose from. AT&T will look at partnerships, alliances and our own network in order to deliver the combination of services that customers want."

Timothy Samples, AMP'94

Vice President, domestic wireless operations, U S West Media Group

Company Highlights:

- Has agreement to merge with Continental Cablevision
- Holds 25 percent stake in Time Warner Entertainment (that part of the company which includes its cable operations, movie studios, HBO and retail outlets)
- Has partnership with Airtouch, a domestic wireless company
- Has partnership, along with three others, with PCS Primeco, a cellular company
- Owns 100 percent of Media One, a cable operator in Atlanta
- 1995 revenues for U S West: $11.7 billion

"U S West has two trading stocks. U S West Media Group is one, and it's primarily cable, cable telco (i.e., the ability to make telephone calls through your local cable system), wireless and the publishing business. The other, U S West Communications Group, is the telephone company.

With our partnerships in Airtouch and Primeco plus a technical operating marketing alliance with Bell Atlantic/ Nynex, we hope to deliver a kind of national wireless footprint.

One of the primary benefits of the 1996 Telecommunications Act is that within wireless we can offer long distance to our subscribers and have the freedom to try and expand the breadth of our offerings.

In cable, after our merger with Continental Cablevision we will become the third biggest cable operator. We expect to be a large force in cable telco, for example, and will soon be offering that service in our market in Atlanta, allowing us to compete directly with BellSouth.

Through our Time Warner Entertainment partnership, we are already offering cable telco service to Rochester and Elmira, N.Y. In addition, we can do high-speed cable trans-

missions, via modem, so that consumers can connect into the Internet in their homes.

Companies that don't have a presence in wireless are at a disadvantage in my opinion. You don't necessarily have to own a wireless business, but you should have an agreement or affiliation with a wireless company to offer that service as part of a package. Consumers are going to want a full array of services bundled together at a discount and all in one place.

Internationally, I personally think you are going to see a significant influence from offshore. And because of that I think you will see some regulation over time on a federal level that will relax foreign investment in the U.S. That will be due in part to the fact that companies in the U.S. are interested in investing more heavily internationally. Of course that has to come with a trade-off.

With telecommunications making up one-seventh of the total gross domestic product in the U.S., you are starting to see quite a bit of interest from abroad. The traditional list of big international players is short: BT, Deutschetelephon, Cable & Wireless, Nipon Telephone and Telegraph (NT&T), and many of the Korean and Asian companies that manufacture electronic equipment, such as Hundai. But I also think you will see some companies coming in that have not traditionally been in the business."

Jonelle St.John, WEMBA'94

Vice President and Treasurer, MCI Communications Corp.

Company Highlights:

- Committed to invest $2 billion in Rupert Murdoch's News Corp.
- Bought license to launch its own DBS service, to be built in partnership with News Corp.
- Bought a cellular phone reseller and computer systems integrator
- Teamed with Microsoft to develop Internet services
- 1995 revenues: $15 billion

"MCI's goal is to be a $30 billion company by the year 2000, and we predict 50 percent of that will come from new products and product lines that will leverage our long-distance business.

We won the bid for the last available DBS spectrum slot in the U.S. in January and shortly after we announced a joint venture with News Corp. — outside of our equity investment in them — to utilize it.

In addition to buying the largest wireless reseller in the nation, we also bought professional services/computer systems integrator SHL. SHL is similar to EDS and Andersen Consulting and the largest of such firms in Canada.

We see a wholesale change in telecom. Your basic per minute type of product is getting to be a commodity. You need to be able to add value to that, which we do in a number of ways for our customers through the robust network we have in place.

Many companies have similar strategies but are executing these strategies differently. We have not sunk dollars into wireless except to acquire Nationwide. We are not building networks, whereas Sprint has built heavily with PCAs and AT&T has McCaw. We did bid on DBS service and have acquired SHL.

The capabilities that we envision in downloading data and other kinds of content — everything from entertainment and information for consumers to business-to-business and business-to-customer communications — are all part of a huge market that hasn't been tapped yet.

The long-distance side of telecom has had competition for a long time, so we know what it's all about and feel we are well positioned to take advantage of these tremendous opportunities." *R.W.S.*

ALIVE AND WELL AND WORKING IN ... PHILADELPHIA

ILLUSTRATION / PIERRE-PAUL PARISEAU

With its new convention center, major league sports teams, Independence Hall and Liberty Bell, cheesesteaks and Tastykakes, world-renowned symphony, ballet and art museum, and The Wharton School, what else could Philadelphia possibly have to boast about? Answer: That the city and its environs are home to more than 11,000 Wharton alumni (second only to New York City in that respect), many of whom hold leadership positions in private, non-profit and government organizations. ◆ On the following pages we interview a random selection of graduates. Consider using their recommendations on area hotels and restaurants to help you plan a visit back to Philadelphia, and Wharton.

Mark Hershhorn, WG'72
President and CEO, National Media Corp.

Winning a football scholarship to Rutgers University and heading up the largest publicly-held infomercial company in the world might seem two unrelated events. But in Mark Hershhorn's mind, they connect.

"I have always wanted to build a business based on the same team skills used by successful football players," notes Hershhorn. "That means no superstars, because superstars by themselves can't win games."

Hershhorn has met his goal on both fronts. National Media has grown from $176 million in sales to $293 million during his two years as president and CEO. Hershhorn is a key part of a lean management team of four individuals — collectively called "the Office of the Chairman" — that includes himself, a chairman of the board, an executive vice president who is president and CEO of the international business, and a vice chairman who is the senior legal, financial and M&A representative.

"We each have functional responsibility for parts of the business, but we communicate on a regular basis and any one of us can fully represent the company at any given time," says Hershhorn. "Our next level is the executive committee, which has nine people. Below that is another eight to ten managers. So there are 20-plus senior level people empowered to drive and build the organization. We have the ability to truly function as a global business and to respond quickly to new opportunities."

Today National Media is in more than 270 million homes with television sets in 60 countries. Its Ab Roller Plus (to strengthen abdominal muscles) is the top-selling product on TV in America. Other big infomercial sellers include the Royal Diamond cookware set, the Ionic Toothbrush and an automotive product called Motor-Up.

With about 800 million homes around the world owning TV sets, Hershhorn sees big potential for growth. "We are already the major player in North America, Western Europe, Japan, Australia, New Zealand, the Philippines, Malaysia, Indonesia and Singapore," he says. "We are initiating operations in South America and getting ready to expand into South Africa, China and India. Our goal is to be in half a billion homes by the year 2000."

The biggest obstacles to expansion include overcoming regulatory hurdles in particular markets and setting up fulfillment, customer service, product delivery systems and other infrastructure that must be either built or acquired. "It's a different set of challenges in each country," notes Hershhorn.

Challenges, he's used to. His post-Wharton career started with two years at Price Waterhouse; five years at Pfizer, Inc. where he ended up as comptroller of the pharmaceutical company's worldwide diagnostic business; and eight years at a toiletry company called Carter-Wallace, Inc. where he was part of a team of four that rebuilt the company's health care group "from the bottom up."

In 1985 Hershhorn joined the Franklin Mint as CFO and chief of staff, one of 10 new executives brought in to help run the company. During his five-year tenure there, the business grew from $200 million in sales to $600 million.

He left in 1990 for the opportunity to turn around — and eventually buy — J. Crew. The turnaround was completed but by then the days of successful LBOs were gone and Hershhorn wasn't able to finance the purchase. He worked at Nutri/Systems, Inc. for the next 18 months and then joined National Media in 1991.

He recruited a number of teammates from the Franklin Mint to start building a new management team. In March 1993, he was fired by the chairman and CEO "after prolonged disagreement over the direction of the company," Hershhorn says. "My team was stuck there. I spent the next several months as part of a group trying to purchase the company."

It turned out not to be necessary. In 1994 the chairman and CEO was forced by the board to resign, and Hershhorn was brought back in to help rebuild the company.

"In today's modern global corporation, it's very difficult to be in more than one place at a time," says Hershhorn. "My philosophy is to create an organization with the appropriate functional skills where people work together, trust each other, don't worry about turf and understand the common goal."

Elizabeth A. Dow, WG'80
President, Leadership, Inc.

Most of the "customers" that go through Leadership, Inc., says Elizabeth Dow, "are high-level executives around the age of 40 who are on the fast track, secure in their jobs and finally have time to exhale a little and think about what is missing from their lives."

What Dow hopes they find missing is a commitment to put their talent to work on behalf of the community. Leadership, Inc. is a 37-year-old non-profit organization that offers extensive training in both leadership skills and civic issues, with the ultimate goal of placing its graduates on the boards of non-profit organizations in and around Philadelphia.

Leadership, Inc.'s core program accepts 60 professionals into 10 day-long seminars throughout the year that include meetings with leaders in the business/non-profit community, an intense leadership development program and training in board skills and responsibilities. Graduates of the program, which costs $3,000, are placed on boards, frequently one which matches their particular interest. "A former football player might want to get involved with the Philadelphia Eagles' charitable foundation; a venture capitalist might be interested in a technology-oriented board; someone else might be interested in working with an AIDS foundation," says Dow,

who places about 100 people a year on boards. "The important thing is that they know why they want to get involved in community service."

Leadership, Inc., also does private programs for specific groups, including this year, the Young Presidents Organization. "That's been a very exciting experience," says Dow. YPO Members "are just as passionate about community service as they are about their businesses, which makes them very easy to place on boards."

For senior corporate executives who are new to the area, Leadership, Inc. offers a six-session seminar dinner series that helps "weave them into the fabric of the community, whether they need help finding a business partner, a school for their children or an overview of the region's economic, political and civic structure," says Dow.

Leadership, Inc. currently has about 1,800 alumni — including 58 graduates of Wharton — in leadership positions.

Dow herself is an alumna of the program, which she attended while working at Coopers & Lybrand 10 years ago. Before that she had been a management analyst in the Carter White House and a principal at The Hay Group. She joined First USA Bank in Wilmington as a senior vice president, human resources, before coming to Leadership, Inc. in 1993.

"The organization was basically going under. They were looking for someone with a great passion for Philadelphia who understood how to run a business," says Dow, who has a BA from the University of Minnesota and an MA from Cornell and is married to Wharton alumnus Scott McQuilkin, also WG'80.

Today Leadership, Inc. has a lean staff of four. "Clients want top-drawer development experiences," notes Dow. "We have to perform to their standards with limited resources."

Josh Kopelman, W'93
Executive Vice-President and General Manager, Infonautics Corp.

It has been an exhilarating ride so far for Josh Kopelman, whose summer internship back in 1991 sparked the founding of Infonautics, a publicly-held information services company based in Wayne, Pa.

Just before his junior year at Wharton, Kopelman worked at Telebase Systems in Wayne, owner of the I-Quest business information service on Compuserve. He and his summer boss, Marvin Weinberger, noticed that usage of the service would spike up late at night in May and December indicating, they felt, that kids were using the service to do their homework, write research papers and study for final exams.

"We put together a business plan for a product called Homework Helper, which would be a kids-based information and general reference service." Telebase Systems passed on the idea so Weinberger and Kopelman decided to do it on their own. "Marvin remortgaged his house. I couldn't exactly mortgage my dorm room, but I borrowed some money and in 1992 we set up an office in Wayne."

Today the company has more than 100 employees. "During the past two years we have raised about $20 million in venture capital," says Kopelman, who grew up on Long Island and graduated from Great Neck North High School. "In our latest round we had strategic investors come in, including Comcast, Gannett, McGraw Hill and others. We went public in May, selling 2.25 million shares at $14 a share and raising $28.5 million."

Second-quarter revenues were $430,000 on losses of $2.6 million. "Analysts' expectations are that Infonautics will earn about $2.8 million this year," says Kopelman, adding that the company currently has more than 20,000 paying subscribers to its different on-line services.

Infonautics launched Homework Helper on Prodigy in 1995, and that same year won *Popular Science's* "Best of What's New" award. They recently launched a second product called The Electric Library which "tries to bring the power of your public library to any user on the internet. A user at our site — www.elibrary.com — can type in a plain English question, like who is the oldest person in the world, and our database of more than 800 magazines, 150 newspapers, books, and encyclopedias, brings back the answers."

Kopelman's background, "if you can call it that," he says, "is in management and marketing, so all the programming has been done by other employees.

"The industry we are in is very young," adds Kopelman who is 25 (although Weinberger is 42). "We joke that my age is what makes this an Internet company. But it's true to some degree. The market is evolving so quickly that there are no footprints in the snow. You start with a blank slate ... I hire people I can learn from and we partner with people who have new opportunities for us...

"The Internet has made it easy to access a lot of information but hasn't made it easy to find answers. That's what we are trying to do."

David G. Marshall, W'61
Chairman and CEO, Amerimar Enterprises

Real estate developer David Marshall is a man who feels passionately about many things, including cities.

Such as Philadelphia, where he has labored for years on initiatives to improve the downtown sector in particular, and the health of urban centers in general. "We can't abandon our cities," he states. "If our federal government doesn't want to support them, let's figure out a way to share the responsibility."

One could say that David Marshall — who sits on 11 boards in Philadelphia, including the Police Athletic League,

the Fox Chase Cancer Center and The Curtis Institute of Music — has already done his part. As owner of the Rittenhouse Hotel in Philadelphia's Rittenhouse Square, he chaired Concerned Citizens for Center City, a group of businessmen, retailers, real estate brokers and residents who met weekly with the mayor, police commissioner, district attorney, fire commissioner and anyone else who could help protect Philadelphia's most upscale residential and commercial shopping area. "We brought them all together and said this is what we need," Marshall says. "We got things going."

It was the type of entrepreneurial enterprise that has characterized Marshall's entire career. As an undergraduate at Wharton, for example, he paid his tuition by running a mortgage company on the side. After two years in the U.S. Army, he signed on as a trainee in the income loan department at Colonial Mortgage Service Company, which in 1968 was bought by Philadelphia National Bank. By 1970, in addition to running the bank's income loan department, Marshall had started a real estate trust. "In the early 1970s there were about 200 of those, 190 of which went broke. We made money because we did only quality deals and we didn't do a lot of heavy leverage."

The strategy paid off for Marshall and it also attracted the attention of the Bass family in Texas. In 1976 Marshall joined them to head up a nationwide real estate company based in Philadelphia. "We purchased about $2 billion dollars of real estate over the next 12 years in projects that included Pier 39 in San Francisco, a golf course development with Jack Nicklaus in Scottsdale, Ariz., the Dorchester Apartments in Philadelphia and Denver Place, a 2.5 million square-foot mixed-use complex in Denver, Colo."

In 1987, Marshall purchased the real estate company from the Basses and renamed it Amerimar. Today the company has about $2 billion in assets and 50 properties, including hotels, office buildings and apartment buildings across the U.S. Although Marshall is the sole shareholder, all his deals are owned by partnerships which include the Amerimar officers.

In Philadelphia, Marshall is perhaps best known as the rescuer of the now elegant Rittenhouse Hotel and Condominium Residence. Marshall bought the half-built and abandoned building in 1987 for $19 million, renovated it and reopened it in 1990 to rave reviews. He is proud of the hotel's 294-person staff. "Last year 150 of our employees received five-year pins," he says. "In this business, that kind of longevity is unusual."

Alfred P. West, Jr., WG'66
Chairman and CEO, SEI Corp.

The letters in SEI Corp. stand for Simulated Environments, Inc., a phrase coined several decades ago by Al West to describe his new company's first product — a training system that used computer simulation to teach bank employees the fundamentals of lending money.

That was in 1968. Today, although the original name remains substantially the same, the company has moved far beyond its original mission. With 1995 revenues of $226 million and a workforce of 1,100, SEI Corp. has expanded into global asset management as well as investment systems and services, and recently has set its sights on global investing in Latin America and South Africa, among other locales.

SEI's global asset management unit was formed in 1995 to target pension plans and high-net-worth clients interested in investing outside their countries and regions. The company is seeking local strategic alliances throughout the world to aid in its expansion.

In South Africa, for example, SEI has established a partnership with a local brokerage firm to facilitate a move into global investing. SEI is providing both offshore and onshore funding through an office in Argentina, with plans for further expansion into Brazil and Chile. In Taiwan, SEI has set up a joint venture for a new mutual fund company.

"We are looking abroad in order to diversify our client base. Also, that gives us a tremendous opportunity to secure asset management business in some of these markets," notes West, citing, for example, the reform and/or privatization of pension systems underway in a number of countries. SEI also plans to develop international trade expertise.

A relatively new area of interest for the company is the family business. SEI has recently become a lead partner in Wharton's Family Controlled Corporation Program. Notes West: "The dominant form of commercial organization worldwide is the family business ... The partnership with Wharton will enable us to learn the intricacies of family businesses globally so that our services can be designed to better meet their unique needs."

Simultaneously, SEI's investment systems and services business — which provides software, processing services, general expertise and back-office support to financial institutions — is thriving. With 40 percent market share, the company is an industry leader in the delivery of systems that handle investment accounting for bank trust departments.

SEI also provides marketing and administrative services for more than $71 billion in mutual fund assets, including $25 billion of its own funds. Its liquidity management group manages the short-term assets of corporations and financial institutions.

West, who earned his B.S. in aerospace engineering from the Georgia Institute of Technology, hatched the idea for SEI in 1968 when he was a doctoral student at Wharton. He used computer simulation as a training aid to help students run an imaginary company. "Several directors on the board of the fictitious company

were bankers and they asked me to create computer simulation programs for them," West says. He agreed, and the company took off, expanding into banks' trust departments during the 1970s and growing at a rate of more than 50 percent a year.

In 1990, West established the SEI Center for Advanced Studies in Management at Wharton. "I had broken my leg skiing and decided while I was laid up that there were some things I wanted to change within the company. I went to Wharton and we established the Center to research the kinds of issues that come with reinventing a company and ensuring that one has the right foundations in place."

Jay T. Snider, W'79
Chairman of the Board, SpectaGuard, Inc.

Ask Jay Snider, founder and chairman of a $60 million, 3,000-employee full-service security company, what he enjoys most about running a business and he answers: "Coming up with new ideas."

Most recently, that has meant the creation of a new, patent-pending emergency response software program to provide 911 public safety officials with medical and other critical information on individuals in need of assistance. The company, called Life Safety Solutions, Inc., expects to roll out the system, known as 911Plus, later this year.

Snider's nose for opportunity started during high school when he worked as an usher and security guard at Philadelphia's Spectrum arena, one of several businesses owned by Jay's father, Ed Snider, an entrepreneur who also owned the Philadelphia Flyers. "While I was there I realized that no one else in the city was specializing in event security," says Snider. "Three months after graduating from Wharton, a partner and I started SpectaGuard." Initially the company provided security personnel for the Spectrum, rock concerts, the Philadelphia Eagles, the University of Pennsylvania and the U.S. Open golf tournament, among other clients.

It wasn't long before Snider realized that more money was to be made in industrial security — i.e., providing uniformed, 24-hour security guards for office buildings, shopping malls, hospitals, museums, parking garages and corporate complexes. Today industrial security accounts for 100 percent percent of SpectaGuard's business.

In 1983, Snider was named president of the Philadelphia Flyers hockey team and in 1987 became president of Spectacor, Ed Snider's multi-million dollar sports, entertainment, retail sales and communications company. During his tenure as Flyers president, Jay Snider helped pioneer the concept of all-talk sports radio by buying WIP-AM, a floundering music station, and turning it into the most successful sports talk station in the country.

In 1989 Snider's job was expanded to include head of development for the $200 million Spectrum 2, which opened in August and has since been renamed The CoreStates Center.

In 1993, Snider returned to SpectaGuard. "Today we are an integrated asset protection company," he says. "Instead of trying to sell our customers the most number of guard hours per week, our focus is to provide the customer with the most efficient deployment of manpower and electronic resources, which is most likely some combination of security guards, card access systems and alarm systems.

"Also we are deploying our own wide-area network at all our client sites, so that we can not only input scheduling and payroll information but can generate billing information and offer computer training programs and e-mail on site as well."

Although cable giant Comcast Corp. recently purchased the Flyers, the '76ers basketball team and the two Spectrums, Jay and Ed Snider and two other partners still retain 34 percent ownership.

Snider leaves SpectaGuard's marketing and operations management to his two partners, preferring instead to focus on long-range strategic planning. "My job," Snider notes, "is to look at the big picture."

Evelyn Eskin, WG'77
President, HealthPower Associates, Inc.

Doctors in Philadelphia, says Evelyn Eskin, "are very sophisticated at what they do. They have to be, because this is a very sophisticated medical marketplace. But doctors have not been trained to be business people and they don't like change."

Which is where Eskin and her consulting company first entered the picture. HealthPower Associates was founded in 1987 to provide educational and practice management services to physicians, hospitals and academic health centers. Over the years, the company's mission has expanded into delivery of management and planning services to all types of health care providers. The client list has grown to include hospitals, HMOs, medical associations, software vendors, professional and specialty societies and law and accounting firms.

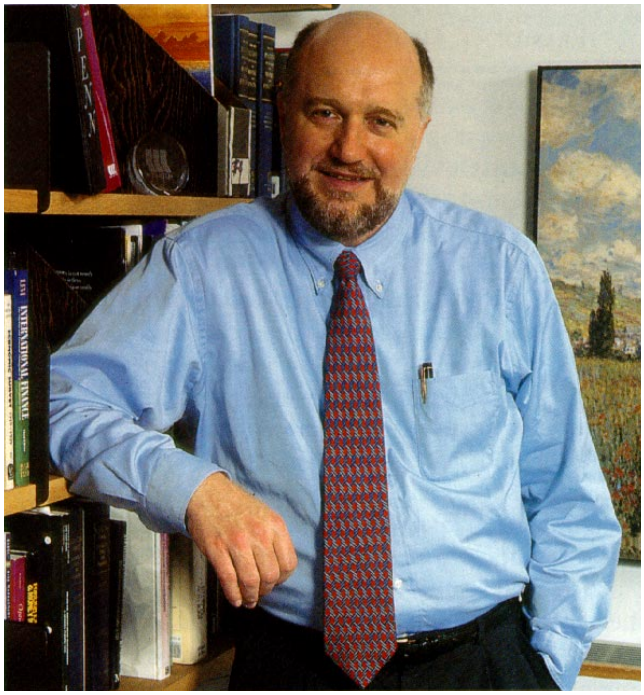
For example, "a hospital system will buy up physician practices and realize they don't really know how to run them. We can help with all the non-clinical aspects of managing a practice," says Eskin. "Or a third-party payer will contact us because they realize they must understand how to manage physician groups ... Or a small group practice that is about to negotiate a contract with a big HMO will seek our advice. We also help with mergers — either among solo practices or between two larger groups."

Doctors, Eskin says, "are individuals who like to be in control. They do not take well to working in groups. Yet now they have to deal with hospitals, insurers, HMOs and so forth. The doctors will tell you it's the HMOs who have come between them and the patient, but it's really the hospitals who are defining the health care systems and leading the

Continued on page 26

Why Would a Highly-respected Finance Professor and World-Renowned Scholar Agree to Take on the Top Administrative Post in Wharton's Undergraduate Program? Timing, says Richard Herring.

MOOD MOVE



Herring: "We choose our applicants because we think they have leadership potential, and they don't disappoint us."

Last year, Richard Herring, vice dean and director of Wharton's undergraduate division, published a book called *Financial Regulation in the Global Economy*, an analysis of policies for regulating international financial institutions. His co-author was Robert E. Litan, a Wharton undergraduate from 1972.

This year, Herring, who has been a finance professor at Wharton for 26 years, and a colleague are conducting a study that measures the value of liquid secondary markets. To verify some early conclusions about his analysis, Herring conferred with Allen Levinson, W'77, a former student who is now at Goldman Sachs.

Herring, currently beginning his second year as undergrad vice dean and director, clearly knows first-hand the capabilities of Wharton undergraduate alumni. Yet given his impressive list of scholarly and professional credentials — from consulting with government agencies like the Federal Reserve Board, the Council of Economic Advisers and the U.S. Treasury to serving as founding director of the Wharton Financial Institutions Center — one wonders why Herring would agree to take on a demanding administrative

job in a busy suite of offices far removed from Wharton's finance department.

Herring has two answers: As winner of the Hauck Award for distinguished undergraduate teaching, he believes he can contribute to the ongoing debate over undergraduate curricular issues; and under Wharton Dean Thomas P. Gerrity, he feels there is a willingness to pay attention to, and rethink, undergraduate education.

There are other reasons why this top administrative job might be appealing to an academic. Wharton is widely believed to have the best undergraduate business school in the world — a reputation confirmed by outside polls and reflected in the 20 percent increase in applications for the current year (vs. a five percent increase for Penn overall). In the last year alone, Wharton's undergraduate programs, students and alumni have appeared in publications ranging from the *Wall Street Journal* and *New York Times* to *U.S. News & World Report* and the *South China Morning Post.*

In addition, the School has led the way in expanding the boundaries of undergraduate business education to include more emphasis on leadership skills, including the ability to negotiate and communicate with peers, to work with teams, and to understand the economic, political and social environments in which global business is conducted.

Not that the job of vice dean and director doesn't have its challenges. Between 1988 and 1994, the number of entering freshmen in U.S. colleges and universities planning to major in business fell by 42 percent — a trend that has made it all the more imperative for Wharton to get its message out to prospective applicants.

"Recruiting high school students is a two-step process," says Herring. "First, we need to educate them about what a business school really is. Too many students, especially at the top end, think of it as a narrow, constricted trade school when in fact what we do here is help them transform personal interests and academic passions into career opportunities. Students are offered an intellectually challenging and rigorous program that teaches them above all how to structure problems and make decisions.

"Second we need to emphasize that our particular curriculum is fully integrated with the College of Arts and Sciences from the first day students set foot in the university. We believe very strongly that we are training people who have to function well in a global economy. We require these students to be proficient in a foreign language and we offer them programs for study abroad. Students leave Wharton with the advantages of a liberal arts education, plus the functional and analytical skills that will enable them to compete effectively in the business world."

When one takes into account two very popular joint degree programs — the Jerome Fisher Program in Management & Technology (M&T) and the Program in International Studies & Business (IS&B) — "we are clearly attracting some of the most talented undergrads in the world," Herring notes. Undergraduate SAT scores underline his point. The average for students in the School of Arts and Sciences is 1353 (out of a total 1600). For engineering students, it's 1371 and for Wharton students it is 1401. Average scores for IS&B students is 1472 and for M&T students, 1495.

In the M&T program, which is limited to 50 students, graduates earn a BS in Economics from Wharton and either a Bachelor of Science in Engineering (BSE) or a Bachelor of Applied Science (BAS) from Penn's School of Engineering and Applied Science. The goal of the program since its establishment in 1977 has been to educate young leaders who can bridge the disciplines of both management and technology.

"The M&T program is so renowned that we are drawing first-rate students who otherwise would be looking at MIT, Harvard and Stanford," says Herring.

It's a similar story with IS&B, which takes 40 students and integrates a business education, advanced language training and a liberal arts education with an area study specialization. "What we offer these students is a liberal arts program together with business competencies. It's also an effective way for us to emphasize the international dimension of our curriculum." Students graduate with a BA in International Studies from the College of Arts and Sciences and a Bachelor of Science in Economics from Wharton.

The newest joint degree program is with Penn's School of Nursing. Faculty approval of this initiative last spring means that Wharton now has undergraduate joint degree programs with each of Penn's undergraduate schools.

Two years ago, Wharton faculty approved a concentration in environmental policy and management, which draws between 10 and 15 students a year.

"Another curricular innovation that adds opportunities for our students is the concept of university minors, which allow students to focus on a subject area that spans different schools," notes Herring. "As yet the only approved minor is math (through the college) and actuarial science (through Wharton's insurance department). Others, however, are in the works and we expect to approve them this coming year."

Educational initiatives aside, Wharton's undergraduates are clearly exceptional on their own merits. First, there is the high number of students — more than 20 percent — who graduate with two degrees, such as a BA from the College of Arts and Sciences and a BSE from Wharton. "It's another indication how energetic and ambitious these students are, because in order to graduate with degrees in, for example, German and finance, you have to take a substantial number of credits above the minimum," Herring notes.

"Second, Wharton students are in a disproportionately large number of leadership roles at Penn, which isn't surprising. We choose our applicants because we think they have leadership potential, and they don't disappoint us."

Wharton students last year, for example, were president of the undergraduate assembly, chair of the Student Committee on Undergraduate Education and president

PHOTOGRAPH / ANTHONY B. WOOD

of the Pan Hellenic council. They tend to be leaders of their fraternities and sororities and many have played on Penn's sports teams. Wharton undergraduates were active in 35 Wharton clubs ranging from the Awareness of International Markets club, Two Shades of Green environmental club and Finance club to the Pennsylvania Investment Alliance, the Sports Executives club and the Accounting club.

In addition to holding a leadership position at the University, today's Wharton student is more apt to study abroad than students even five years ago. "Living-learning" programs are already established in Lyon, France and Madrid, Spain, and an exchange program has existed with Bocconi, Italy since 1993. Last spring, the faculty approved two more exchange programs, one with Hitotsubashi University in Tokyo and one with the Hong Kong University of Science & Technology, "which, although founded only six years ago, is already one of the top-ranked institutions in the Far East," says Herring. "This program will be particularly interesting to our M&T students because it has both an engineering school and a business school."

The difficulty in establishing programs abroad, he adds, "is making the calendars fit. Almost no place in Europe has a fall semester that looks anything like ours. And the spring semester is tough because students frequently want to stay on campus to look for a summer job. Given those constraints, we have been fortunate in setting up the programs we have."

Herring readily gives much of the credit for the undergraduate program's successes to two individuals: his predecessor, Janice Bellace, now deputy dean of Wharton, who made study abroad programs a priority during her tenure as undergraduate head; and Gerrity, whose "intimate knowledge of the division and commitment to excellence in undergraduate education provide a strong impetus for innovative programs.

"To work with a dean who cares deeply about the undergraduate program at a time when the University of Pennsylvania itself is redirecting resources towards undergraduates made this job an inviting opportunity," says Herring.

PART TWO: RESEARCH AGENDA

Financial Regulation in a World Economy

In 1992, when Herring was researching his application for the $3.4 million Sloan Foundation grant that would fund the Wharton Financial Institutions Center, one of the challenges he faced was convincing the Foundation of the importance of financial services to the U.S. economy. Herring's findings surprised even himself.

"It turns out that more than twice as many people are employed in the financial sector than in the apparel, automobile, computer, pharmaceuticals and steel industries put together," says Herring, referring to those industries that already had research centers funded by Sloan at other universities. "It made an obvious case in terms of the centrality of financial services to the economy."

Not just to the U.S. economy but to the international marketplace. "Finance more than any other industry is global," Herring notes. "There are markets that literally never close. And the impact of technology on financial services has been tremendous. You don't have to be a wild-eyed futurist to understand that we are training people who, armed with a laptop PC and a modem, can go virtually anywhere in the world and do any kind of financial transaction. That was unthinkable 15 years ago."

Such changes, Herring says, "mean that it's very difficult for a country to wall off its financial markets from the rest of the world even if it wants to. That, in turn, means there is a hugely reduced scope for governments to regulate their own financial industry more harshly because it is so easy these days to reconstruct a financial transaction in a much more hospitable jurisdiction at much lower cost."

We've seen examples of this over the past decade, Herring says. "When the Germans started to put a tax on trading bonds, all the bond trading activity moved to London. Swedes put a tax on financial transactions, which meant all the Swedish shares began to be traded in London. That has created a degree of international integration that is quite unusual across all sectors."

Which gets to the subject of his book, *Financial Regulation in the Global Economy.* The consequences of financial markets becoming more and more accessible to cross-border transactions "is both a challenge and an opportunity," Herring says. "You have to start thinking about cooperating and coordinating internationally, but the question is how? What are the rules of engagement? We take a minimalist view in the book, that basically you want to give the markets as much scope as you can so they can work more efficiently. Regulation and supervision should play more of a circuit-breaker or backstop role, to protect society against upheavals like disruption of the payment system or a colossal default.

"Our book goes through all the rationales for regulations and asks how they change in a global economy. We start with some interesting work done on international cooperation in the public health sphere because that is one place where it really works. You have the tendency to assume that of course people would want to cooperate in combatting typhus and other diseases. Yet it took about 150 years to make any progress. The key issue is how you achieve international agreement on a course of action. The same questions relate to the financial services sector. People have strongly held views of the weaknesses and the problems, but

There has been significant progress in "harmonizing banking regulation internationally, much less progress in securities market regulation and almost no progress in insurance regulation."

more than that you need to have a particularly strong consensus on what the solutions are."

There has been significant progress in "harmonizing banking regulation internationally, much less progress in securities market regulation and almost no progress in insurance regulation," Herring says.

One of his current research projects offers an example of the problems posed by financial regulations. He and another professor are attempting to discern the value of liquidity, i.e. the value of the option to be able to trade something in a perfectly liquid secondary market.

Specifically Herring is looking at the perpetual floating rate notes market that was active in London in the mid 1980s. "It was a hugely successful innovation that turned out to be a cost effective way for banks to raise capital by issuing what was essentially a floating rate debt instrument that never matured. It was traded in a market that seemed to be so broad, deep and resilient that people didn't worry about the fact that it had no maturities. It would be reset to par and you were protected against interest rate risk because it would be set every three to six months. As a result, you had huge amounts being transacted at very small spreads.

"Because the Japanese were placing huge amounts in international interbank markets, many of these ended up in their hands. It all went very smoothly until the U.S. Federal Reserve Bank and the Bank of England started talking about setting international standards for capital adequacy. The Bank of England firmly believed that it was very dangerous for banks to hold capital claims on other banks. So they insisted these be deducted from capital. The idea was to avoid a situation where you have one bank bringing another one down, and so on, leading to a major collapse.

"In any case, rumor of this pending regulation got around to the Japanese who believed they were ultimately going to have to buy into this kind of system. Here they were sitting on all these capital claims on other banks that were going to be a liability for them in figuring out capital costs. When they all tried to sell their positions, the whole market collapsed.

"So you had this transition between an almost perfectly liquid market and a virtually illiquid market, and it gave you an unusual opportunity to measure the value of a liquid secondary market, which we estimate at 15 to 20 percent. That's how much the value of the security suddenly fell ...

"There are only two free lunches in finance," says Herring. "One is diversification. If you diversify a portfolio you can get the same return for less risk. With liquidity, if you can develop a liquid secondary market, you can actually enhance the value of the security."

Herring received his AB from Oberlin College and his MA and PhD from Princeton University, where he taught before coming to Wharton.

He is a founding member of Wharton's International Forum — an executive education program that brings together 30 CEOs from around the world to examine global strategic issues. The group meets three times a year in Philadelphia, Bruges, Belgium and Kyoto, Japan. For the meeting this fall in Philadelphia, Herring organized sessions on the medium-term outlook for the world economy, evolving North American trade policy and managing financial volatility.

This summer Herring taught an executive education course in Singapore in July and in August presented a paper at a Wharton Japan conference in Tokyo on the Japanese banking crisis.

In addition to his research on international finance, Herring has advised multilateral lending agencies such as the International Monetary Fund and the World Bank. He is co-chair of the Biennial Multinational Banking Seminar, a member of the Group of Thirty Committee on Supervision and Regulation and the international specialist on the Shadow Financial Regulatory Committee, a group of 12 academics, lawyers and former government officials who meet four times a year in Washington, D.C. to propose changes in financial regulation.

Herring's role on the committee is to cover international issues that affect regulation, "everything from the debt crisis to minute details on applications procedures for foreign banks." The group's recommendations frequently are covered by the business press and occasionally have a direct impact on legislation. For example, the shadow committee's proposal on prompt corrective action was incorporated into the Federal Depository Insurance Corporation Improvement Act in 1991 which induces owners of a bank whose capital position is declining to either recapitalize, merge or close down. "The idea is that you want market forces to discipline banks so that they don't become problems."

The members of the committee "all have drastically different opinions, which is what makes it so much fun," says Herring. "It's a wonderful way to learn from colleagues and it's also as close as you can get to merging theory with application."

DOING BUSINESS IN THE CZECH REPUBLIC, ARGENTINA AND BELGIUM

Jitka Kunstova, AMP'94: Director of Finance and Administration, Strojobal

As director of finance and administration for Strojobal, a packaging company in Eastern Bohemia, the Czech Republic, Jitka Kunstova has found herself trying to merge the business cultures of two very different worlds.

Strojobal is owned by the French giant Pechiney, a global packaging conglomerate that uses English for all its reporting systems, documentation and company-wide communications. Meanwhile, at Strojobal, says Kunstova, "we have people who are either experts in some form of management but don't speak English, or people whose English is good but they don't have the necessary business skills.

"Consequently all the communication for the finance department goes through me, from intercompany receivables and payables to foreign bank transactions. I also manage the information science area, which includes the computer department. For example, we have to meet monthly reporting deadlines, which is an automated process in most Pechiney plants. Here it is done manually, so it tends to be very time consuming ... There are Western requirements to meet but with Eastern skill levels and work habits," she says. "Sometimes I feel a bit overloaded."

Kunstova is no doubt up to the challenge. Already she has been witness to dramatic changes within Eastern Europe, including the 1993 division of Czechoslovakia into two separate countries, the Czech Republic and Slovakia, and the ongoing effort to convert their economies to a free market system.

She graduated in 1982 from the Prague School of Economics and was hired as an investment analyst with a large chemical producing company called Synthesia. After four years she moved over to a similar job at the head office of a group of chemical companies that reported to the state-owned Ministry of Industry.

In 1989, with a change in government, these head offices were dissolved. Kunstova worked in the information science area, still for the Ministry of Industry, teaching herself relevant business theory and application by "going to the library and reading magazines like *Fortune, Business Week* and the *Economist* along with specialized journals," she says.

In 1991, with the push towards privatization, the Ministry of Industry ceased to exist and the country adopted a more liberal trade policy that included opening its borders to more commerce with Europe. Kunstova was hired by the country's biggest bank, Komercni Banka, in its foreign exchange office. Again, it was a process of self-education. "We had to introduce things that were previously unknown here, like international money transfers and foreign payment guarantees," she says. "I learned about letters of credit by studying one we received from a foreign bank."

Kunstova

In 1992 Kunstova attended a one-month training program organized by Georgetown University for 27 bank managers in the town of Brno. She took the place of her boss whose English wasn't sufficient for the training. "For the first time, I had an opportunity to learn about the free market."

In 1994, Kunstova attended Wharton's five-week Advanced Management Program. "It was absolutely fantastic," she says. "The group included top managers from companies such as AT&T, DuPont, Harley Davidson, Philipps and the Japanese Ministry of Industry, all of whom have multinational experience. I had no background of this kind at all, and I was the only person in the program from the Eastern bloc. What I did contribute was information on what it was like in my part of the world, in a former centrally-planned economy."

After returning to her bank in Eastern Bohemia, Kunstova says she found her supervisor to be unsupportive of her new ideas and unwilling to incorporate them into the bank. About this time, Pechiney flew her to France and England to be interviewed for the position of finance director at its $35 million subsidiary Strojobal. She accepted the job in March 1995.

Kunstova learned English as a teenager in Eastern Bohemia where she rowed competitively and was a member of the Czecho-

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Federico Zorraquin, WG'87: General Manager, IPAKO

This is how Federico Zorraquin, general manager of a subsidiary of Garovaglio and Zorraquin — his family's newly-reorganized Buenos Aires-based insurance, manufacturing and chemical holding company — describes his working relationship with his father:

"I bring ideas, stamina and risk-taking. He brings experience, reputation and excellent judgment ... We made a wonderful team during the whole restructuring process."

Which is good, because when Zorraquin graduated from Wharton and came back to Argentina to work for Garovaglio and Zorraquin, he found himself, he says, "in the middle of the storm."

A quick synopsis: After spending four years with one of Garovaglio and Zorraquin's subsidiaries, an appliance manufacturer called Rheem, Zorraquin in 1991 was named general manager of the holding company. It was during that same time that another subsidiary of the company called IPAKO - then the country's largest manufacturer of commodity plastics - had run into trouble because of operating inefficiencies and a downswing in international chemical prices.

IPAKO itself had two subsidiaries: Petroken, a joint venture with Shell, and Cerro Castille, a mining concern. Petroken was also suffering from low price levels in the world markets, and Cerro Castille was about to be shut down due to lack of mineral reserves. "All these factors were combining to make IPAKO almost non-viable," Zorraquin says.

In 1993, Zorraquin's father asked him to become general manager of IPAKO. He immediately started on an ambitious restructuring program.

It worked. First, Zorraquin engineered the sale of Petroken. Second, he put Cerro Castille into Chapter 11, restructured its debt and found a partner to purchase 30 percent of the company.

Federico & Isabel Zorraquin

Perhaps most importantly, he restructured and streamlined operations at IPAKO and at the end of 1995 sold two of the company's three plants to Dow Chemical. The sale boosted profits for 1996 to an extraordinary $100 million. It was a noticeable turnaround from 1993, when the company lost $50 million on sales of $200 million.

"We are a much smaller company now, with sales of $35 million (compared to $280 million before the sale to Dow), but we have substantial financial resources which we will be reinvesting into new activities," says Zorraquin. "We intend to grow in

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Guy F. Detrilles, WG'71: Partner, SA Egon Zehnder & Associates

A turning point in Guy Detrilles' professional life probably came in 1980, when he was putting together real estate projects for Triad International, a Middle Eastern group in Beirut that was building huge housing and service complexes for what was then a booming economy.

Detrilles had joined Triad in 1974, following two years each with Banque Paribas and Bank of America International where he was in charge of merchant and investment banking activities throughout Europe.

Middle Eastern companies at that time were sitting on huge profits from the oil shortage and eager to invest their money in everything from airports and harbors to hospitals and apartment buildings. Over the next five years, however, "civil war broke out in Beirut, the oil shortage ended and many of the companies found themselves overextended," says Detrilles. "By 1978, they realized there was a limit to the sky."

There was also a limit to Detrilles' physical stamina. "It was an extremely exciting time, and professionally very interesting, but absolutely exhausting," he notes. "I was on the road 300 days a year, dividing my time between London and the financial activities, and Saudi Arabia and the construction projects ... I had to decide whether this was something I could keep on doing."

Detrilles

Not surprisingly, Detrilles talked to a number of search firms in the process of "throwing out my anchor and seeing what my next step in life would be ... One of the search firms suggested I join them. I've been here ever since."

The firm was SA Egon Zehnder & Associates International NV, one of the largest executive search firms in the world. Detrilles is head of their 20-person Brussels office where he works primarily on international searches in the financial services industry. Clients in the Brussels office are half international and half domestic and represent every major industry, from information technology, banking and insurance to pharmaceuticals and consumer products.

"Clients today are more exacting than 15 years ago," Detrilles says. "Everyone is under a lot more pressure, the markets have become far more demanding and all the job categories require very specialized skills."

It's expected, Detrilles says, "that senior management candidates speak three or four languages and have work experience in several different countries.

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Research Wire

Below is a summary of several research projects recently completed by Wharton faculty.

Rethinking Social Security

Some experts argue that privatizing the social security system would be cheaper and more efficient. A new study of social security systems in 49 countries by Wharton's Olivia Mitchell cautions that a privately managed system in the U.S. would likely be more expensive than the current publicly managed program. However, the higher costs of a private program are likely to generate better and more diverse services including the opportunity to self-direct pension asset investments and possibly invest in higher-return assets, the likelihood of more frequent reporting to participants and greater overall satisfaction. Mitchell found that total administrative expenses for the U.S. social security program are under 1 percent of annual expenditures, placing the U.S. at mid-range for developed nations, and nearly 10 times below averages for developing countries. She also analyzed expenses associated with other financial institutions that deliver retirement income, including public and private pension, and 401(k) plans, mutual funds and insurance programs. The lowest-cost, privately managed plans have annual expenses of 1 percent of assets or less.

Olivia Mitchell; Administrative Costs in Public and Private Retirement Systems

In-Store Coupons Vs. Bonus Buys

While some brands are eliminating coupons altogether, in-store coupons and straight off-the-shelf discounts (bonus buys) are still among the most effective methods for generating incremental sales and fatter profit margins. But which is more effective? According to a study led by Marketing Professor Stephen J. Hoch, in-store coupons, on average, lead to a 35 percent greater increase in sales and, more importantly, a 108 percent greater increase in retailer profits for the promoted item than do bonus buys offering the same level of discount. Profits are greater with coupons because of an average redemption rate of 55 percent.

Hoch suggests that the rates are low because there three kinds of shopper: coupon-clipping experts who always redeem their coupons; passive shoppers who are oblivious to promotions and would buy anyway; and a large group of price-sensitive novices, only a fraction of whom remember to redeem coupons at checkout. The findings, based on five field tests in an 86-outlet supermarket chain, reinforce a basic tenet of economic theory, says Hoch — profits will always be greater if the seller can charge different prices to consumers depending on their willingness to pay.

Stephen J. Hoch and Sanjay K. Dhar; Price Discrimination Using In-store Merchandising

Do CEOs Use Enough Debt?

CEOs relatively unfettered by corporate governance mechanisms, (e.g. monitoring by the board of directors, performance-based incentives, or the threat of dismissal or takeover) tend not to use as much debt as shareholders would like, according to research by Wharton's Philip Berger and colleagues. Firm leverage usually remains below the level that is optimal for shareholders unless external shocks to the CEO's security occur. The researchers find that negative shocks to CEO security — an attempt to acquire the firm, the involuntary departure of the prior CEO, or the arrival of a major stockholder/director — increases the ratio of debt to assets from 25 percent to 35 percent, on average.

Philip G. Berger, Eli Ofek and David L. Yermack; Managerial Entrenchment and Capital Structure Decisions

Analysts' Reports and Overpriced Stocks

Why do firms issuing stock experience unusually low returns over the first years following issuance? According to research by Wharton's Richard Sloan and Patricia Dechow, and Harvard's Amy Sweeney, the stock is simply overpriced to begin with. By examining long-run earnings forecasts issued by sell-side equity analysts on firms making equity offerings, the researchers found that these forecasts were systematically over-optimistic. They also found that the over-optimistic earnings forecasts appear to be incorporated in stock prices. In addition, analysts issue particularly over-optimistic long-term earnings forecasts when they are employed by the lead underwriter of the firm's equity offering. Investment banks typically argue that they set up 'Chinese walls' between their underwriting and investment advisory businesses to prevent conflicts of interest. The researchers say, however, that the study's results are consistent with investment banks using their sell-side analysts to help promote their underwriting clients.

Patricia M. Dechow, Richard G. Sloan and Amy P. Sweeney; The Role of Affiliated Analysts' Long-term Earnings Forecasts in the Overpricing of Equity Offerings

For copies of studies please contact Michael Baltes at 215-898-7640 or e-mail: baltes@wharton.upenn.edu

Cross-Cultural Conflicts in China and Russia

Management professor Karen Jehn is asking for trouble. For the past seven years, she has been traveling to China, and more recently to Russia, to interview domestic managers and expatriates about sources of conflict in their cross-cultural joint ventures. During the roughly two to four months she spends abroad each year, she has heard many tales of woe — ranging from crossed signals to corporate failures — because of cultural misunderstandings.

International joint ventures, says Jehn, Kraft General Foods Term Assistant Professor of Management, are a cross-cultural disaster waiting to happen. For example, consider the difference in the way Chinese and American managers deal with conflict. If Chinese managers have a problem with another manager, they will tell a third party about their conflict and the third party will communicate with the manager. American expatriates, on the other hand, will directly confront the offending colleague. The Americans feel their Chinese colleagues are going behind their backs, while the Chinese are offended by the directness of their Western peers. "The natural way for Americans to deal with conflict is the exact opposite of the Chinese approach," says Jehn.

Even a simple matter such as answering the phone in Russia can be problematic. Many Americans complain that Russians do not take messages, but in Russia, it is the responsibility of the calling party to keep trying to get through. There is no expectation or obligation to return phone calls, nor for a secretary to relay a message to a manager. A standoff is created as Americans wait for unreturned calls and Russian managers can't understand why their U.S. colleagues don't keep trying. And you thought the cold war was over.

Cross-cultural conflicts go far beyond the issue of positive or negative corporate environments. They can make or break a joint venture. "The problem with joint ventures isn't just market issues; it is the day-to-day functioning of different people in different cultures," says Jehn, whose work has earned her recognition from the National Science Foundation, the American Psychological Association and the Academy of Management.

For example, cross-cultural conflicts nearly destroyed Chrysler's manufacturing joint venture with a Chinese company during the mid-1980s. As author Jim Mann writes in *Beijing Jeep : The Short, Unhappy Romance of American Business in China :* "The atmosphere became so tense that even the most trivial business dealings between the Americans and Chinese became bogged down in charges and countercharges."

Cultural differences contributed to the failed attempts of several major hotel chains to enter Russia. American managers found it difficult to teach staff to follow American standards of customer service. In contrast to the American belief that "the customer is always right," the Russian tradition was "the seller is always right." Once re-educated, the Russians then erred in being *too* customer-oriented. "They didn't realize, for example, that you don't just give away meals for free," says Jehn. These and other problems led to the withdrawal of three major chains from the Russian market.

In the seven years since Jehn began studying this issue, companies have become a little more aware of the importance of cross-cultural conflict. They are spending more time on cultural training, she says, and relying more on domestic managers rather than sending expatriates for two-year stints — a strategy that has led to reduced conflicts among expatriates and between them and domestic managers.

> "The problem with joint ventures isn't just market issues; it's the day-to-day functioning of different people in different cultures."

Some of the studies conducted by Jehn and her colleagues ask managers to respond to specific situations of cross-cultural conflicts. The reactions of Chinese and American managers to the same situation are often quite different. Consider this example:

An American manager has a Chinese colleague who is as old as he is. The manager feels his colleague is secretly competing with him. The manager also believes his colleague stole some of his (the manager's) ideas and presented them to their boss as his own. The manager has another grievance: He feels his colleague gave him an old computer reference program even though the colleague had a newer version of the program which would have saved the manager tremendous time and effort. (The same scenario is presented to Chinese managers with the roles reversed.)

Americans recorded five different responses to this scenario:

- Active: Communicate with colleague to work it out
- Passive: Stop sharing ideas
- Conciliatory: Figure out how to work together ... have an exchange ... encourage colleague to think the same way
- Aggressive: Remove authority
- Accommodation: Shouldn't do too much ... ignore problem

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PHILADELPHIA *Continued from page 17*

health care revolution in this city. That's not necessarily true in other parts of the country."

HealthPower's practice management projects range from strategic planning, operational assessments and evaluation of managed care contracts to recruitment and training of office staff, chart audits and selecting practice management systems and technologies.

The company, which has five professionals and 23 clients, also offers educational services, including classes, seminars and workshops.

After earning her MBA from Wharton, Eskin, who graduated Phi Beta Kappa from Cornell with a degree in economics, spent seven years as director of the Hahnemann University Physician Assistant Program followed by one-and-a-half years as director of administrative services with the department of obstetrics and gynecology at Penn. "That's when I decided there was a real future in physician practice management," she says. "One of my jobs was to run the practices. Not only did I not know anything about it but there weren't any resources I could go to for help."

The Wharton connection has been "invaluable" to the success of her company, Eskin says. "I have been in business now for nine years, and because of my Wharton contacts, I can put my fingers on the right people in almost any aspect of health care."

KUNSTOVA *Continued from page 22*

slovakian team that competed throughout Europe. "I needed to communicate with rowers from all over the world. That was my incentive." She now has a 17-year-old son and is married to a metallurgist who is manager of a foundry.

"Fortunately my son is a good boy," says Kunstova. "If he wasn't, I couldn't work as hard as I do."

ZORRAQUIN *Continued from page 23*

the specialty products area within the chemical industry but also to expand in other areas outside."

This year, sales of the holding company — which, in addition to the chemical and mining interests, includes the appliances company, a packaging company and an insurance business — are $85 million.

Zorraquin's turnaround took place during a restructuring of the Argentine economy as a whole. "That meant a lot of pressures for companies like us because our markets were opening up to foreign competition on one side, and our currency became severely appreciated with regards to the dollar on the other side. Meanwhile the chemical industry worldwide was facing one of the biggest recessions in history so that there was lots of product available at very cheap prices. It was an explosive situation."

Zorraquin, who is married and has four children, grew up in Buenos Aires and earned a degree in industrial engineering. Before attending Wharton he worked in both IPAKO and Rheem as a production engineer. Today he remains general manager of IPAKO but is also embarking on new business development activity. "It's still not an easy situation," he says. "Our markets continue to be unstable. At the same time, we are faced with the very attractive opportunity of reinvesting a significant amount of cash that we have generated. I like this life better than the one I had three years ago."

DETRILLES *Continued from page 23*

That's been true for several years." What is new, he adds, are the number of industries that were not as important even a decade ago, including software, biotechnology, telecommunications, and volume-driven service industries like hotels and resorts, credit card companies and airlines. All of these are creating new job opportunities."

Europe is facing the same economic stresses that the U.S. went through in the early '90s, Detrilles says. "Unfortunately there is no such thing yet as a European economy. Significant differences still exist between the countries. My quick analysis is that the UK right now is doing well, Germany is not doing well, France has gone through a traumatic period but is trying to solve some of its major problems, and Italy and Scandinavia are both definitely on their way up."

In all these countries, to varying degrees, "the governments are facing tighter budgets, demand for goods and services is down, and there is less consumer confidence and less consumer spending. All that creates a climate, not of recession, but of a standstill at best."

Brussels is different, says Detrilles, who grew up in the Antwerp region of Belgium, earned a degree in engineering from the University of Ghent, married a French woman and has two sons, ages 10 and 15. "It is the headquarters for so many global businesses as well as the homebase for international lawyers, lobbyists and consultants. There is far more international activity here than in any other city in the world. In that sense, it's a unique market."

WHARTON AROUND THE WORLD

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The Chinese recorded four responses:

- Indirect and constructive: Tell friends and colleagues; they will talk to colleague to improve situation ... use indirect signals, then colleague won't do it again
- Direct and not constructive: Give false information ... explain to boss and then avoid colleague ... complain to boss, get back at colleague
- Direct and constructive: Don't argue, but complain to boss ... go together to see boss ... raise issue in formal meeting
- Indirect and not constructive: Get newer version to embarrass him ... don't tell ideas to him .. wait and see; then put an end to his tricks — don't talk to colleague

Source: Elizabeth Weldon, Karen A. Jehn, Lorna Doucet, Xiangming Chen, Zhong-Ming Wang, "Conflict Management in U.S.-Chinese Joint Ventures." Robert Gunther