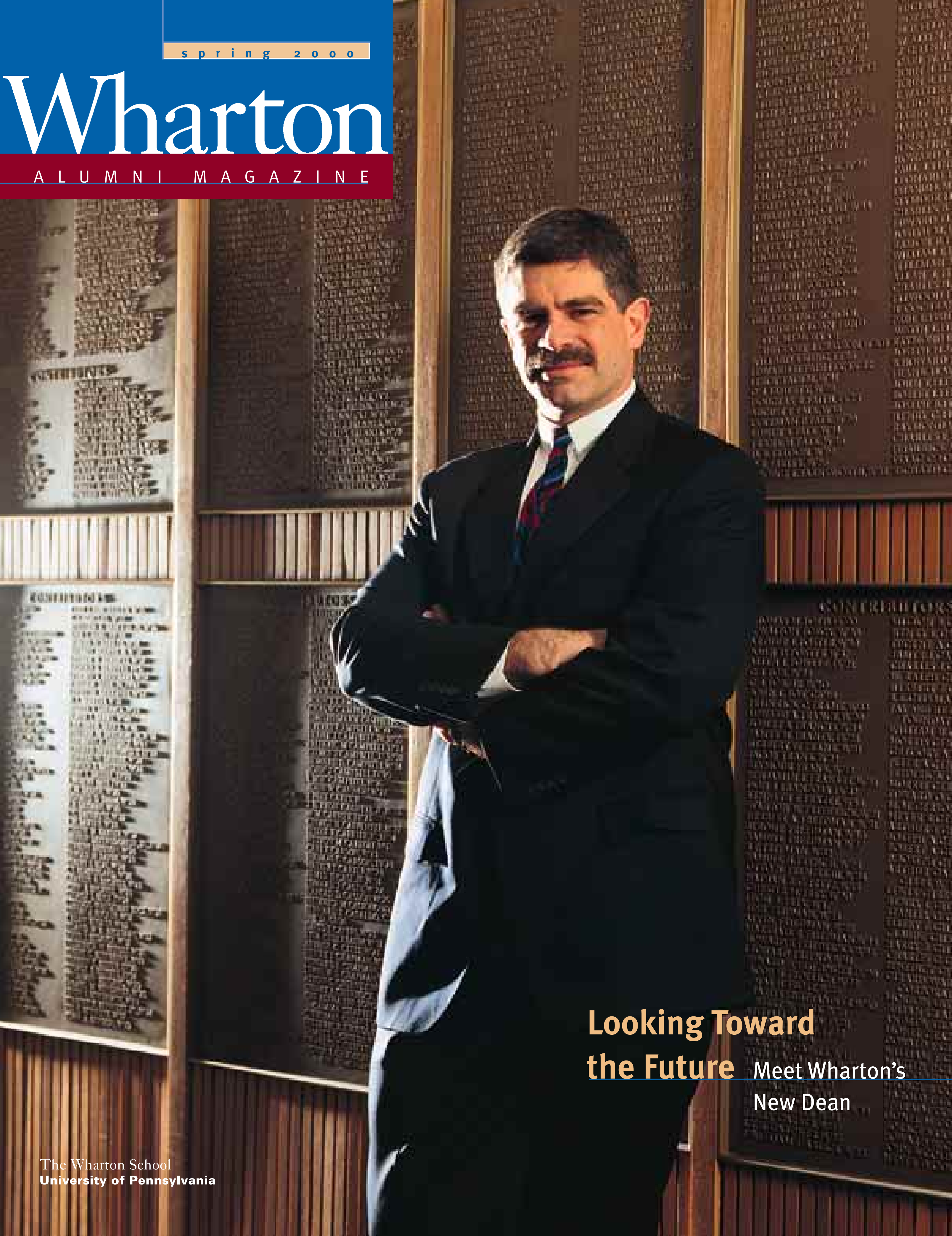
spring 2000

Wharton

ALUMNI MAGAZINE



Looking Toward the Future

Meet Wharton's New Dean

The Wharton School
University of Pennsylvania

Calendar of Events

MAY 4 & 5

Wharton Financial Institutions Center Academic Symposium
"Managing Trade Risks"
For further information, please contact:
Financial Institutions Center
Tel: 215.573.5838

MAY 5

Leonard Davis Institute of Health Economics Research Seminar Series
"Estimating Hospital Competition: A New Approach"
For further information, please contact:
Leonard Davis Institute
Tel: 215.898.5611

MAY 18

Fourth Annual Wharton Leadership Conference
"Leading with Speed: Developing Leaders for Fast-Moving Organizations"
Four Seasons Hotel – Philadelphia
For further information, please contact:
Center for Human Resources
Tel: 215.898.5606

MAY 19

Leonard Davis Institute of Health Economics Policy Seminar Series
"Managed Care: The Next Generation – Upheaval in Philadelphia"
For further information, please contact:
Leonard Davis Institute
Tel: 215.898.5611

MAY 19 – 21

MBA Reunion/Alumni Weekend
"Back to the Future"
For further information, please contact:
Marguerite A. Harrington, WG'76
Tel: 215.898.8478
E-mail: alumni.affairs@wharton.upenn.edu

JUNE 8

Wharton Club of Washington, D.C. Conference
"Mastering the Digital Millennium: e-Visioning Your Future"
For further information, please contact:
Wharton Club of Washington
Tel: 703.442.8326
E-mail: DCWharton@aol.com

JUNE 9 & 10

Asian Regional Alumni Forum
"The Asian Century Begins"
The Peninsula Hotel, Manila
For further information, please contact:
Jeffrey Sheehan
Tel: 215.898.1240
E-mail: jsheehan@wharton.upenn.edu

JUNE 22 & 23

Latin American Regional Alumni Forum
"Past Lessons, Future Growth"
The Sheraton Hotel and Park Tower, Buenos Aires
For further information, please contact:
Jeffrey Sheehan
Tel: 215.898.1240
E-mail: jsheehan@wharton.upenn.edu

2000

Wharton

ALUMNI MAGAZINE

spring 2000

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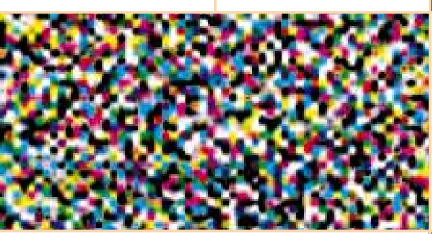
Investing in Emerging Markets Can be Profitable, But Risky

Features

Wharton's New Leader is Rethinking the Very Notion of Business Education



20 At Comcast, Father and Son Know Best

How Bold, New Ideas for Start-Ups Fared in the Real World

Departments

New Deputy Dean Appointed

SCHMITTLEIN

David C. Schmittlein, the Ira A. Lipman Professor and chairperson of the Marketing Department, has been named Wharton's deputy dean. In his new post, Schmittlein will become the school's chief academic officer. He succeeds Patrick T. Harker, who held the deputy dean position until being appointed Wharton's dean on February 8.

"David Schmittlein is a distinguished scholar and has been instrumental in helping to advance numerous initiatives within the school," says Harker. "I am pleased to make this appointment, and I look forward to working closely with Dave and all of our faculty colleagues in moving the school forward."

A faculty member since 1980, Schmittlein has held several leadership positions at Wharton including chairperson of the Marketing Department since 1994, and vice dean and director of Wharton's Doctoral Programs from 1993 to 1995. He was co-director at the Center for Marketing Strategy Research from 1982 to 1985, and has held visiting appointments at the University of Tokyo and Washington University.

Schmittlein has been a key force in several important curricular initiatives including the recent adoption of the "Managing Electronic Commerce" major at the MBA level. He has also been honored with a Wharton Undergraduate Excellence in Teaching Award. A prolific scholar, Schmittlein is currently involved in research projects focused on customer purchase patterns, assessing future sales potential, direct marketing, and analyzing new product success in Japan and the U.S. He earned PhD and master's degrees from Columbia University, as well as an AB from Brown University.

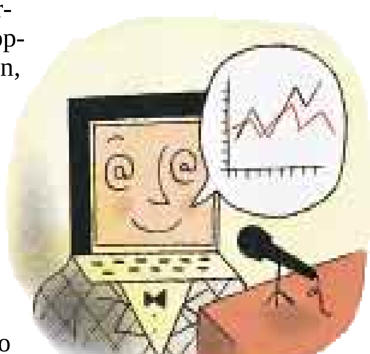
Schmittlein has consulted with firms such as American Express, American Home Products, AT&T, Ford Motor Company, Gianni Versace S.p.A, Lockheed Martin, Pfizer, Revlon and Quaker Oats Co., and the Oakland Raiders, regarding marketing research methods, models for marketing decisions, advertising, new product development, market segmentation, and direct marketing.

Course Gives Direct Access to Jeremy Siegel

Is the market overvalued? What's the Fed likely to do next? How will the markets react? Wharton professor Jeremy Siegel answers these and other questions in a new Wharton Direct course, "The Market Update with Jeremy Siegel: Understanding Economic Issues and Financial Markets." The course, which runs May 8 to June 6, is delivered via the Internet and features five weekly live class sessions with Siegel, as well as eight hours of on-demand video lectures, including slides and references.

The class highlights Siegel's live, up-to-the-minute analysis of what's happening in the financial markets and how current economic trends will affect short- and long-term performance. Participants pose questions directly to Siegel and the course web site will host weekly "office hours" and a discussion group. Siegel, author of the book, *Stocks for the Long Run,* is internationally known for his stock market expertise.

Alumni are eligible for a 20 percent alumni discount for this and other Wharton Direct programs, which are offered through Wharton Executive Education. For additional information on the alumni discount and the Siegel course, call 800.255.3932 or visit the following web site: <direct.wharton.upenn.edu>



CYRIL CABRY.ILLUSTRATIONS

Wharton Freshman is Nation's Top AP Scholar

Wharton freshman Diana Hong is the top Advanced Placement (AP) scholar in the nation. Hong, who graduated from North Hollywood High School in California and had a perfect SAT score, said it was the prestigious Huntsman Program in International Studies & Business that made her choose Wharton. Only 40 students were accepted of the 700 nationwide who applied to the Huntsman program, a joint undergraduate program between Wharton and Penn's School of Arts and Sciences.

To earn the top Advanced Placement slot, Hong scored a four or higher on 20 AP exams. By comparison, to become one of the nation's estimated 1,400 AP scholars, students must score at least a four on a minimum of eight AP exams. Administered by the College Board, AP tests are given in a variety of subjects. "I was relieved," says Hong of her number-one rank. "It was a goal I set at the beginning of the year."

As a high school student, Hong found herself equally interested in languages and business, so had "resigned myself that I would probably go to a liberal arts college and major in economics." But after hearing about Wharton's Huntsman IS&B program, she knew it was perfect for her. Hong hopes to work in investment banking after she graduates and has a particular interest in Latin America.

DAVID DEBALKO.PHOTOGRAPH

HONG

The self-assured native Californian, while grumbling about returning from winter break to record cold temperatures, says she "loves the Penn campus, its beautiful architecture and the city of Philadelphia, which is so steeped in history."

Wharton Faculty Win National Awards

The motion picture industry, social security reform and effective negotiation were among several faculty research projects to garner national awards recently. Selected awards include:

Professor **Jehoshua Eliashberg**, the Sebestian S. Kresge Professor of Marketing and professor of operations and information management, was awarded the Carol and Bruce Mallen Prize for Published Scholarly Writing in Motion Picture Industry Studies by the Fort Lauderdale International Film Festival. Eliashberg's research looks at emerging technologies and supply chain trends in the entertainment industry, among other issues.

Professor Olivia S. Mitchell, the International Foundation of Employee Benefit Plans Professor of Insurance and Risk Management, won the TIAA-CREF fourth annual Paul A. Samuelson Award for Outstanding Scholarly Writing on Lifelong Financial Security for a co-authored paper called "Social Security Money's Worth." The paper found that the costs and risks of reforming Social Security are obscured or understated in proposals from virtually all points on the political and economic spectrum. TIAA-CREF is the largest pension system in the world.

Professor G. Richard Shell, chairperson of the legal studies department, was awarded the book prize of the CPR Award for Excellence in Alternative Dispute Resolution for his 1999 book *Bargaining for Advantage: Negotiation Strategies for*

WG'96

Irina Yuen
Expanding CBS MarketWatch.com's Reach and Revenue

After two years in a traditional corporate environment as an associate at A.T. Kearney Inc., Irina Yuen got the itch to make a change.

Today, Yuen, WG'96, seems to have found her niche in her current post as senior director of business development for San Francisco-based CBS MarketWatch.com, a leading on-line financial site offering breaking news, analysis and market data for professional and individual investors.

"I have this need to create and lead that comes with an entrepreneurial environment, and I only learned that about myself through experience," she says. Yuen, 30, who joined MarketWatch.com in late 1998, manages MarketWatch's business development group, focusing on distribution, e-commerce and strategic investment activities. Since joining MarketWatch, Yuen has negotiated and executed partnership deals with key companies including AOL, Excite, Alta Vista, Earthlink and E*Trade, relationships that significantly increased MarketWatch's reach and revenue. During her brief tenure, CBS MarketWatch.com moved from fourth to first in the Media Metrix rankings, which measure Internet audience usage.

Yuen likens her role at MarketWatch to a stint as a summer trader in 1995. "You have to make very calculated decisions very quickly – not minutes or seconds, but that's the way it feels sometimes. There are a million things going on, and there's so much information that you have to absorb and digest."

She enjoys this edge – the ability and necessity to move quickly that comes with working amid the white-water rush of the on-line media business. Financial news and information, Yuen points out, is an extremely competitive, saturated market. "Literally, things are announced on a daily basis that fundamentally shift the competitive landscape. You have to be acutely aware of what's going on. We have to be on our toes." MarketWatch.com's challenge, Yuen says, is to create a "distinct voice" amid the din and continue to roll out applications that foster customer loyalty.

Yuen first attended Penn as an undergraduate, earning a degree in international relations in 1990. After graduation, she lived in Europe, then returned for a position as a dealer for The Toyo Trust & Banking Co. in New York. At Toyo, she jointly managed a multi-currency portfolio and wrote daily and weekly market reports and interest rate forecasts, among other duties. She returned to Penn in 1994 to pursue dual degrees: an MBA and an MA from The Joseph H. Lauder Institute of Management and International Studies.

But despite her long hours and focused career path, Yuen has a distinct alter ego with interests in volunteer work and the arts. Along with physical pursuits such as hiking, skiing, and running, she is passionate about the theater and has studied at a fine arts conservatory, focusing on acting. Her leadership leanings are also apparent in her non-professional pursuits: while in New York during the early part of her career, she co-founded a non-profit organization called Minds Matter of NYC, Inc. that helped inner-city youth gain admission to competitive academic summer programs and, eventually, college. Yuen managed all aspects of the non-profit, which under her leadership grew to 30 students, 110 volunteers and $40,000 funding. Her only regret about moving to the Bay Area: the hectic pace of her professional life has meant very little time for similar community outreach. "It's very important to me; I'm working to try to recapture the balance again," she says.

As for the future, Yuen says she'll continue to follow her instincts. "The most important thing for me is to have fun and to continue learning." ◆

Reasonable People. Shell's book was Wharton's first on the subject of negotiation, which has become one of the school's most popular electives in both the MBA and undergraduate curricula.

George Day Book Offers New Insights

A new book by Wharton professor George Day provides up-to-date information on sources of competitive advantage and outlines the Internet's influence on the way companies operate and connect to customers.

The Market Driven Organization: Understanding, Attracting, and Keeping Valuable Customers (Free Press) is a companion to Day's 1990 book, *Market Driven Strategy.* The book focuses on how technology allows companies to better understand their markets and form stronger relationships with their most valuable customers. It also explains what makes an organization effective in the face of rapidly changing customer expectations and unpredictable competitive realities.

Day provides in-depth examples from companies such as IBM and Wal-Mart, which use management innovations and information technology to continuously stay ahead of competitors. Day is Wharton's Geoffrey T. Boisi Professor of Marketing and Director of the Huntsman Center for Global Competition and Innovation.

A Freshman's Tumultuous Path to Wharton

Four years ago, Wharton freshman **Dario Kosarac** had no idea how his life would evolve. Fifteen and scared for his future, he was living in his hometown of Sarajevo, which had been virtually destroyed by three years of war between Croats, Serbs and Bosnian Muslims.

TOMMY LEONARDI.PHOTOGRAPH

KOSARAC

"I was in high school and faced being drafted into the army, which I definitely didn't want to happen," says Kosarac, who lived at home with his mother and older sister, a teacher.

Kosarac and his friends would seek out English-speaking people in the main squares of Sarajevo, hoping that the more English they knew, the better chance they would have of getting out of Bosnia.

And one day in the spring of 1995, Kosarac and his friends met some people from England and the U.S. who claimed they were relief workers who might be able to get Kosarac and his friends to America as students. They exchanged addresses and, with that, raised Kosarac's hopes that he could leave his war-ravaged home. "I wrote a lot of letters that summer to them, but I never heard back. I went back to school without much hope," he says.

But one Wednesday he returned to school – the date, Oct. 25, 1995, is firmly etched in his mind – and there was a letter from one of the people he met. It said that if he could be in Zagreb, the capital of neighboring Croatia, by Friday, he could come to America, be placed with a family, and complete high school there.

"This would be a difficult thing even if you were living in Philadelphia and going to New York, to complete such arrangements," says Kosarac. "But this was Bosnia. Crossing borders was seemingly impossible. I had no passport, no Croatian visa.

"But when you are faced with something like that, I don't know, you just forget the odds and figure out a way to do it," says Kosarac.

Though he was able to obtain a passport in a day, Kosarac couldn't get a visa to enter Croatia. But even that seemed a moot point, because nearly no one could get across the Sarajevo Airport to the road to Croatia. The airport had effectively been closed, a no man's land surrounded by snipers, most from the invading Serbian army. Kosarac, a Catholic of Croatian ancestry, may not have been an official enemy of that army, but he would still have to prove to border guards that he deserved to cross disputed territory.

Fortunately, his priest had a plan. He lent Kosarac his collared vestment shirt so he could pose as a seminary student in a humanitarian caravan of food and supplies crossing the airport and into the safer territory by Mount Igman on the other side.

Miraculously, the plan worked, but he was still many miles away from Zagreb on a war-torn road, with little money and no Croatian visa. The driver of the truck he was on noticed that a bus ahead of them was going direct to Zagreb. Kosarac flagged it down and convinced the bus driver to let him on. He did more convincing of border guards and soldiers at checkpoints along the way and arrived in Zagreb on Friday morning.

Even that wasn't enough. He would still need to get a visa to travel to America by that afternoon or would lose his chance to be placed with a family. After hours of talking, negotiating, and faxing documents, Kosarac was finally given the go ahead.

He slept for a couple of hours, then was on a plane to Germany. By Sunday, he was in Virginia Beach, Virginia – and two military pilots had volunteered to be his host family. “By Wednesday, I was attending my first day in an American high school. From Wednesday with virtually no hope to the next Wednesday with a future – what a week,” he says.

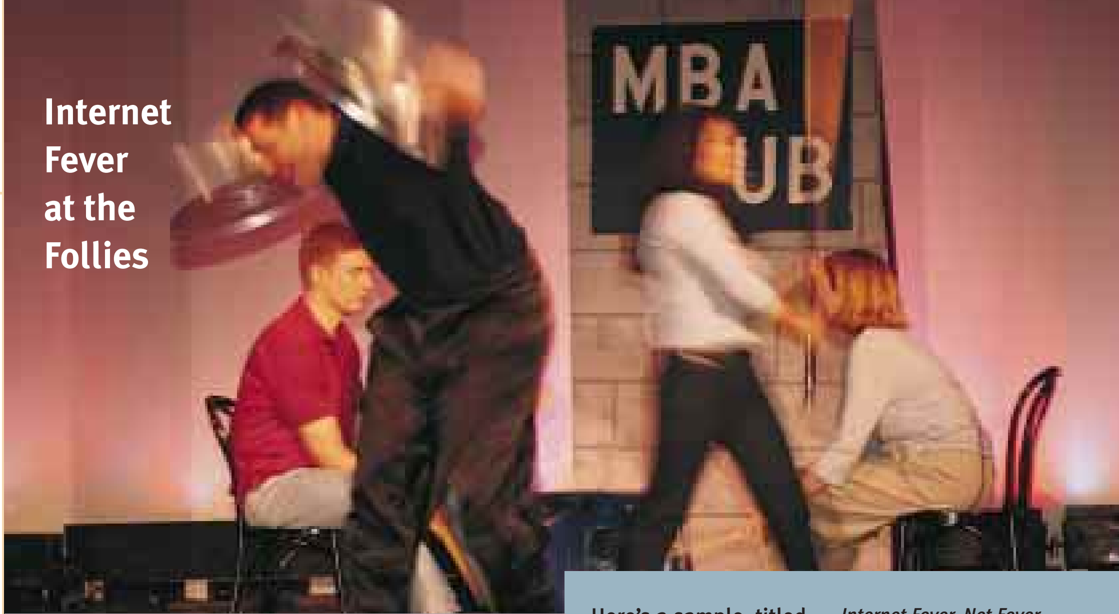
Four years later, Kosarac is ready to face a different kind of future in Bosnia. “They need a good economic structure and hopefully I can influence that,” he says. “But I’m not on a mission to save Bosnia at all costs. I hope I can at least make things good for my family.”

— ROBERT STRAUSS

Virtual Community for Alums Launched

Looking for a former classmate and don’t know where to begin? Interested in chatting with old Wharton friends online? The Wharton Alumni Virtual Experience

Internet Fever at the Follies



The plot: Four innocent but Internet-savvy prospective students come to Wharton Welcome Weekend. They all land in the same mini-cohort only to discover, amazingly enough, they all want to start a dot-com. Worried that attending Wharton might delay their Internet riches, the group talks about launching sporkvan.com, a flatware delivery service for corporate cafeterias.

The prospective students then discuss their idea with Big Bob Alig, Wharton director of admissions and financial aid, but unfortunately are overheard by a spy planted by Alig’s arch-nemesis, Ms. Beelzebub (a venture capitalist from the firm Kleiner Perkins Beelzebub, also known as the “dot-com devil”). Informed of the goings-on, Beelzebub seizes on this chance to take on her long-time nemesis and begins her mission: to tempt the prospective students to the dark side - e-commerce - with a very well-secured offer of first-round funding.

In the scenes that follow, Alig struggles to prevail against Beelzebub’s tactics, which include taking the prospective students on a “hell trek” to expose them to the harried lifestyles of investment banking, consulting, and finally, Silicon Valley, where “Net Fever, Net Fever” is in full swing.

In the end, though, Alig uses sad story of Abby, Wharton drop-out and founder of Chopstickvan.com, to reveal the horrors of starting a dot-com without the benefit of advanced corporate finance and second-year marketing research classes. The students are convinced – and decide to come to Wharton.

This year’s Follies, aptly titled “The VC Who Loved Me: A Dotcomedy,” was put on by a team of more than 100 MBA students and included tunes from television shows *Gilligan’s Island* and *Laverne & Shirley* and musicals *Grease* and a *Chorus Line*.

Here’s a sample, titled “Net Fever” and sung to the tune of “Night Fever” by the Bee Gees.

Dollar, yen or pound
There is money all around
If your business plan is
sound
You can fund it

VC’s don’t really care
‘bout nice suits or
perfect hair
polyester’s what we wear
And we’re money

Venture capital funding
We search every day
Controlling our minds and
our souls
We have revenue models
With no profits at all!

It’s Internet Fever, Net Fever
We’ve been workin’ all night
Internet Fever, Net Fever
Gonna launch a website

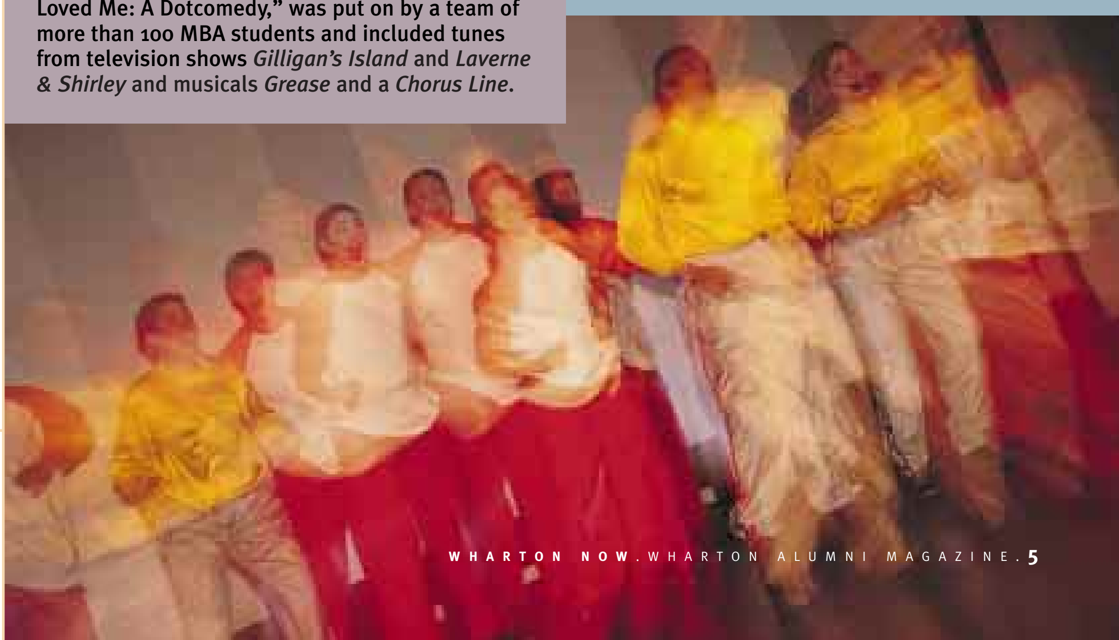
Here I am
Prayin’ for this startup
to last
We need money so we
can grow
Capital from
Our IPO

Internet Fever, Net Fever
We’ve been workin’ all night
(Feels like forever baby,
don’t you know)
Internet Fever, Net Fever
Gonna launch a website
(Make so much money baby,
don’t you know)

When our bank account’s
low
We need cash and we can’t
fake it
Give us just enough to make
the next payroll
We got options on our mind
To investors we are talkin’
We’re gonna take it public
But keep control

New sources of funding
We find every day
Financing our Mercedes
Benz
Awaiting the moment
When the timing is right

Here I am
Prayin’ for this market
to last
As we watch the ticker fly by
Our market cap
Reaches sky high!



JERRY MILLEVOI.PHOTOGRAPHS

(WAVE), officially launched in February, now offers these and numerous other services to Wharton's 73,000 alumni.

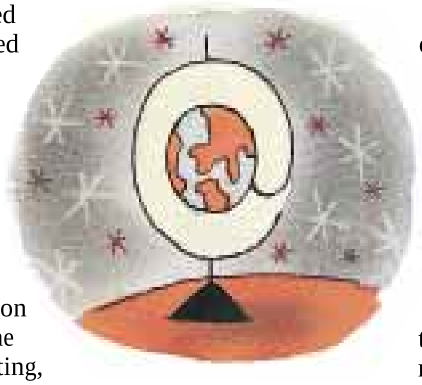
Alumni can update their contact information, look for friends and colleagues in an online directory, and search for alumni by industry, class year or location, all in a password-protected site. WAVE also features a message board and chat room to keep alumni in touch with fellow Wharton grads. Alumni can explore the worldwide club network, register for regional and student conferences, pursue career management information, read the *Wharton Alumni Magazine* and Knowledge@Wharton online and link to other resources. Visit the site at <wave.wharton.upenn.edu>

Students and Alums Pack Northern California Career Fair

More than 300 MBA students and several hundred alumni recently converged near San Francisco to hear about career opportunities at Apple, Excite@home, Intel, Microsoft and 50 other firms at the Wharton Club of Northern California's Fourth Career Fair and Reception. Silicon Valley loomed large at the event, a venue for recruiting, being recruited and reuniting with classmates and friends. "This event is a great platform for Wharton to expand its presence in Silicon Valley and creates better opportunities for many smaller employers to meet Wharton graduates," says Wharton alumni affairs director Marti Harrington, WG'76.

Regional Alumni Forums Showcase Latest Trends

Success stories of the Asian financial crisis and foreign exchange risk management are among the topics to be addressed at this year's Asian and Latin American Regional Alumni Forums. Held on June 9 and 10th at the Peninsula Manila Hotel in Manila, this year's Asian forum will address e-commerce, corporate transparency and other topics. Speakers will include Peter Yip, WG'76 president and CEO of Chinadotcom Corp. and Manuel V. Pangilinan, WG'68 president and CEO of the Philippine Long Distance Telephone Company. His Excellency Joseph Ejercito Estrada, president



of the Republic of the Philippines, is an invited speaker. The Latin American forum, held on June 22 and 23 in Buenos Aires at the Sheraton Hotel and Park Tower, will focus on regional integration, currency and foreign exchange risk management and other topics. Roberto Civita, W'57, chairman and chief executive officer of Abril S.A., will deliver the keynote speech. For information on either event, call 215.898.1240.

Wharton/SMU Team for Stock Options Conference

Stock options motivate executives to increase corporate performance, thus boosting stock prices, Wharton professor David Larcker told attendees of a one-day conference held recently by Wharton and Singapore Management University (SMU). Citing Internet and other high-tech firms' large stock option grants and their corresponding soaring stock valuations, Larcker predicted stock options will become increasingly popular.

Larcker, who has conducted studies demonstrating the link between performance and stock options, was the keynote speaker at the conference at Singapore Management University, where Wharton interim associate dean Janice R. Bellace serves as president. Singapore's minister for health and second minister for finance, Lim Hng Kiang, also spoke to conference attendees about the importance of stock options in a knowledge-based economy. ◆

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Advanced Management Program
June 4-July 7, 2000
September 24-October 27, 2000

Executive Development Program:
The Transition From Functional to General Management
May 7-19, 2000
September 3-15, 2000
October 29-November 10, 2000

E-Commerce Strategy New
May 21-26, 2000

Web Metrics: Making the Most of Your E-Commerce Data New
June 27-30, 2000
September 24-October 27, 2000

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Wharton

Executive education that works

The Wharton School
University of Pennsylvania

Meet the Dean

For Wharton, using technology in the educational process is a given, says Wharton's new dean, Patrick T. Harker. What's not so clear, Harker says, is how Wharton can best blend technological and traditional educational tools to create what he calls "a community of learning."

Harker, 41, is already immersed in a search for answers.

On February 8, he was named Wharton's 12th dean after a lengthy search during which more than 200 candidates were considered. A faculty member for 15 years, Harker has held numerous leadership positions at Penn, including serving as interim dean and deputy dean since last summer. In these capacities, Harker oversaw development of the MBA program's e-commerce major and expanded the school's distance learning initiatives.

He joined the Wharton faculty in 1984, was named UPS Transportation Professor for the Private Sector in 1991, and served as chairperson of the Operations and Information Management Department from 1997 to 1999. Harker earned both bachelor's and master's degrees in engineering from Penn in 1981, then received a master's degree in economics and a PhD in civil engineering, also from Penn, in 1983.

Harker, who played defensive tackle for the Penn Quakers, says that as a college student he assumed he would simply become an engineer. But on a whim, he took a transportation course that changed his perspective entirely: for the first time, he saw and was intrigued by social ramifications of technology. Similarly, as a scholar, his research has probed the social and economic issues facing the service sector. Today, as an administrator, he continues to scrutinize and evaluate technology's influence – this time on the learning process.

Harker is a resident of Haddon Heights, N.J., where he lives with his wife, Emily – a Wharton alumna who he met at Penn – and their three children. During an interview with the Wharton Alumni Magazine, Harker talked about his vision for the school, the challenges he faces, and the ever-changing world of business.

What will your top priority be as Wharton's 12th dean?

Harker: Our top priority is essentially the same as it's always been: attracting and retaining the best faculty. We are nothing but people. Yes, we have buildings and technology. But they really aren't important if we don't have the intellectual capital to deliver new and exciting content and ideas. Wharton's intellectual capital – its faculty – have built this school. If you think about the past year, which was a transition year, we've not missed a beat and that's because this faculty refused to go back. Tom Gerrity's greatest legacy to this school, and (former deans) Russ Palmer and Don Carroll before him, was developing a faculty who are hungry, who want to be the best management faculty in the world, period.

The rest is really tactics. But the key is to get a group of people who want to excel. How do we continue to draw these people? The most important thing is to have an exciting intellectual environment here. And that means great colleagues and great students. For Wharton to stay on top, the school must create opportunities for its faculty to express their ideas and creativity through innovative research and educational programs.

What will your biggest challenge be?

Harker: Our biggest challenge will be going through the process of rethinking learning. This doesn't have to do with curricula, it's about all the new forms of learning and ways of teaching and the new opportunities that they present. The world of business schools is opening up pretty dramatically. We are facing competitors from new sources – namely, in the distance learning market. They are going after the business school market, and some, at the high end of the market. We need to prepare for that. We can't just do what we've always done.

No one ever said that teaching in a box – an hour and a half two days a week – is the only way to teach, but that's largely what we're doing. We've experimented with Wharton Direct and some other things, but we have to accelerate those experiments because the marketplace will not allow us to stick with the old way. We know this because of what is happening among our student population: 25 students did not come back for the second year of their MBA so they could pursue dot-com opportunities. This may be a blip, but it may not. We don't know. We also had a couple of undergraduates who didn't come back, also to go off to dot-coms. And we're seeing our students accelerating their program, with some MBA students finishing in December, taking classes through the summer and getting out. We've always had that, but we're seeing a little more of it. We're starting to see students behaving differently.

For Wharton, using technology in the educational process is a given. What's not so clear is how to use technology to create economies of scope, not scale. Many schools are essentially saying we can create educational nuggets and shove them down distribution channels either in a classroom or over the Internet with the goal of selling to a lot of people. This is not the educational business we want to be in.

Students who come to Wharton should expect instruction on any relevant issue, and if we don't teach it, we will use technology to deliver the world's expert to your classroom. Doing more than we currently do rather than taking what we have and offering it to more people. It's a very different view. We are evaluating the best way to teach particular course concepts, be it via lecture, case study, project, software or by linking with other schools and learning communities via the Internet.

In our executive education programs, we're seeing more and more interest in not just teaching a standard course but working closely with companies to create custom programs with custom content to not only teach their senior executives but also to drive those perspectives down into the whole organization. We can't do that by bringing all those people to West Philadelphia. We have to take West Philadelphia to them.

We've learned a lot from the Wharton Direct experiment. We learned that it's not distance education or on-campus education, it's the mix that works. It's not about the technology. It's about the *appropriate* technology for the content. There are some things you can only learn via case discussion. There are some things you can learn better using the computer. We have to break out of this mindset that says one size fits all.

Are you surprised to find yourself in this role?

Harker: Yes. When I assumed the deputy dean's position last year I had no real thought of becoming dean. But the challenge of the position appealed to me. We are at a very exciting time in our history, and it's fun being on the cutting edge.

Are business schools as relevant as ever in this dot-com era in which some suggest that education is less important than executing a good idea quickly?

Harker: Business schools are incredibly relevant in the dot-com era. The kind of knowledge that we are providing will not go away. Yes, you can start up a dot-com, but at some point you have to run it. And it's easier to run when it's in your garage. When it involves a thousand people, then you may have a problem. Lots of dot-coms start up, and then the venture capitalists parachute in an MBA to run the company.

When I meet with our alums, particularly our young alums in Silicon Valley, they tell me that the one advantage they have over many of their peers is the broad understanding of business they have. People without the MBA or the undergraduate degree really only understand a narrow slice of business. You can't just be a cowboy. You can do that for a little while in the dot-com world, but sooner or later you have to turn a profit. The world is moving so fast that people think they don't need to know those basics, but they do. Gravity still works and there are still some fundamentals of business, which we have to reinterpret and challenge with the dot-com revolution all around us, but that are no less vital.

What would you like to be remembered for as dean?

Harker: I would like for us to take the school to the next level and create a true community of learners where the boundaries between teacher and student start to be broken apart. In the end, the university should be a hub, or in dot-com parlance, a portal, where we bring the best of knowledge to the university and take the university's knowledge out to the world.

How would those who know you well describe you?

Harker: In my blood, I am a teacher. It sometimes drives my kids crazy because I'm always instructing them. I've thought about a lot of things I could do with my life, but this is what I was genetically wired to do. But you can't be a good teacher without doing research. People come here for perspective. And if a faculty member isn't thinking new things and challenging the orthodoxy of a field or discipline, then the teaching is vacuous.

What special strengths do you bring to this post?

Harker: I have a lot of energy and I have a pragmatic vision. I have very clear view of where this place needs to go and I know that there's a set of practical steps we have to take to get there. And we will be very aggressive in taking those steps. Our goal is to break out of time and space and create a community of learning any time and any place and really rethinking the very notion of education.

Whom do you most admire?

Harker: Two people: the first is my mother. My father died when we were young, and so my mother raised us on her own, and with real grace. She took care of her mother as well so there was a real sense of service. The other person is my father-in-law, Thomas Saaty, who was a Wharton faculty member years ago. He doesn't settle for the status quo. He always pounded into my mind the sense that you have to keep striving for excellence. ◆

PETER OLSON PHOTOGRAPHS

The Fate of the Great Eight

Eight Great Ideas – Where are They Now? Catching Up With the Wharton Business Plan Competition Winners, One Year Later

The assignment: track down the top finalists – dubbed the Great Eight – from last year's Wharton Business Plan Competition. The goal: find out what actually happened to the cream of the crop of student start-up ideas. Did any become viable businesses? Did they make money? Lots of money? Did any drop off the face of the Internet?

We found the Great Eight scattered all over the country, eager to share tales of venture capital highs and lows, intellectual property snags, site launch glitches, cash flow problems, employee frustrations, and in several notable cases, success beyond their wildest dreams.

But before we get to those stories, some background on the Business Plan Competition: the three-phase, year-long contest started in late 1998 as a way to give Wharton's start-up minded students access to financial and intellectual capital. Sponsored by Wharton's Goergen Entrepreneurial Management Program, the competition is attended and sponsored by venture capital, corporate and entrepreneurial heavyweights from across the country who judge, mentor and put up more than $40,000 in prize monies. Last year's contest drew 128 student teams comprised of more than 300 participants. This year, the competition attracted 226 entries, or more than 430 participants, as well as an impressive line-up of lead sponsors: E*Entity, an e-commerce accelerator; Booz Allen & Hamilton; Safeguard Scientifics Inc., a Pennsylvania-based venture capital firm that funded last year's $25,000 top prize; and Innovation Factory, an Internet incubator. The competition attracts both undergraduate and graduate contestants from across Penn and culminates with a final round Venture Fair held in the spring. Over the course of months, contestants are whittled down to 25 semi-finalists, then eight finalists, and finally one winner, who collects the $25,000 top prize.

As this year's Business Plan Competition enters its final phase, we catch up with the imaginative, ambitious young men and women of last year's Great Eight. Their stories follow.

JAKUB MOSUR. PHOTOGRAPH

Kevin Spain and RadioXchange

Kevin Spain is proof that what you start out with might not be what you end up with.

His idea, the Business Plan Competition's top winner, began as RadioXchange, an e-marketplace to the radio industry that would create an Internet-based auction to sell remnant radio advertising inventory. It was a bold, entirely new idea with seemingly limitless potential, and the Business Plan Competition judges loved it. But few would have predicted its outcome.

After winning the business plan competition and graduating from Wharton, Spain, WG'99, moved to San Francisco, where he had accepted a job at a San Francisco investment-banking firm. Energized and emboldened by his win at the Business Plan Competition and his start date still a couple months away, Spain teamed up with former colleague Andrew Donner to seriously explore the possibility of a start-up. The pair ramped up the RadioXchange idea a bit to assist with raising capital, creating an entity called waveXchange, which expanded the initial concept to include remnant advertising space from all air waves, including television. Spain began searching for seed capital, and quickly pieced together some initial funding. Feeling confident that they had a sure thing in the making, the pair decided to abandon their corporate jobs and pursue waveXchange full time. Donner quit his investment-banking post and Spain declined his offer. The pair rented office space, incorporated, and recruited some senior level managers – a vice president of marketing and a vice president of sales. “It was a very exciting time,” Spain says.

But the bubble was about to burst. When Spain finally hit the streets to sell waveXchange to the broadcast industry, he quickly hit a wall. Radio and television stations, he found, were not willing to sell advertising air time at discounted prices because they believed it would stymie their ability to negotiate with full-price buyers. Spain also learned that most advertisers don’t buy advertising at the last minute. Rather, they plan many months in advance so they are able to secure exactly the airtime they want. The boom economy also meant radio and television stations had less remnant space available and were so fat and happy that incremental revenue opportunities really didn’t pique their interest. Spain’s once-heady outlook began to teeter.

His final blow came in August 1999, at the National Association of Broadcasters convention in Orlando. That day, described by Spain as “the most depressing experience I’ve ever had,” Spain and Donner pitched waveXchange to the CEOs of every major radio group in the country. Universally, they panned the idea and said they would never support it.

“We were devastated. And the worst of it was that we had just hired these two people. We were down in Orlando sitting in a hotel room feeling destroyed. I had turned down this job, and Andrew had quit his job, we had these employees coming on, and it seemed ludicrous what was happening to us,” Spain says.

Spain returned to San Francisco scrambling to regroup. In what he describes as a “very haphazard fashion,” he and his new team spent many late nights brainstorming, trying to decide whether to start over with an entirely new concept, and if so, which one. All the while, they were running out of money. In the end, some two months later, Spain decided on a business called AtMadison.com – an online advertising agency that focuses on a traditionally under served market segment – the small-to-medium sized business. The new business would capitalize on the many years of advertising industry experience of Spain’s new hires. Once again, Spain and Donner hit the streets in search of funding. And within a week, the two had raised more money than they had for waveXchange.

How has Spain raised funds with such apparent ease? He credits his prior work experience in corporate finance and mergers and acquisitions, as well as the reality that many investors today seeking dot-com investment opportunities. “People are willing to fund concepts at this point,” he says.

As for AtMadison.com, Spain anticipates a full site launch in June. The dot-com will feature an online expert system to walk clients through the process of planning a media and marketing campaign, thus streamlining the traditional, human-intensive advertising agency experience. The campaigns will then be executed via advertising powerhouse Leo Burnett, which recently signed an exclusive agreement with AtMadision.com. “We deliver the same resources – research, knowledge, and buying power – that large advertisers have and we deliver it via the Web and at a much lower cost,” says Spain, who foresees an IPO in the near future.

Spain, 27, learned some huge lessons riding the pitches and swells of waveXchange. The most important? It’s vital to know an industry inside and out before trying to enter it as a newcomer. “It’s easy to get people to say it’s a great idea and that it makes sense. But when you actually go out and try to sell it to them, things change,” he says. Leading and managing employees who are older and more experienced than their 20-something boss was also a key challenge. “We went through an incredibly tumultuous time during which I was at the helm and I had senior, experienced managers looking to me for guidance and for the first time in a long time learning to be in a subordinate role. There were days I really felt beat up and at times inadequate.” He overcame this hurdle by focusing and mobilizing the group on creating a new entity.

Spain also offers a word of caution to other prospective entrepreneurs: be wary of vendors who try to sell you products or services in exchange for equity in your company. “You have to be really, really careful,” he says. “It may seem like one-tenth of a percent is nothing when you’re in the early stages of trying to raise money, but it’s really pretty valuable. You have to learn by talking to others that have done this what you should pay people for and what you shouldn’t. You have to realize that equity is valuable regardless of the stage of the company.”

John Tedesco, Jeff Grass and PayMyBills.com

Of the Great Eight, few would argue that PayMyBills.com is so far the most visible success story. What started out as a three-man WG’99 team – John Tedesco, Jeff Grass and Kyle Harrison (Harrison left the team to pursue his own start-up, Mousedriver.com) – has become a hot dot-com to watch. Spawned from the golden cocoon of Idealab!, the Pasadena, California high-tech incubator that has helped birth some of the Internet boom’s most successful dot-com companies, PayMyBills.com is a web-based service created to eliminate a dreaded household chore: the monthly task of paying bills.

Tedesco and Grass, both 29, got the idea for the service in the summer of 1998 when they arrived home to

"It's easy to get people to say that it's a great idea and that it makes sense. But when you actually go out and try to sell it to them, things change."

"If anything happens and it fails, we are richer for the experience. It's been a fantastic ride."

a nasty surprise after six weeks in Guatemala: stacks of unpaid bills, late notices and shut-off threats. They continued exploring the concept of an online bill-paying service later that summer while working as interns at McKinsey, then devoted virtually their entire second year at Wharton to moving the start-up forward. In addition to entering and rising to the top of the Business Plan Competition, they focused much of their coursework on entrepreneurial study. All the while, they interviewed hundreds of potential customers to try to understand what they would want in a bill payment service and even created a board of advisors for their fledgling enterprise. Through one of the board's members, Tedesco and Grass linked up with Howard Morgan, a former Penn professor and a partner in Idealab!, the Pasadena incubator.

Morgan loved the PayMyBills.com concept, and momentum began to build. After the Business Plan Competition, Tedesco and Grass flew out to California to meet Idealab! founder Bill Gross and returned with a seed capital offer. From there, their breakneck pace never faltered: Tedesco and Grass graduated on May 16 and three days later flew out to Idealab!'s Pasadena headquarters to begin working on PayMyBills.com full time. Sixty days later, the dot-com had 25 employees and was officially launched.

Today, the company has tens of thousands of customers, 125 employees and has moved into a 25,000-square-foot office in Pasadena, having graduated from the Idealab! environs. "It's been a fantastic growth trajectory," says Tedesco. Since their initial seed capital investment from Idealab!, the company raised an additional $5 million, and most recently, a $30 million round of financing with online brokerage E*Trade as the lead investor.

"The key for us is acquiring customers," says Tedesco, a New York native. "We think we've struck a chord with consumers because people hate paying bills, and this is a technology that actually simplifies people's lives. I don't think that's necessarily true of a lot of other technologies that are out there. We believe there is a new level of maturity of the Web: not just information, distribution or communication, but life simplification services."

Though major financial Web sites and banks are rapidly making claims to the online bill paying market, Tedesco and Grass say they aren't worried about the competition. "There are 100 million households in the U.S., and all of them pay bills. Thirty million households are online. There are going to be other competitors playing in this space, but our service works today, and it works for all of your bills."

And despite their soaring growth, Tedesco and Grass admit to plenty of growing pains. "We far exceeded all of our expectations; maybe that's why it's been harder than we thought. It is not easy. Especially with rapid, rapid growth, all of our estimates in terms of the maturity of the market and competition arising were all off base in the sense that it happened so quickly. And when everything is that quick, you find yourself managing many, many variables simultaneously."

Recruiting top-notch employees has been Tedesco's biggest challenge. "When it comes to our growth, it won't be competition or financing that hampers us," he says. "It will be our ability to get quality people onboard quickly. We went from two people to 125 people in nine months. Access to talent, technical or otherwise, is a huge challenge because people are the driving engine of the business. It's been amazing how much time it takes and how hard it is to find good talent quickly."

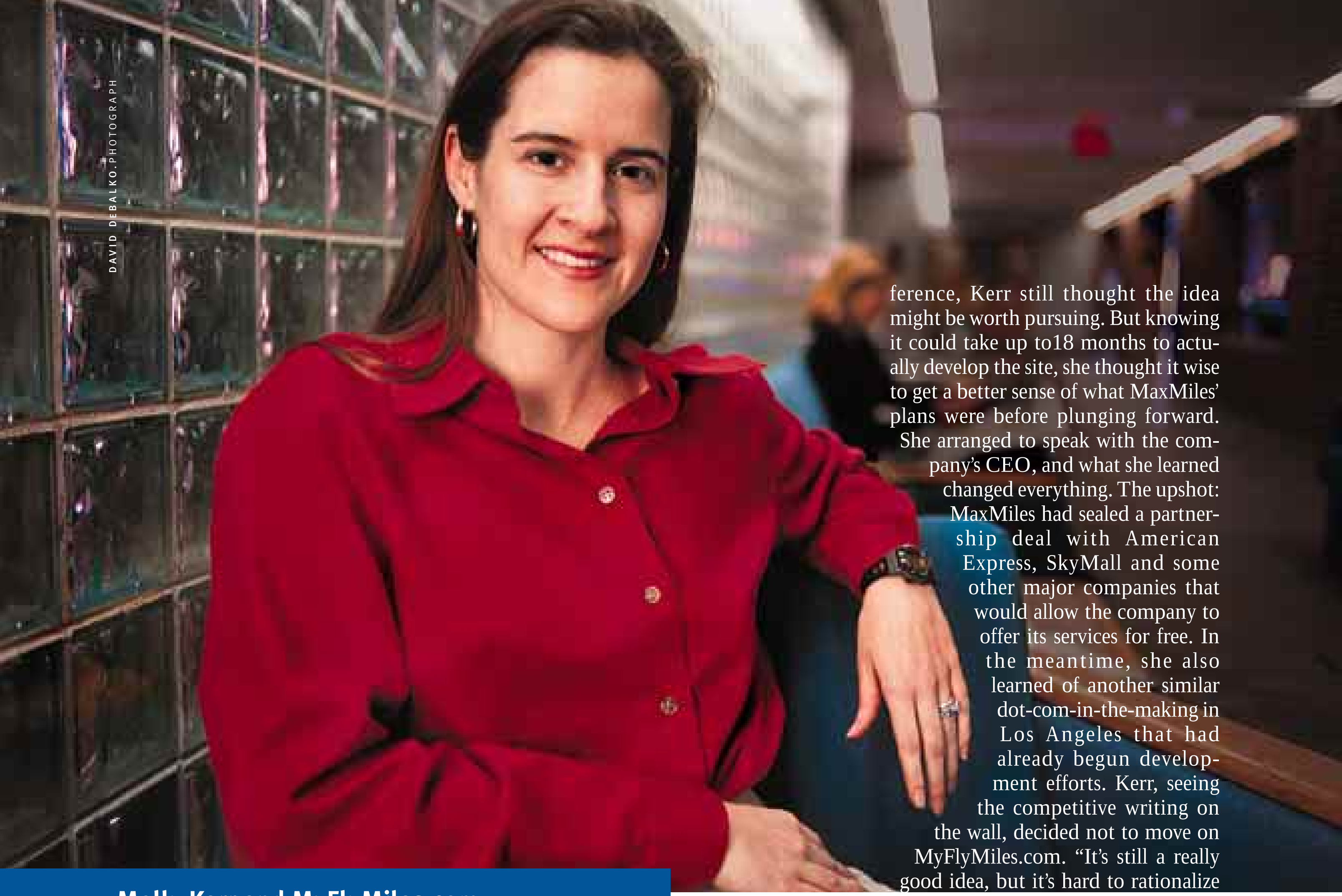
Tedesco also learned some lessons the hard way. For instance, he and Grass spent countless hours analyzing their idea and writing business plans. They realized after the fact that nothing sells an idea better than people seeing it in action. "We spent a lot of time creating a business plan and research and analysis and trying to communicate to potential investors, but once we put a demo together, it sold itself. Everyone knew the service's value immediately. So my thought is, prototype early. It's worth it to get it out in front of potential customers."

Tedesco also found that anxieties about someone stealing your idea are largely a waste of energy. In PayMyBills.com's early days, Tedesco says he was too concerned about potential competitors snatching up his idea. He came to realize that "at the end of the day it's all about execution, and the person who copies the idea will never have the same passion or vision as the person who came up with the idea." And the only way to reap the benefits of relationships that networks can bring, he says, is to be open about your concept.

As for starting PayMyBills.com, Tedesco felt he had nothing to lose by trying. "The traditional jobs will still be out there. If anything happens and it fails, we are richer for the experience. It's been a fantastic ride. When Jeff and I look around and see what we've built, it's invigorating, though most of the time our heads are down."

Jeff Grass, John Tedesco and PayMyBills.com

JOAN ADLEN.PHOTOGRAPH



DAVID DEBALKO.PHOTOGRAPH

Molly Kerr and MyFlyMiles.com

Like most of her best ideas, Molly Kerr thought of MyFlyMiles.com because it was something she wanted. Kerr, 30, WG'00, was trying to plan a ski vacation with her husband and wasn't enjoying the task of combing through pages of different airline statements, then making multiple phone calls, just to figure out how many frequent flier miles they had accumulated.

Wouldn't it be great, she wondered, to simply log on to an Internet site, punch in your name and have all of your frequent flier miles appear? After pitching the idea to some second-year MBAs working in the Wharton Small Business Development Center (Kerr was the only first-year MBA of the Great Eight), she decided on a whim to enter MyFlyMiles.com in the Business Plan Competition. "I was just looking for the experience the exercise would bring. But then I just kept passing into the next round and the next round, and then I was in final round and I thought to myself 'Wow, I'd really better take this seriously; clearly this is a really great idea,' " Kerr says.

Though she had no aspirations to launch a dot-com, Kerr seriously considered it after coming so far in the competition. She decided to spend a couple months studying the idea and found a CEO candidate to partner with. Together, the two began to research the idea in earnest.

Early on, they came across another Internet site called MaxMiles that offered essentially the same service she envisioned for MyFlyMiles.com. But MaxMiles charged consumers more than $30 to access their miles, while Kerr's site, to be supported by advertisers and sponsors, would give them the information for free. Given this key difference, Kerr still thought the idea might be worth pursuing. But knowing it could take up to18 months to actually develop the site, she thought it wise to get a better sense of what MaxMiles' plans were before plunging forward. She arranged to speak with the company's CEO, and what she learned changed everything. The upshot: MaxMiles had sealed a partnership deal with American Express, SkyMall and some other major companies that would allow the company to offer its services for free. In the meantime, she also learned of another similar dot-com-in-the-making in Los Angeles that had already begun development efforts. Kerr, seeing the competitive writing on the wall, decided not to move on MyFlyMiles.com. "It's still a really good idea, but it's hard to rationalize launching an Internet start-up when you're not first or second to market," she says.

Since the competition, Kerr has still kept her hand in the world of dot-com start-ups. While finishing her second year at Wharton, she handled business development for ExpertCentral.com – a site launched in October 1999 that offers expert advice on everything from dogs to personal finance. In January, three months after its launch, the site sold for $30 million.

As for the future, Kerr has committed to return to Bain & Co., where she worked prior to Wharton. The Boston native says she has no regrets, despite MyFlyMiles.com's never evolving beyond the great idea stage. "The Business Plan Competition was the highlight of my two years at Wharton," she says.

Dain DeGroff and Surgisoft

The Surgisoft team, which won the Business Plan Competition's $5,000 Arthur Andersen Technology Prize, seemed to have a winning concept: a computer system and software designed to simplify surgical procedures, as well as improve their cost, safety and efficiency.

After graduating, Dain DeGroff, WG'99, his wife and team member, orthopedic surgeon Jennifer Schneider, and Rhea Tombropoulos, another team member, planned to acquire intellectual property protection for Surgisoft, then pitch the idea to some venture capital firms. "I wasn't planning to devote my career to the idea, and so we were hoping to drum up interest and commitment from another interested party," says DeGroff, who had taken a job with Hambrecht & Quist in San Francisco. But after hiring an attorney to begin the intellectual property procedure, the trio quickly found themselves mired in a lengthy and expensive legal process. Academic articles had already been published on the software-assisted surgery concept, so the idea was considered public knowledge and not likely to receive intellectual property protection. In addition, Surgisoft could have been viewed as a medical product and thus subject to FDA approval.

The team's interdependency on one another's expertise was also an issue. DeGroff and Tombropoulos didn't want to commit to a start-up, but each were pivotal to the project's success: DeGroff was the financial alchemist of the team, while Tombropoulos had critical technical knowledge. "The team became unsure of the next steps to take, and so there obviously wasn't enough commitment unless we could get others interested," DeGroff says. Another catch-22: a start-up needs a management team to attract venture capital, but managers are wary about joining a fledgling company with no funding. "Given all of this, it's really not gone very far," DeGroff says.

DeGroff and Schneider learned some hefty lessons through their foray into the intellectual property process and advise other potential entrepreneurs to start early, be careful when choosing attorneys and be sure you are completely committed to moving forward with a business before turning an attorney loose on your behalf. DeGroff, 32, and Schneider, 33, were handed massive legal bills for some very preliminary patent search work. "They were much, much larger than we had anticipated given our initial estimates from our lawyers," he says. "We were pretty stunned."

JAKUB MOSUR. PHOTOGRAPH

Schneider remains interested in playing a major role in a start-up focused on developing medical devices but has decided to take more of a "baby step" approach by working toward launching a smaller, simpler product or two. "I'm more disappointed for my wife than myself," DeGroff says, "because I definitely wanted to be in the periphery, but I wasn't ready to not take this job to pursue a start-up. But she hasn't given up, and I really think this is an idea that has merit and is going to be an enormous market."

Dennis Molnar, Salvatore Tirabassi and Adhere Technologies

After graduating from Wharton in 1998 and with a child on the way, Dennis Molnar, WG'98, decided he'd better take a full-time job at a suburban Philadelphia biopharmaceutical. But he remained preoccupied with Adhere Technologies, his idea from the Business Plan Competition for a portable interface that dispenses medication and tracks patient medication use. He felt strongly that he wanted to pursue the idea where possible, so he talked to his Business Plan partner, Salvatore Tirabassi, WG'99, about Tirabassi continuing the search for seed-capital full-time. The two had hatched the Adhere concept while interning at Penn's Center for Technology Transfer. They agreed that Tirabassi would tackle funding, and that Molnar would join him full-time once they were funded.

But the funding has yet to materialize.

Adhere had what Molnar, 30, now calls its "best moment" right around the time of the Business Plan Competition: it looked as if the idea would be funded by Pennsylvania Early Stage Partners, a Safeguard Scientifics-managed seed capital fund. But the seed capital was contingent on licensing several patents, and an earlier patent search had revealed that four patents were already claimed for similar product ideas. "The folks holding patents hadn't put the entire concept together," Molnar says, explaining that Adhere would have combined several of these concepts. "Each one held a separate patent for a piece of our overall concept. One patent covered a method

"At the moment, it kind of sits there as another idea that the clock is ticking on."

DAVID DEBALKO.PHOTOGRAPH

of registering when a pill was taken. Another patent covered the idea of prompting a patient to take his or her medication, and so on."

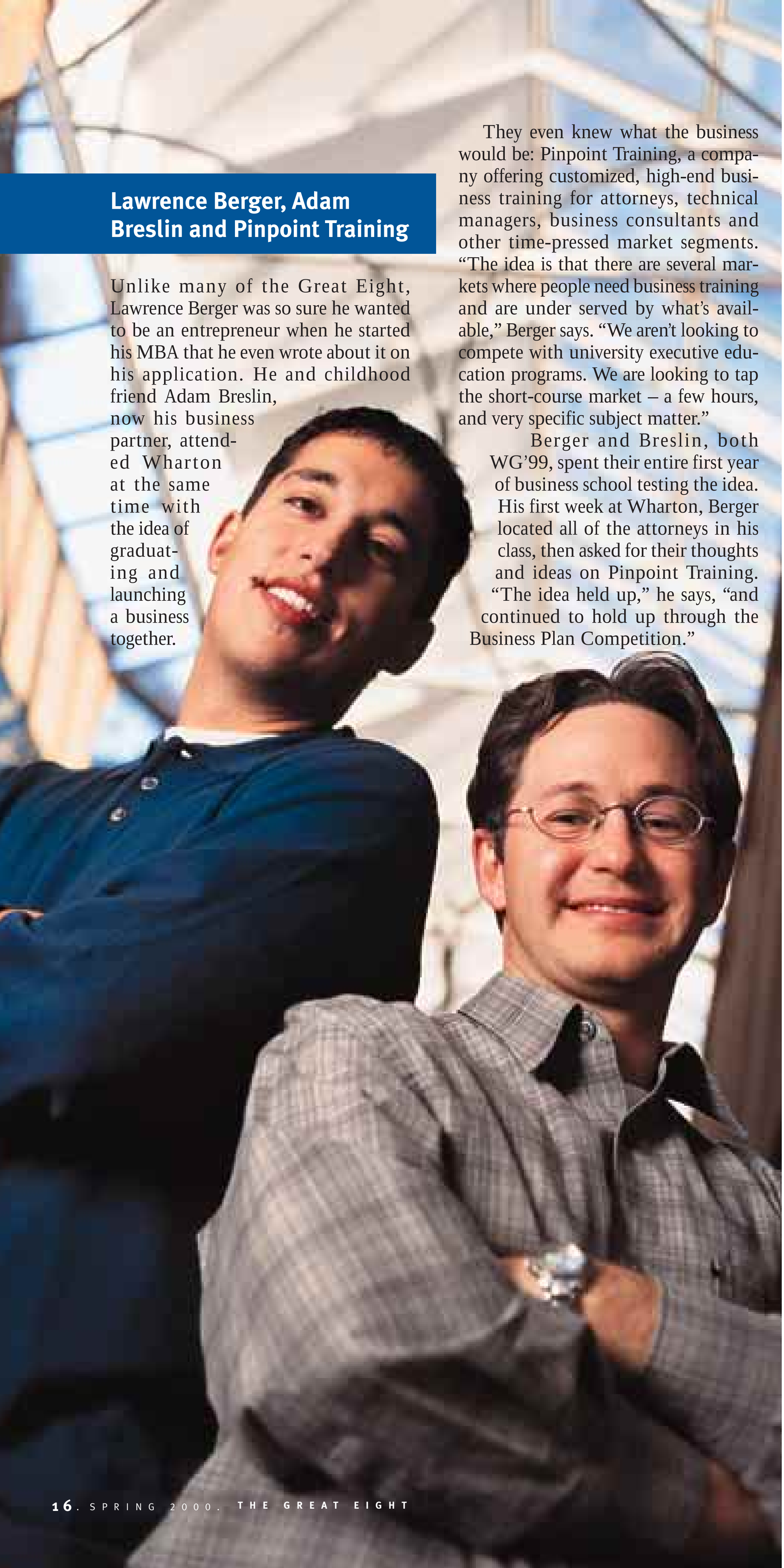
Tirabassi and Molnar found that the other patent holders wouldn't commit to giving up the intellectual property rights to their ideas. With no patent licenses in hand, Molnar and Tirabassi have been unable to secure funding. Tirabassi was forced to move on and take a full-time job after graduation working for a telecommunications-focused venture capital firm in New York City. Molnar, who now has a one-year-old son, felt he couldn't give up his full-time job to continue chasing the idea. "At the moment, it kind of sits there as another idea that the clock is ticking on," he says.

Molnar admits he's been frustrated and disappointed by his and Tirabassi's inability to bring a promising concept to market. But he learned several critical lessons through the process, including the reality that it's not possible to foster a fledgling business while also being a good employee to another business. "Doing both and trying to maintain some semblance of family life just isn't possible. You have to have at least one heartbeat behind the idea, because even if it's not going to work out, you find out in ten months versus two years," he says. "You waste a lot of time and energy, and something has to give. For us it was Adhere."

The pair also ran up against the "Internet phenomenon," the reality that many fewer investors are interested in funding physical products and companies when the lure of massive Internet stock valuations looms so large. "We needed some true seed money up front – not just walking around money for Sal and me, but money to actually do product development," he says. The Philadelphia area is rich with venture capital, but it is infinitely more conservative than many other markets, Molnar says. "We could have come to the same conclusions a lot earlier had we given up our full-time jobs and focused on this exclusively," he says.

Despite his many roadblocks, Molnar hasn't completely given up on Adhere. He and Tirabassi continue working with the Center for Technology Transfer and are considering selling the Adhere idea or combining efforts with other complementary local start-ups. "We are going to keep at it a little longer, but we haven't made it yet," he says.

Lawrence Berger, Adam Breslin and Pinpoint Training



DAVID DEBALKO.PHOTOGRAPH

Unlike many of the Great Eight, Lawrence Berger was so sure he wanted to be an entrepreneur when he started his MBA that he even wrote about it on his application. He and childhood friend Adam Breslin, now his business partner, attended Wharton at the same time with the idea of graduating and launching a business together.

They even knew what the business would be: Pinpoint Training, a company offering customized, high-end business training for attorneys, technical managers, business consultants and other time-pressed market segments. “The idea is that there are several markets where people need business training and are under served by what’s available,” Berger says. “We aren’t looking to compete with university executive education programs. We are looking to tap the short-course market – a few hours, and very specific subject matter.”

Berger and Breslin, both WG’99, spent their entire first year of business school testing the idea. His first week at Wharton, Berger located all of the attorneys in his class, then asked for their thoughts and ideas on Pinpoint Training. “The idea held up,” he says, “and continued to hold up through the Business Plan Competition.”

Breslin graduated last May and Berger in December. Both are devoted full-time to launching Pinpoint Training, to be based in Washington, and have hired 18 people to help create their classes, including business school professors, curriculum design experts and 11 attorneys. “We are creating the content through a group approach to ensure that it is academically sound and practical,” Berger says. The pair are bullish, with a sales and marketing debut scheduled for May, and recently raised $1 million in seed capital.

But funding a non dot-com has been anything but easy. “People think there’s so much money out there, and there is so much money out there. But it’s for dot-coms that are trying to be enormous. There are very few people looking to really deploy less than $2 million to $3 million, so if you’re looking to start a little slower, maybe go a little more high-end like we are or be a little more service oriented, there’s not very much money out there.”

The pair have a more traditional view of business than many of their Great Eight peers. “We want to include the Internet, but we want to create a business that actually makes money and creates cash, and it’s amazing how few people are looking for that type of thing,” Berger says.

Like the others, Berger, 28, stresses that early fears about someone stealing your concept are largely counterproductive. “We strongly believe that what’s going to make or break our business is not the idea, it’s whether we execute well. Our idea has become so much more powerful and I think will be so much better accepted by the market

"Don't let someone else **force you** to rebuild your business to **fit their model**."

because we've gotten so much feedback on it," he says. Because of this feedback, Berger and Breslin's idea has changed as it has evolved. For instance, their initial, near-total emphasis on live instruction has shifted, with the Internet now playing an equal role.

Ultimately, Berger sees a national rollout for the legal industry, then plans to tap other training-scarce markets, such as the medical and management consulting fields. "The vision is of a large education company that offers a very high-end product by combining the best of live instruction and the Internet."

Chris Gatti and Living Strategies Inc.

Chris Gatti spent the first two months after the Business Plan Competition jumping through myriad hoops for a leading venture capital firm, only to come away exhausted, nearly broke and with no seed capital.

Gatti's idea, Living Strategies Inc., won the Competition's $10,000 Snider Seed Prize for its combination of a proprietary Web-based system for elder care planning, placement and management with a nationwide network of top-flight professional geriatric care managers. Gatti, WG'98, and teammates Lynn Dwyer WG'98 and Sandeep Wadhwa, WG'99, had worked to build the business since Gatti and Dwyer graduated. The Business Plan Competition, they reasoned, would give them even greater exposure to potential sources of seed capital. And indeed it did: after becoming one of the Great Eight, a major venture capital firm called Gatti and his team, eager to talk.

"Our first phone call, they said they'd seen us at the competition and we really knocked them dead. They wanted to schedule a meeting for the next week," says Gatti, 33, the company's president.

Gatti and his group worked feverishly on their presentation and to complete their due diligence, then met with the VC officials. "They said, 'You folks are great and so is your business model. Please come back next week, and if you don't mind, show us what would happen if we added a new component to your business,' " Gatti says.

Gatti and his team worked feverishly to rework their business model, adding the new component. They sat down again with the VC group, which now had grown to eight people. "During the second meeting, they said, 'We should give you a check today for more than you want. Promise that you will cease any other fundraising efforts so our deal isn't complicated. Please come back next week, and if you don't mind, please rebuild your business model taking out most of your existing plan and adding these dimensions,' " Gatti says.

Again, Gatti and his group scrambled to make the requested changes. A third meeting took place, with 12 people attending from the VC. "They are asking us, 'So what is it you do again? Interesting concept but you haven't figured out exactly what you do. Come back next week and figure out what would happen if you were a pure Internet company,' " says Gatti.

Gatti and his team furiously reworked their business yet again. "During the fourth meeting, seven weeks after the first one, they told us, 'I don't think you have much of an Internet business. Come back if you figure it out.' " And Gatti had just about had enough. "By the end of this process, we were just about broke. We stopped chasing the VCs. We took what money we had left and spent it getting the prototype of our software done. The prototype gets finished and *boom*, we get funded," he says.

JERRY MILLEVOI. PHOTOGRAPH

Lesson learned, the hard way. Today, some nine months later, Living Strategies has a dozen employees and a national network of hundreds of elder care professionals. The company just rented a roomy, upscale office in a posh Philadelphia suburb. Wadhwa has since left the Living Strategies for another job, but the company is otherwise packed with Wharton alums working in various senior-level capacities. And Gatti, after a tumultuous start, is riding high. "Things are really good. We are bringing in top-flight people. The market response has been terrific, and we just raised an additional $1 million." The only missing piece of the puzzle: Gatti is searching for a key marketing hire.

Gatti, a former attorney, is the first to admit that many days, he and Dwyer felt as if they were "pushing against a rock every day." During their earlier months in business, the two practically lived in a tiny, rented office. They didn't pay themselves, Gatti's wife was pregnant with their first child, and times were tough. But they kept grinding away. "Everything's about momentum. You just keep pushing forward," says Gatti, who always wanted to start his own business, but "didn't know if I had the guts."

In recent months, Living Strategies has garnered media attention for its focus on finding solutions for the vast market of adults who find themselves caring for or concerned about an elderly person. About 22 million people now provide care or assistance to an elder, and an estimated 40 million more anticipate doing so in the next five to seven years. But other than Living Strategies, no single source combines comprehensive knowledge of elder needs and options with experienced local professionals who manage the process, Gatti says.

"Caring for an elder is a challenge confronting millions of people, but when they have an issue that arises, they don't know where to turn," Gatti says. "And that's the gap that we fill. We're building up our national network of service providers who are all professional, master's level trained, nurses and social workers, and giving them the best tools via the Web to help people find ways to help an older person live optimally."

Gatti, who is in the midst of discussions with institutional investors, predicts rapid growth, the need for many more employees in the near future, and a likely IPO. "Believe in yourself and believe in your business. Consider what others have to say, but if you've done your homework, don't let someone else force you to completely rebuild your business to fit their model," he says.

Kimberly Guise and Nails on the Fly

Kimberly Guise, WG'99, had the entrepreneurial itch when she applied to Wharton. But Guise admits she got swept up in "the power of group think" during her first year, when most of her peers were focused on investment banking and consulting, and took an internship in investment banking that first summer to check it out.

She quickly realized it wasn't her calling and spent her entire second year focused on starting her own company. What took shape was a company called Nails on the Fly, a nail care/manicure business for time-pressed women traveling through airports. After her success in the Business Plan Competition, Guise, 30, had every intention of pursuing Nails on the Fly full-time once she graduated. In anticipation of this, she began networking and talking to potential investors, including Paul Francis, the CFO of Priceline.com and her mentor during a stint at chic retailer Ann Taylor in the mid-1990s.

Guise flew up to Stamford, Conn. to meet with Francis and made her pitch

This Year's Venture Fair

This year's Great Eight will present their business plans to a panel of judges on Monday. May 1 at the Venture Fair of the 1999-2000 Wharton Business Plan Competition. Also at the Venture Fair, the competition's 25 semi-finalists will participate in a "tabletop fair" to market their ideas to investors and other participating members of the business community. For more information on the Venture Fair, call 215.898.4856 or see the competition website at <www.whartonbpc.com>

> "Building the right team was without question the biggest challenge. "We have gone from five people to 200 in eight months."

for Nails on the Fly. Francis listened intently, but then turned the tables on Guise. He asked her to consider coming to work for a new business Priceline was hoping to launch. Intrigued, Guise then met with Priceline founder Jay Walker – a meeting she says was a turning point in her decision not to pursue Nails on the Fly. Walker challenged Guise about the wisdom of focusing her energies on Nails on the Fly, citing its likely size limitations and the potential real estate snags that often come with airport retail space. "He was brutally honest about where I was in life and whether I should spend the next few years on a business that didn't have 'really big' growth opportunities," Guise says. If Guise wanted to be in a start-up environment, Walker asked, why didn't she consider assuming a major role in the Priceline WebHouse Club, a grocery offshoot of Priceline that, at that time, only had one employee. At WebHouse Club, he told her, Guise would learn from the experts and gain first-hand knowledge on how to quickly launch a business with tremendous growth potential.

Guise decided to go for it. She started as director of business development of Priceline WebHouse Club the day after she graduated from Wharton and immediately recruited four other WG'99 classmates – Vishal Daga, Dan Weiner, Andrew Rogers and Kathy Hwang – to help grow the new business. Priceline WebHouse Club launched on November 1 in the New York, New Jersey and Connecticut markets. More recently, the service expanded to the Philadelphia and Baltimore/Washington D.C. markets, and officials expect the WebHouse Club to be available nationwide by the middle of this year. "It's basically the same 'name your price' model that Priceline has become known for, but in the grocery market," Guise says.

Today, after helping to manage many aspects of the start-up process, Guise feels it was the ideal environment for an aspiring entrepreneur. "You have to be willing to do it all – the glitz, glamour and strategy – but you also have to handle things like the payroll, hiring, and going to supermarkets to check the price of a can of tuna." Building the right team was without question the biggest challenge. "We have gone from five people to 200 in eight months. But going from five to 50 was the hardest, because every person you hired had to come in and perform immediately." The hyper-growth mindset that comes with a start-up, Guise says, can make for a chaotic environment that can be difficult for employees with traditional corporate backgrounds. "What you are working on, who your boss is and who reports to you are all things that seem to change almost daily," she says. "We joke about the 'strategy du jour' and at times it can drive you crazy, but ultimately it's what makes the job so interesting."

Guise also admits she and her fellow Wharton MBAs have taken a lot of heat for "overanalyzing and over researching." Jon Otto, the WebHouse Club's CEO, would often chastise the group for relying too much on book smarts and not enough on common sense, Guise says. "Jon's mantra for us during the pre-launch period was to think 'fast and wrong,' " recalls Guise. "It was so counter to the way we had been trained to work, but without this mindset, we would have never launched on time regardless of the mistakes, and that's what really mattered at the end of the day."

And while she says she would happily invest in an airport nail care business, she doesn't see a Nails on the Fly chain in her future. "It's just not scalable enough," she says. "But it's a great business model, and I know that someday I'm going to see it somewhere and I'll kick myself and think 'That could have been me.' " ◆

— NANCY MOFFITT

TOMMY LEONARDI.PHOTOGRAPH

Wharton's CABLE GUY

Comcast and its Leader, Brian Roberts, W'81, Come of Age

Brian Roberts was dining on salmon at a private club on top of a Seattle skyscraper with a handful of fellow cable moguls – and Bill Gates.

In was 1997, and Gates was meeting with the cable industry's major players to talk about the future. Gates and other software industry leaders were frustrated by phone and cable companies' languid pace in offering consumers high-speed Internet hookups – and what that pace could mean to the Internet's future. Gates wanted broadband, and he wanted it soon.

But the cable industry had been mired in difficulties for several years: in the late 1980s and early 1990s, profits went to laying new line and expanding the workforce during a time that Wall Street routinely penalized such moves. Pizza-sized satellite dishes were a new and formidable competitor, while massive companies such as AT&T barreled along, snapping up huge chunks of the market. And government regulators had twice hacked down rates.

Gates and the cable CEOs continued to discuss timeframes and challenges, when Roberts, who had only met Gates once before, suddenly spoke. "You know, what we could really use is for you to buy ten percent of every company in the room," he said to Gates. His fellow CEOs were visibly stunned by their young colleague's hubris. Gates hesitated, then asked, "What do you think that would cost?"

"Oh, I don't know, maybe $5 billion," Roberts said, off the top of his head. Gates responded, "You know I have $10 billion in cash. I could do it." Roberts swallowed hard, encouraged, but didn't get his hopes up. Another cable executive jumped in and changed the subject, asking Gates about his vacation plans to the Amazon. Gates, who planned to leave for the trip the next morning, chatted about the trip and the exotic monkeys he and fellow Microsoft founder Paul Allen hoped to see. Then he turned back to Roberts. "Would there be a regulatory problem?"

"At that point, I said, 'Wow. He's thinking about this,' " said Roberts.

Indeed he was. When Roberts, W'81, returned to Philadelphia two days later, he got a telephone call from Microsoft CFO Greg Maffei. "He said 'I want to follow up about your conversation with Bill. I just got an email from the Amazon.' "

Thirty days later, Microsoft had invested $1 billion in Comcast – the largest single investment outside of Microsoft Gates had ever made. As a part of the deal, Gates agreed to forego voting shares, an unusual step for him. "He understood that we weren't looking to sell control of Comcast, and if we were, the price was not a billion dollars," said Roberts. "What we were looking to do was change the world's perception of what might be – and to speed up broadband. It was exhilarating and obviously one of the highpoints of my business life, but I also felt a sense of disbelief and wonderment."

Comcast did just what Gates hoped, spending quickly and heavily on new broadband technologies. And Microsoft's investment in the company, Roberts believes, forever changed the business world's perception of the cable industry. It also marked the start of a dizzying array of ever-greater deals, culminating with Comcast's $60 billion pact to acquire cable giant MediaOne last year – a deal Roberts now calls his biggest triumph, and his greatest regret. At the eleventh hour, AT&T topped Comcast's all-stock offer with a $62 billion, stock-and-cash deal. Roberts didn't succumb to a bidding war, but also didn't cower from the mammoth AT&T: Comcast collected

$1.5 billion, plus two million more cable customers, for agreeing to walk away from a deal that would have made it the second largest cable company in the nation.

Roberts, relaxed and affable during a lengthy interview at his 35th floor, Center City Philadelphia office, becomes noticeably tense as he hashes through the hows and whys of the Media One deal. "People said, 'Aren't you happy? You came out better,' " he said. "And financially, we did come out better. But strategically, we would have been a global enterprise and would have had a much different profile had we bought all of MediaOne. Financially, we made a fantastic arrangement, and we didn't shrink from the competition. A lot of people were telling us, 'Just go home.' "

Ultimately, Roberts believes AT&T's decision to acquire Media One had everything to do with the fact that Microsoft, with its $1 billion investment in Comcast, had endorsed the industry's prospects. But he downplays his role in that historic deal. "We were at the right place at the right time," he said.

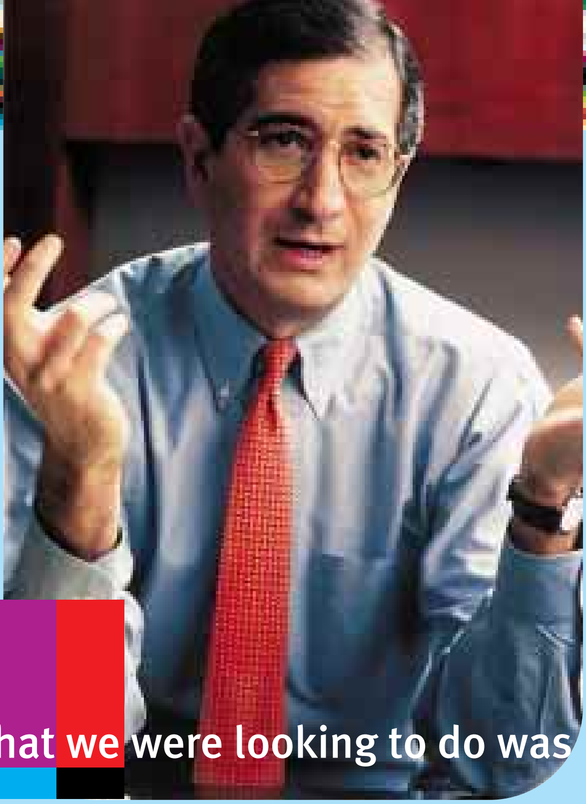
Like Father, Like Son

Brian Roberts' office, like all of the offices at Comcast, is a bit of a fishbowl, with interior windows instead of walls. Only his desk is invisible to hallway traffic, and so he positions himself at the conference table with his back to the whirl outside, facing a wall of artfully shot, black-and-white photographs of his wife and three young children. Interspersed are color photographs of Brian and his father, Ralph Roberts, W'41, who founded Comcast in 1963 with the purchase of a community antenna in a tiny Mississippi town, and who Brian, by all accounts, worships.

Brian Roberts is an easy interview – comfortable, open and full of illustrative anecdotes – and it's evident that talking to the media has become familiar territory for him. As Comcast's profile has risen in recent years, Roberts, 40, has been featured in *Business Week, Forbes* and on CNN, among many other media outlets. His father, understanding the marketing value of a business projecting a certain character and personality, has increasingly propelled Brian forward as Comcast's young new leader.

Working for and with his father in his father's company was all Brian Roberts ever really wanted. The fourth of five children, he read *The Wall Street Journal* in high school and was fascinated by the stock market. "I think business was perceived as cool when I reached college," he says. "That perhaps wasn't the case when my siblings were choosing careers, and they all wanted to do other things." At Wharton, few would have guessed Roberts would become such a major player. "The cable industry was still relatively small then, so it wasn't like I was being groomed for this big corporate job," he says. "I was just a kid who wanted to work for his dad's business."

As a teen, Roberts tagged along with his father at work, learning the nuts and bolts of the cable business – and about the realities of being the boss's son. He got a "good emotional scar" as a fifteen-year-old working for another of his father's businesses, a supermarket merchandising operation in central New Jersey. When Roberts showed up on his first day, his supervisor pulled him into her office and closed the door. "I don't give a damn whose son you are," she said to him. "If you come to work here, you will work." Roberts was so shaken by the confrontation that he nearly burst into tears, but says he's glad it happened. "It was the best thing anyone could have done



father told him he was crazy. "He said 'You have to go learn the business and the business for us is this new cable system in Trenton, New Jersey. You have to move to Trenton.' " And so he did, becoming a trainee in Trenton and focusing on everything from customer service to warehousing. "That's when it all could have fallen apart, but I loved it. I wasn't sitting there with a calculator. We were running the store. We were adding a thousand customers a month. We were building a brand new cable company. We were dealing with crises and interesting issues."

Brian and Ralph Robertes' close relationship has become legendary and is detailed in nearly every article written about Comcast. Ralph Roberts, now 80, shares an adjoining office with his son and still comes into the office four days a week. Over the years, he has gradually readied Brian to assume control of what is now America's third largest cable company, but still is very much involved in the business. "My father and I tend to come to the same conclusions, but we arrive at them in different ways," Brian Roberts says. "I'm more concerned and wary, while my father is more of a risk taker. His view is that we should take the risk, but find a way to be conservative in the way that we finance it. Plan for the worst, but bet on the future. I can do a lot of the analysis, and he's great at pulling the trigger."

He calls his father "the great psychiatrist," someone who is always encouraging and has endless patience. By contrast and by his own admission, Roberts is more impetuous, reveling in getting out and making deals, though there's nothing flashy about his manner. The six-foot-one, All-American squash player makes a point to break from his schedule each day to eat dinner at home with his family and says that he likes nothing more than "hanging out at home. I enjoy my children and my wife. My memory is that my father was home with us, and so the family is very important to me."

"What we were looking to do was change the world's perception of what might be – and to speed up broadband.

for me because it reminded me that you're always going to carry that burden. No matter what you do, it's not going to matter, because you got here because you are related to the boss.

"I learned early on that you'd better get comfortable with that, because it's always going to be there. If you have an ego or a sensitivity, which would be understandable because everyone wants to be their own person, then this isn't for you," he says. Roberts credits his father for his ability to adjust and persevere. "He wasn't overbearing the way a lot of parents are when their child is learning a family business. He never told me what to do or suggested things be run the way they had always been run, probably because my father and I had a relatively large age gap and his career had evolved through many different businesses. So there wasn't a way he did it for 40 years. The cable business was something he happened into later in life that turned out to be the hot ticket." Ralph Roberts had his teenage son sit in on some of his most significant deals-in-the-making, positioning Brian at the back of the room and instructing him to quietly listen. "He sat in the corner and observed, and he saw how the lawyers and investment bankers worked," said Ralph Roberts.

But interestingly, Ralph Roberts didn't expect that his son would graduate from Wharton and immediately come to work for his company. He was dismayed when Brian passed up investment banking offers and seemed to be hanging around, waiting for a job at Comcast. "I told him that he ought to go outside and bring us some great ideas, but he kept coming back and asking to come to work for me," Ralph Roberts said. Finally, with no offer in sight, Brian told his father that he felt rejected by him. Ralph Roberts told him he could start the next day.

As a finance graduate, Brian assumed he would join Comcast's corporate finance group and start making deals. But his

Comcast: The Big Leagues

Comcast Corp.'s prospects are tied to Ralph Roberts' all-too-logical belief that Americans love shopping, television and sports more than just about anything. The Philadelphia company has been built around this notion, and is an interesting amalgam of cable networks and majority owned "content" providers, from television shopping powerhouse QVC to sports outlets Comcast Spectacor and Comcast SportsNet. Comcast also owns the Philadelphia Flyers hockey team, the Philadelphia 76ers basketball team, and two Philadelphia indoor sports arenas.

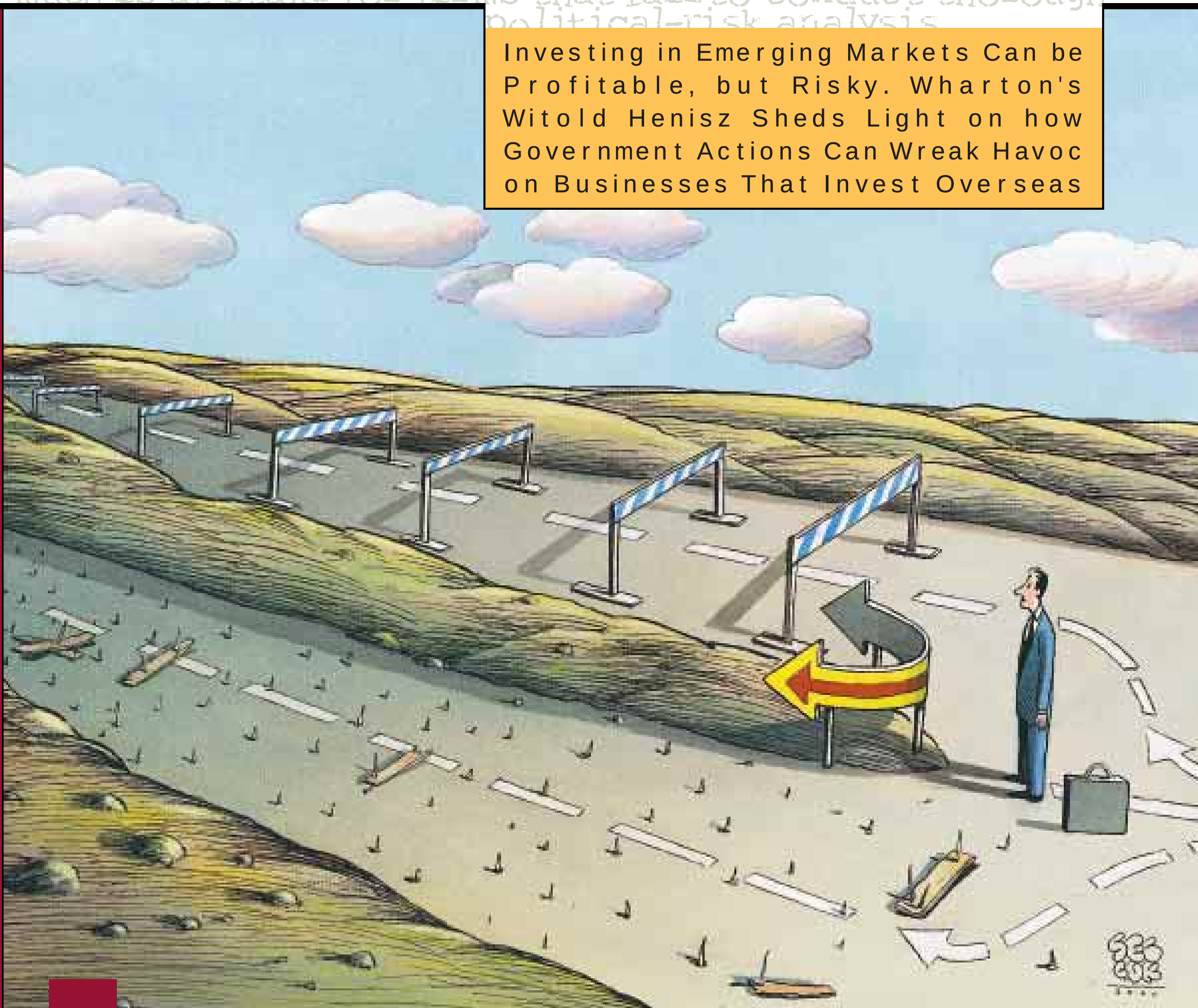
Comcast has always aligned itself with promising young companies. In 1986, for instance, Franklin Mint founder Joe Segal called on Ralph Roberts with an idea for a television shopping channel. Ralph Roberts, wowed by Segal's track record as a serial entrepreneur, agreed to be a founding investor in the business and feature it on Comcast's cable stations. Comcast acquired controlling interest of QVC in 1995 and considers the company, now the nation's largest electronic retailer, one of its prime properties. The channel reaches more than 90 percent of U.S. cable homes, and last year shipped more packages than Amazon.com, eToys.com, L.L. Bean, and Lands End combined.

Indeed, the Comcast formula of cable and content seems to be working. During the 1990s, the company grew more than ten times. In the last year alone, it nearly doubled in size, snapping up regional cable firms including Lenfest Communications, Greater Philadelphia Cablevision Inc. and Jones Intercable Inc. It also spun off its cellular telephone business for $1.7 billion, a move that cut the company's interest expense by 20 percent. "But then along comes AOL and Time-Warner," Roberts says. "All that work, and you're feeling small again." The cable industry, like much of corporate America, has undergone waves of consolidation in recent years. An industry that started as a collection of small, largely family-owned firms has now been swept into the communications revolution: increasingly, regional cable companies have sold out to conglomerates offering vast menus of information services.

In this era of gargantuan mergers, Roberts is fervent about keeping pace and staying relevant via aggressive growth. Comcast's double-digit operating cash flow increases, as well as its strong balance sheet and $350 million in free cash flow as of the end of 1999, mean the company has the flexibility to pursue that growth, Roberts says. A critical priority is Comcast's ongoing investment in upgrading cable systems, accelerating deployment of Comcast@Home, a high-speed data product, and expanding its digital TV services. The company is also testing video-on-demand and has two interactive television trials underway. Eventually, Comcast customers will be able to subscribe to services that will notify them of continued on page 33

Risky Business

Investing in Emerging Markets Can be Profitable, but Risky. Wharton's Witold Henisz Sheds Light on how Government Actions Can Wreak Havoc on Businesses That Invest Overseas



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When Witold J. Henisz was a boy, his parents told him stories – stories of what it was like to live under communist rule in Poland. His mother and father, both physicians, eventually left their native land, but only after years of waiting for the right opportunity.

The government, not wanting a brain drain to the West, made it difficult for citizens, especially professionals, to leave the country. Henisz' parents were restricted to traveling separately to medical conferences.

"Then, after a couple of years of going abroad, they were allowed to travel together," says Henisz, assistant professor of management. "They drove down from Poland to meet a friend in Italy and left from Italy to JFK (airport) in New York."

They had $100 in their pockets.

That was in 1969, when Henisz (pronounced HEN-ish) was a little more than a year old. In the years that followed, his parents told him tales of how Poland's command-and-control economic system was stifling. "It was a very strong recurring

theme about how incentives weren't provided by the system," Henisz tells a visitor at his office in Steinberg Hall-Dietrich Hall. "The government could backtrack on anything it said, and it could be arbitrary in its behavior. There was this filter that everything sort of had to travel through within the communist party's view before it could get to individuals, and that imposed distortions."

It is not surprising then that Henisz — who joined Wharton in 1998 and is known by the nickname Vit (pronounced VEET) – today devotes his research to the topic of political risk. Henisz, who earned a doctoral degree at the University of California at Berkeley in 1998 after working for a time at the International Monetary Fund in Washington, analyzes how arbitrary government actions can wreak havoc on businesses that invest large sums of money in countries other than their own.

Much At Stake

Henisz says much is at stake for firms that fail to conduct thorough political-risk analysis. In a paper titled "Political Risk and Infrastructure Investment," Henisz and co-author Bennet A. Zelner, of the McDonough School of Business at Georgetown University, cite World Bank figures showing that infrastructure spending in developing countries exceeds $200 billion a year.

But foreign businesses are having trouble making profits in these markets. The authors point to a report by Merchant International Group, a risk consultancy based in the United Kingdom, which surveyed 7,500 multinational corporations and found that 84 percent of their operations spawned in emerging markets from 1995 to 1998 failed to meet financial targets. Risks in emerging markets cost multinationals an estimated $24 billion in 1998 alone, or between eight and 10 percent of total expected returns.

"A huge amount of financial resource and management time is lost each year as a result of inadequate research and analysis prior to embarking into a non-domestic market," the Merchant study notes. It goes on to say that techniques for "identifying and evaluating hidden risks will need to become more sophisticated."

Henisz' work is intended to aid companies in honing their risk-analysis techniques. His research is based on in-depth analyses of electricity generation and telecommunications, but is applied to a broad range of manufacturing and service industries. Risk analysis is especially critical in those two industries because forays into foreign markets involve large sunk costs, substantial economies of scale and pricing structures that can become highly controversial and politicized.

The concept of assessing political risk is nothing new to corporations. If a firm is considering investing in a foreign country, its leaders want to know everything they can about the national and local governments with which they will have to deal. A company wants to be able to assess with the highest degree of certainty the stability of current policies and how likely they are to change.

Traditionally, firms have analyzed political stability by examining macroeconomic factors, such as the rate of economic growth or unemployment; by using political science measures, such as democracy or stability; or by relying on the subjective judgments of how managers perceive risk in a given nation.

A New Approach

What makes Henisz' research different is that it aims to quantify — in an objective, consistent and internationally comparable way — how risks vary from country to country. Specifically, Henisz explores how easy or difficult it is for governments to change policies. In addition, if a government does change a law or regulation, Henisz says investors need to know whether the shift will be beneficial or harmful to them. His work, with Zelner's, addresses this issue too.

"Researchers have increasingly focused on the question of credible commitments by governments in the past five to 10 years, but the tools to measure this commitment haven't existed," Henisz explains. "Researchers have latched onto certain measures, such as whether a country is democratic or autocratic. But some democracies can be really unstable and some autocracies can be relatively stable and really friendly to investors."

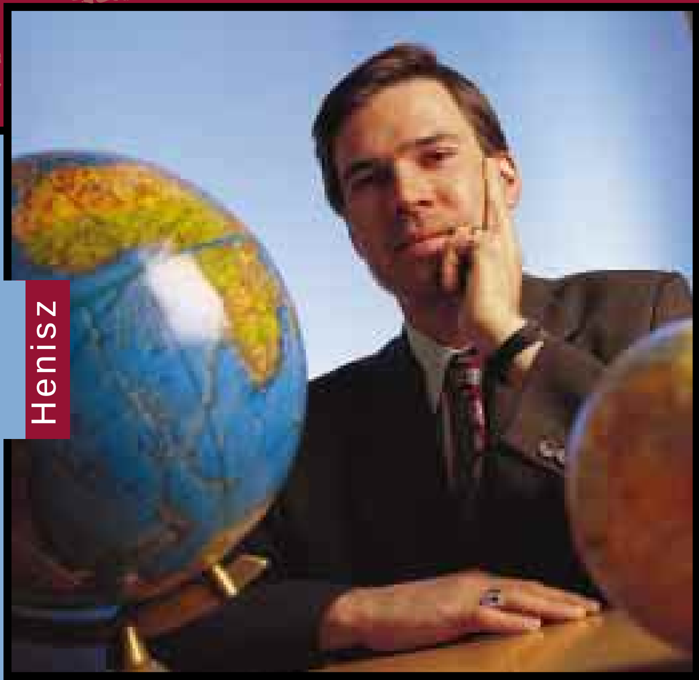
He says Russia, which has a strong democratic constitution but is characterized by extreme political uncertainty, is an example of how even a democracy can pose challenges to potential investors seeking a certain amount of political consistency. On the other hand, Singapore is a non-democratic nation but is considered investor-friendly.

Another related way that researchers have tried to assess risk is by determining whether governments are stable or not, regardless of whether they are democracies. Intuitively, one would think that a country where the government changes hands frequently would be a poor place to invest. But there are shortcomings to this way of thinking as well. By this measure, Italy would appear unstable. But Italy is certainly a safer place to invest than, say, the Democratic Republic of Congo (formerly Zaire), which went through a decades-long period where its autocratic regime remained intact.

A third method traditionally used to assess risk is to survey managers and ask them where they perceive risk to be. A firm may simply ask about the likelihood that a government will renege on a contract. Or, it could inquire whether a government is prone to raising taxes at a moment's notice.

"On one level" Henisz says, "this approach is great. You're asking the exact questions you want answers to. But if you're trying to explain what *part* of the government is causing problems, you don't really know." In addition, the information is subjective and fraught with inconsistency.

Each of these traditional methods has shortcomings. First, they are primarily retrospective in nature. Macroeconomic accounting measures or investors' perceptions of risk may pro-



How One Company Got Blindsided by Political Risk

Even firms with considerable expertise at starting businesses overseas can run into problems stemming from political risk.

Witold J. Henisz tells the story of Houston-based Enron Corp., which has had much experience building power-generating facilities around the world and dealing with the attendant risks. In 1995, Enron built its Dabhol Power Project in a relatively undeveloped region of India's Maharashtra state, an area in dire need of electricity.

"Concerned about risk, the company designed a contract that was very advantageous to them," Henisz says. "They were going to get paid a lot when the plant started producing electricity, and they were relatively well insured against the types of risks that they foresaw -– exchange-rate risk and changes in demand. They had a lot of foresight and thought they had things pretty well covered."

But there was an election in the state and the Hindu nationalist Bharatiya Janata Party, which was somewhat hostile to foreign investment in general, came into power. The party, angered by what it thought were the high prices per kilowatt hour charged by Enron, threatened to take over the project and send the company packing.

In the ensuing months, though, the deal was renegotiated, and in late 1999, Enron began phase two of the Dabhol project. In the end, both the company and the local government were able to work through their differences. But Enron learned a lesson the hard way.

"I think Enron didn't take into account enough the power and autonomy that the state government had to block the project," Henisz says. "There was nothing to act as a check against this new provincial government from halting Enron in its tracks. That was a classic example of a failure to understand some of the intricacies of the political system. If Enron had really looked at where the checks and balances were — who had the ability to stop the project and whether they could do so easily — they would have been more concerned about bringing in other parties, even the ones out of power, and making sure they were on board with them and working with them. Enron has since given these elements much heavier weight in their analysis and is an industry leader in the way they assess these questions."

vide nothing more than superficial information about trends. For instance, an accelerating growth rate may prompt foreign investors to flock to a country to take advantage of its economic "miracle." But if there has been no substantive political reform, the underlying political risk probably has not abated. Second, the macroeconomic statistics may be subject to manipulation by politicians and others in key posts.

Third, the political science measures are objective and do focus on political institutions, but not ones of interest to investors. The final shortcoming relates to perceptual assessments. While it is true that less investment occurs in countries perceived by managers to be risky, this tells managers nothing about the fundamental sources of risk.

In an attempt to fill these knowledge gaps, Henisz has developed a model that takes into account two key components of political systems.

The first is whether the system contains "veto points" —- whether one part of the government can effectively act as a brake on the arbitrary actions of another by nixing a proposal. In the United States, of course, this is the system of checks and balances.

Second, Henisz factors in whether these veto points are actually put into practice. Often they are not. Some African countries have constitutions, modeled on those of Western nations, that appear to have a robust system of political constraints. But the checks and balances exist only on paper. "You may look at the Supreme Court and find that everyone was appointed by the sitting president," Henisz says. "Or you look at the legislature and find that everyone is a member of the same party as the president."

Henisz has assembled data for countries around the world and computed a measure of how easy it is for governments to change policies based on their policy-making structures. "I'm interested how credible governments are and this is a measure of credibility," says Henisz.

Henisz calls the model a "political constraint index." It takes into account the number of veto points in a country's political system — its executive branch, upper and lower legislative chambers, judiciary and sub-federal institutions. First, Henisz computes a measure of how policies are likely to change simply on the basis of the number of veto points. He then takes this initial measure and goes a step further. He adds such factors as which political parties control the different branches of a country's government and the history of the political affiliations of jurists who have been appointed to its high court.

The index has been calculated for virtually every nation in world from 1960 to 1998. A high number, such as 0.85 for both Switzerland and the United States, means a nation's political system has many constraints. Thus, politicians are less apt to behave capriciously, which is good for investors. A low number, 0.18 for Togo or 0.00 for Afghanistan, means the governing regime has few political constraints, and thus may pose serious risks for investors. Says Henisz: "Whoever is in power could wake up tomorrow and say 'I'm going to double taxes and there are no courts or legislature to say 'You can't do that.' "

The table also reveals how certain countries have developed systems with many more political constraints than they once had. In Henisz' native Poland and other nations in Eastern Europe, such as Hungary and Bulgaria, much progress has been made since the fall of the Soviet Union a decade ago.

In conducting their research, Henisz and Zelner spent considerable time with political risk analysts at several companies that have invested large sums of money in infrastructure investments overseas, including Enron Corp. and Duke Energy International, in an attempt to understand the full array of risks they face. These companies and others go to great lengths to assess political risk and have considerable experience in investing wisely. But Henisz says companies can also be arbitrary in the way they combine their information, and thus can miss some important trends.

The Lessons of East Asia

The East Asia crisis is a good example. In 1996, economists and others heralded East Asia as a major success story. Japan, Taiwan, Korea, Indonesia and Malaysia were enjoying high rates of economic growth, and many people concluded that the Asian method of capitalism, in which governments and businesses work hand in hand, was superior to Anglo-Saxon capitalism, where government and business are often at odds.

"A lot of the subjective risk measures ranked East Asian countries as great places to invest," Henisz recalls. "When I started constructing my measure and went out and talked to people about it, they said, 'That's interesting, but you can't explain Asia.' All of those countries were ranked low in terms of political constraints, but people said to me, 'You're missing something.' "

As it turned out, Henisz' analysis provided prescience, even though he was just beginning his research. He was beginning to learn that political constraints in East Asian nations are few.

"The courts are relatively subservient and often can change quite rapidly in terms of who's sitting on them in relation to who's in the executive and the legislature," he says. "The legislatures are frequently dominated by the party that controls the executive, so you very rarely see strong continued on page 33

Knowledge@Wharton is an online business resource offering business news, analysis and research to corporate executives, entrepreneurs, policy makers and academics. Following are selected summaries of articles that have appeared in Knowledge@Wharton. For complete versions of these and other articles, visit this free site <knowledge.wharton.upenn.edu>

CEOs and Their Companies Profit from Executive Stock Ownership

Should a Chief Executive Officer be required to own stock in his or her firm? The age-old question of whether or not to force CEOs to buy into their company continues to generate significant debate, with much of the discussion centering on whether standard equity ownership by senior management and external board members is too low to motivate appropriate financing and investment decisions that increase shareholder value. In response to this and other criticisms by shareholders and corporate governance activists, a number of companies have adopted target ownership plans.

Often the target ownership plan and the reasons for adopting it are announced in a company's proxy statement, which, as might be expected, says the action is being taken to increase shareholder value. For example, the proxy statement of Morrison Restaurants, dated August 26, 1993, reads in part: "Believing that equity ownership plays a key role in aligning the interests of company personnel with company stockholders, the company encourages all employees to make a personal investment in company stock. The company's goal is that 10% of the common stock will be owned by employees by the year 2000 and that 80% of employees with more than two years of experience with the company will own common stock."

Although common sense suggests that a CEO, and the management group in general, with an equity stake tends to turn in better performance, research on this important topic has turned up strikingly contradictory conclusions. Some studies, for example, suggest that corporate performance could be improved by increases in managerial ownership as long as it was kept to less than 50%. Other researchers, however, found no relationship at all between levels of ownership and firm performance.

In search of a definitive answer to this question, Wharton professors John E. Core and David F. Larcker conducted a study of 195 firms across different industrial and service sectors that disclosed the adoption of target ownership plans in their 1992 to 1996 proxy statements. Target ownership plans are formal contracts between the board of directors and senior-level managers that specify the minimum level of equity, relative to base salary, to be held by executives. Interestingly, before they adopted a stock ownership plan, which typically required a CEO to own equity valued at least four times his or her base salary, these companies exhibited relatively low levels of officer equity ownership and low stock price performance.

Will the Glaxo-SmithKline Merger Be Good Therapy?

The proposed acquisition of SmithKline Beecham by Glaxo Wellcome – in a stock swap valued at $75.7 billion – may be creating the world's largest pharmaceuticals company, but the question remains: Is it worth the effort? Wall Street in general was clearly not enthusiastic about the deal. On Tuesday, January 18, the first business day after the announcement of the merger on Monday, both company stocks took a beating in London and the U.S. Wharton healthcare systems professor Patricia Danzon shares Wall Street's lack of enthusiasm for the proposed new company. "The basic business of the drug industry is developing drugs and getting them to consumers and physicians," says Danzon, who has done extensive studies on the pharmaceutical industry. "Maybe a bigger company can do it more efficiently and faster, but whether that is a winning strategy remains to be demonstrated."

The Patient Died: A Post-mortem on America's Largest Nonprofit Healthcare Failure

When the Allegheny Health, Education, and Research Foundation (AHERF) declared bankruptcy on July 21, 1998, it left behind $1.3 billion in debt, 65,000 creditors and enough bile to blanket the East coast. The bankruptcy meant the dismantling of the largest statewide integrated delivery system in Pennsylvania. It led to thousands of layoffs in Philadelphia's healthcare community and the sale of six local hospitals to an out-of-state, investor-owned corporation. And it called into question a strategy – popular among academic medical centers in the mid-1990s – of acquiring, at almost any cost, physicians, researchers and medical facilities in order to corner a market that has turned out to be remarkably elusive.

In an article that appeared in Health Affairs titled, "The Fall of the House of AHERF: The Allegheny Bankruptcy," Wharton professor Robert Burns, Penn School of Medicine fellow John Cacciamani, consultant James Clement and nurse manager Welman Aquino analyze the developments behind Allegheny's spectacular rise and equally spectacular fall. As the authors note, no one single factor led to AHERF's demise. Instead, there was what Burns calls "a huge breakdown in accountability at almost every level." Indeed, much of "the intrigue of the story stems from the fact that so many actors, both inside and outside the company, appear to have played a part." Among those who failed both AHERF and the communities it served were the organization's top management, board of directors, accountants, auditors and bond-rating agencies.

Even with this cast of hundreds, however, two individuals stand out as particularly deserving of censure. The authors describe at length the center stage roles of AHERF CEO Sherif Abdelhak and CFO David McConnell, whose flawed assumptions, fiscal irresponsibility, and questionable ethical decisions will be debated and litigated for years to come. For now, the two executives, along with several members of AHERF's management team and board, are the subject of an unsecured creditors' lawsuit, two grand jury investigations (in Pittsburgh and Philadelphia), and investigations by the SEC, the Pennsylvania State attorney general and the Pension Benefit Guaranty Corp. Additional lawsuits may also be filed against AHERF's auditor, Coopers and Lybrand, now part of PricewaterhouseCoopers.

Information Technology: How It Affects Work Practices and Wages

We have only to pick up the daily newspaper to read about the creation of yet another fabulous fortune based on technology. But even as high-tech millionaires proliferate, there has been considerable debate about the impact that technology has had on wages of those who use technology in their daily work practices. Some argue that technology has eliminated jobs and had a negative impact on wages, while others counter that it has improved productivity and boosted wages.

Wharton's Chip Hunter and John Lafkas recently completed a study in which they examined information technology, work practices, and wages for the job of customer service representatives (CSRs) in bank branches. They found that simply introducing technology did not by itself guarantee improvements in productivity or increases in wages. Rather, more depends on how the companies manage technology and help their employees improve their skill level. In other words, context and management style matter.

While most research associates technology with higher wages for workers, Hunter and Lafkas asked whether technologies might be deployed to construct high-wage and low-wage jobs in roughly similar settings. The authors point out that technology can affect wages in two distinct ways: it can contribute to shifts in the distribution of workers across different wage levels. Typically this results in shifting workers from lower to higher-paying jobs. But technology can also affect wages by altering the content of jobs without shifting workers. ◆

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incoming telephone calls or e-mail while they are watching television. "One of Brian's biggest challenges will be keeping the company on a straight path, and that means keeping up with the technological advances and not being a laggard, but a leader," said Ralph Roberts.

A key to Comcast's ability to act like a small, entrepreneurial company was Ralph Roberts' decision to create two classes of stock and maintain a controlling position in the company. Today, Brian Roberts governs his family's 85 percent voting control, which has "enabled us to take that entrepreneur's risk even though we are not a small company any longer: we have 20,000 employees and a sizeable number of businesses," he said.

Among those employees is marketing whiz Stephen Burke, hired away from Walt Disney Co. in 1998 to run Comcast's cable business. "That is the ultimate litmus test about whether you've created the right environment, whether you're in the right mix of businesses, whether you've capitalized yourselves right, whether your credibility over the long-term is working," he says of Burke's decision to join Comcast.

But Roberts, though energized by his industry's breakneck pace, has mixed feelings about watching old friends leave a business he grew up in. "We will have a better, more regionalized cable company because of all of the consolidation, but there was something special about all those folks who were in the business. They all saw the world a little differently. There were 20 Ralphs. I learned a lot from those people. But what's filling the void is that we've been able to attract some real talent, so that you don't have to look out," he said, "you look in." ◆

— NANCY MOFFITT

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opposition parties. They were ruled almost as one-party states. There was an idea that government guiding business was a good thing, but it's now what everybody is criticizing as crony capitalism. I was always a bit skeptical about the East Asian miracle."

He continues: "There was early work by a lot of economists showing that it's relatively easy for a country to catch up from being really far behind. Stalin and Krushchev were able to take a very agrarian state and develop it quite rapidly into something that was a seeming economic rival to the United States, because if you're just catching up, you just copy what other countries have done. But maintaining and pushing that frontier and trying to develop new technologies is a much harder task. You're much safer to rely on what the market tells you than what someone in the government bureaucracy tells you."

Looking Ahead

Henisz' latest research focuses on political factors that his current model does not take into account.

He is looking, for instance, at how electoral rules differ from country to country and can affect risk. The United States, for example, employs what are known as "first-past-the-post" rules: a congressional candidate who captures 51 percent of the vote in a district, for example, becomes the sole representative of all voters in that district. Other countries, however, have more pluralistic electoral systems whereby multiple legislators (and parties) can represent a district.

In the years to come, it seems, Henisz will devote much of his life trying to understand what his mother and father learned first-hand many years ago. "This notion of political risk is really important," he says. "It was inculcated in me from an early age." ◆

– (WRITTEN BY STEPHEN J. MORGAN, A PHILADELPHIA-AREA FREELANCE JOURNALIST AND FREQUENT CONTRIBUTOR TO THE MAGAZINE.)