WHARTON

MAGAZINE

10 YEARS by the Bay

Wharton | *San Francisco* celebrates its 10th anniversary—and looks ahead to an even better decade to come.

Supersizing **for Success**

How does one compete in the cruise business? By thinking big, says **Richard Fain, WG'72**.

ETHICS BEYOND BORDERS

Wharton experts explain how and why they are thinking in new ways about the ethics of business.

Emotional Breakdown

To succeed in negotiation, says **Prof. Stuart Diamond**, one must take emotion out of the equation.

EDITION TWO | SPRING 2011

TOMMY LEONARDI

WHARTON ROCKS:

By day, they are Wharton Marketing Department faculty members **Keith Niedermeier, Robert Meyer, Americus Reed** and **David Bell**. By night, they are "Brand Equity." The four-piece rock outfit served as the closing act at this year's Wharton Battle of the Bands, which was held at World Cafe Live in late February.

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A Message from the Dean

Over spring break this year, I was reminded once again of what it means to be a global business school.

Like many of our students and faculty, I spent part of the break abroad. At the beginning of the week, I attended the 10th anniversary celebration of the Wharton-INSEAD Alliance in London, which highlighted the benefits of sharing knowledge and resources across oceans and continents. I visited with many Wharton alumni at the event and enjoyed hearing noted author and Wharton alumnus **Jeremy Rifkin, W'67**, speak about the European Union's economic sustainability plan, which he developed. I also took advantage of being in one of the three cities in which we hosted global modular courses, dropping in on the "Finance in Europe" course taught by Professors **Bulent Gultekin** and **Bilge Yilmaz**. It was incredibly gratifying to see students and faculty so deeply focused on issues currently affecting the European economy.

Unfortunately, the end of spring break brought sad news of the devastation in Japan, along with worries for our students, faculty, alumni, staff and their families affected by the events. As a global business school in the 21st century, we are tasked with working beyond traditional boundaries, which includes meeting the needs of our global community and bringing our resources to bear on issues of international concern. Almost immediately upon return to campus, student leaders had established relief funds and faculty specializing in risk management were sharing their expertise. Such is our obligation in the face of global challenges, and I know that the Wharton community will continue to do its part to help Japan recover and rebuild.

Thomas S. Robertson
Dean and Reliance Professor of Management and Private Enterprise

ON THE WEB

The Dean's Blog
To read more more thoughts from Dean Robertson, visit his blog at http://www.wharton.upenn.edu/about/from-the-dean.cfm.

Editor's Letter

I am a print guy.

I buy books at the bookstore and magazines at the newsstand. I started my career in newspapers, I subscribe to the *Philadelphia Inquirer*, and I read the entire thing, every single day.

I like the permanency of print. I like that it's tangible. And I love the sense of excitement and accomplishment that comes along with the delivery of each and every issue of *Wharton Magazine*.

In other words, yes, I really like print. But I also recognize its limitations. All of us here at *Wharton Magazine* do.

That's why, since my arrival as Editor two years ago, we've focused our energies on improving the print version of the magazine *and* on extending our offerings in the virtual world as well. We've redesigned our website to make it more attractive and interactive. We've launched the award-winning Wharton Blog Network to generate discussion about the biggest topics in business today. We've even made the leap into the world of Twitter (you can find us @WhartonMagazine).

Most notable, however, might be our increased use of video to tell the remarkable stories of this remarkable school.

Since we launched our video initiative in the spring of 2009, our film crew has interviewed leading executives, pioneering entrepreneurs and, of course, members of Wharton's distinguished faculty. They've covered numerous conferences, sat down one-on-one with **Dean Thomas S. Robertson** and even trekked to Seoul and Madrid as part of the School's Global Alumni Forums. They've been to Reunion Weekend, Commencement … and even MBA Pub. In the process, they've helped us assemble an impressive video library—a film archive that illustrates not only Wharton's thought leadership and the striking accomplishments of our alumni, but also the energy and dynamism that can be felt almost every day here in University City.

Wharton Magazine's film crew was on hand to capture the Iron Prof Wharton competition last year.

Through video, we are telling some of the Wharton School's most amazing and interesting stories—stories that simply can't be told in print alone.

I encourage you to visit our ever-growing video library at whartonmagazine.com. You can also find our videos and many others at the School's homepage, www.wharton.upenn.edu.

As always, I welcome you to share your thoughts about this latest issue of *Wharton Magazine*. Send your letters to letters@whartonmagazine.com or mail to the address at right.

Thanks again for reading.

Sincerely,
Tim Hyland / Editor

ILLUSTRATION BY: KEN FALLIN

Wharton
University *of* Pennsylvania

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Sharing a Vision

In his message in the Winter 2011 issue, Dean Thomas S. Robertson commented on the faculty's approval of a new vision for MBA education. He noted that the new curriculum reflects the "evolving landscape requiring anticipation" and adaptation to change. Such vision of the interrelated global nature of changing economic and social systems is invaluable for academic institutions developing leaders and innovative thinkers, I believe. Wharton's position in the world renders such vision of particular importance.

William Boyd Katz, W'60

DePreist: 'A Great Person'

It was great to read your article on James DePreist (Winter 2011). He would have made a great lawyer as well as a great maestro. I had the pleasure of teaming up with Jim on our thesis for the pre-law requirement at Wharton. A great person who never let his disability hold him back.

Theodore Rich Jr., W'58

More on Deepwater

I read the extended article, "The Lessons of Deepwater," (Fall 2010) on the website. The comment about drilling on the Thames seems quite accurate.

BP's mess appears to be the consequence of a "success-oriented schedule." I've encountered these types of schedules and they are usually driven in a top-down manner, with no real discussion about the realistic nature of the schedule, no consideration of setbacks and no contingency planning. The apparent breakdown in communications between the various players is usually a consequence of trying to do too much in too short a time frame. Often the environment for choosing which project to fund is hypercompetitive and unrealistic plans are made to get the resources to do the project with the assumption that, "We can work out all that once we get started." By then, it's frequently too late and the project team is committed to a set of unrealistic goals and problems then mount. Often the goals of the players on the team are different and this makes the situation worse. In the case of the BP oil spill, three different companies with different goals were all involved doing quite difficult work. It's not surprising that the well failed, it's just surprising that it does not happen more often.

Thanks for the great magazine.

David B. Fitzgerald, MD, WG'80

Send your letters via email to letters@whartonmagazine.com or via traditional mail to: Letters, Wharton Magazine, Wharton External Affairs, 344 Vance Hall, 3733 Spruce Street, Philadelphia, PA, 19104-6360. Letters may be edited for clarity or brevity.

Debrie

THE YEAR IN Risk

In their annual report to the global community, Wharton's disaster-preparedness experts take a look at the biggest risks facing the world in 2011—and how those risks are interconnected.

Wharton Risk Management and Decision Process Center Co-Director **Howard Kunreuther** and Managing Director **Erwann Michel-Kerjan** have been collaborating closely with the World Economic Forum (WEF) for the past six years to release the *Global Risks Report*, an annual assessment of risks that has become a highly anticipated part of the WEF's annual meeting.

Circulated prior to the Davos meeting in late January—and just weeks before massive earthquakes rocked New Zealand and Japan—*Global Risks 2011* identified forces of economic disparity and global governance failures as two of the top risks for the coming years. Fittingly, as business and government leaders convened for the event, a revolution in Egypt unfolded in real-time, influenced by those very issues.

This year's report was not the first to prove prescient. According to Kunreuther, Wharton's James G. Dinan Professor, statements about the risk of asset price collapse in earlier reports were borne out by the data in the financial crisis. As a result, world leaders are listening to what WEF has to say, and the report has grown in influence each year.

The Wharton Risk Center has been a partner in WEF's Global Risk Initiative since its inception in 2005, working with the dedicated team at the WEF, Marsh & McLennan Companies, Swiss Reinsurance Company and Zurich Financial Services. For 2011, more than 560 leaders and experts around the world assessed 40 global risks in terms of their likelihood and severity for the creation of the *Global Risks Report*.

The top risks this year? Fiscal crises, climate-related risks, extreme energy price volatility, economic disparity and global governance failures.

The *Global Risks Report* does not predict what will happen next week, but rather what is likely to happen within the next five to 10 years. Events of the past year were cited, too—including major fiscal crises, devastating earthquakes in Haiti and Chile, large-scale floods in China, Pakistan and Australia, unprecedented fires in Russia and social unrest.

Understanding Interconnections Between Risks

One unique aspect of the report—emphasis on interconnections between risks—is now gaining wider acceptance.

"The interconnectedness was a theme everyone was talking about in terms of recognizing that these different risks overlap each other," says Kunreuther. "If one particular institution or supplier has a problem it can have an impact on other parts of the system—thus magnifying its economic impact."

Adds Michel-Kerjan: "Until recently, we all tended to look at risks in silos. Some people ef

looked at asset price collapse and others looked at fiscal insurance. Until the reports came out, people didn't look at how they were interacting with each other. That question is something we've been trying to address in Davos because they are very interconnected, [and we're] thinking of them together instead of fixing problems one by one."

Take, for example, climate change, which affects catastrophic weather events and food security. "If you have problems providing food to satisfy the needs of the growing population in emerging economies," Kunreuther says, "this can create a host of other problems."

In addition to the interconnected risks tied to water, food and energy, *Global Risks 2011* highlighted two more risk clusters of particular concern: The relationship between illicit trade, crime, corruption and state fragility; and risks related to global macroeconomic imbalances.

As the report states: "As the world grows together, it is also growing apart."

"The world seems like a more dangerous place," says Michel-Kerjan. "We have many more people on the planet, and that changes the scale of catastrophes. We're about to reach seven billion people today, and many of these people live in high-risk areas, on the coast for example. The same hurricane that would have hit a small number of people 20 years ago now has a much bigger human impact because there are more people living in these areas."

Beyond Risk into Action

Global Risks Report goes beyond simply identifying risks and interconnections, however. It also urges leaders to address the causes, rather than the symptoms, of global risk, to develop coordinated response strategies and to take a longer-term approach.

While many natural disasters aren't preventable, their impact is dependent on the design of structures and systems of global governance. After observing the terrible loss of life in the Haitian and Chinese earthquakes, the Global Risk Network began to look at the achievable goal of improving the construction of schools.

"Thousands were killed in the Haitian and Chinese earthquakes—the cost of poorly designed buildings. How do you do a better job on the construction side?" Kunreuther asks. "Marshal the parents. Parents want their children safe, and they are likely to have traction with the government and donor agencies who could provide funding for this effort. This would be in the spirit of trying to find something that is relevant and achievable so that people say, 'We should do this now.'"

The Wharton Risk Center will be working with the World Economic Forum on this issue, trying to develop concrete products with immediate benefits while continuing to address long-term strategies in the *Global Risks Report*.

Says Kunreuther: "If alumni have ideas, we want to hear them. If they think of concrete suggestions for developing long-term strategies for dealing with these ideas, we want to hear them."

For more information about the Risk Center, visit opim.wharton.upenn.edu/risk/

Just days after a 9.0 magnitude earthquake and massive tsunami rocked Japan and created a nuclear crisis, **Erwann Michel-Kerjan** wrote about the disaster for *Wharton Blog Network*. The following is an excerpt from his piece.

Lessons for the United States and Europe? This massive earthquake in Japan is one more in a tragic series of recent devastating quakes beginnin with Haiti in January 2010, Chile in February 2010 and New Zealand last month. While it is not clear h these events are interrelated, if at all, this certainly poses the question of whether other countries, or o er communities, are prepared to handle quakes of similar magnitude.

Is California ready for a $100 billion earthquake this year? I doubt it. Research shows that only 10 percent of Californians have quake insuran (due in part to quake insurance being a costly product, coupled with individuals' beliefs that a quake "won't happen to them"). Given the current fiscal cr sis in that state, if a quake does happen, who woul pay for the damages to the uninsured 90 percent?

Is America ready? Unfortunately, we are not. Afte Hurricane Katrina, it seemed as though the questio of how to better manage and finance large-scale ca tastrophes would be seriously considered by the hig est level of decision makers. But then other crises occurred, and attention to natural disasters somewhat faded. This is the conclusion of our recent boo co-authored with my colleague Howard Kunreuther and several others, *At War with the Weather.*

We know what to do. What is lacking is the motivation to act, now. The Japanese Perfect Storm is ju the latest reminder that we could be next on the ex treme event list.

From The Network

BY KEVIN WERBACH
Professor of Legal Studies and Business Ethics

Revolution Abroad. Revolution at Home?

The winter uprisings that rocked the Middle East hold valuable lessons—and warnings—for leaders in politics, business and education.

As I write this in late February, the spark of revolution in the Middle East that began in Tunisia and toppled the leader of Egypt has spread to Bahrain and Libya. There are rumblings that China may be next. It won't stop there.

Somewhere down the road, the same forces that are reshaping national leadership will attack two other institutions: corporate management and management education. Be prepared.

It would be an exaggeration to claim the Internet and social networking services such as Twitter and Facebook were the primary facilitators of the recent uprisings. Egypt shut down the Internet inside the country, after all, and the revolt continued unabated. However, to miss the significance to these events of what U.S. Secretary of State Hillary Clinton in a recent speech called "connection technologies" is to ignore overwhelming evidence.

Citizens around the globe are more connected than ever before. Billions have access to the Internet, billions more to mobile phones capable of text messaging and data services, and social tools such as Facebook, Twitter and Skype number their users in the hundreds of millions. Nations may sever these links for a time, but the costs to their economic and political health will be overwhelming, as Egypt discovered. There is exponentially more information being exchanged person-to-person within countries like Egypt and Libya than ever before, as well as coming in from the outside and being disseminated to the world. People can organize and express themselves in ways that were inconceivable even a few years ago.

Whether dictators will co-opt these technologies faster than their people can exploit them is an important question that I will leave to the international relations experts. I'd like to highlight some implications that hit closer to home.

The folk singer and political activist Woody Guthrie had a slogan written on his guitar: "This Machine Kills Fascists." He meant that music can educate, inspire and motivate people to rise up against oppression. Every mobile phone—and there are 5 billion of them in the world today—should have a similar legend: "This Machine Kills Hierarchy." The peer-to-peer information that flows through connected personal devices and the Internet will do more to undermine closed centralized regimes than decades of Voice of America or BBC World Service broadcasts. They will do the same to closed centralized regimes in other contexts, namely the corporate world and education.

Those of us who teach business and those of you who practice it are in the same position as Egyptian strongman Hosni Mubarak. We have talent and resources. We also have a great deal of control. That control promotes efficiency and prevents anarchy. All of that is not enough, though, when our students and employees and partners and competitors can learn from each other.

Smart managers understand this today. They allow or even encourage their employees to blog, with appropriate policies to protect confidentiality and corporate interests. They see social media as a chance to apply the science of marketing and operations to online forms of

Wharton Folly *The Revolution Will Be Digitized*

Illustration by Brian Ajhar

organic social interaction, rather than digital window-dressing for delivery of the corporate message. They incorporate tools and techniques from the burgeoning world of digital games to address serious business challenges. And they recognize that today's entry-level workers don't remember a world without computers (even if they do), while tomorrow's will not remember one without the Internet, Google, Facebook or smartphones. If this doesn't describe the companies you're associated with or follow, now is the time to ask, "Why not?"

Those forward-looking business leaders should take one more step: press institutions that train businesspeople to do the same. At Wharton, we're exploring numerous forms of innovation. It's one of Dean Robertson's pillars for the School, and Vice Dean Karl Ulrich's entire portfolio. Still, we and our peers should do more.

I'm not advocating technology for technology's sake, or chasing the buzzwords of the new economy the way so many did during the dot-com bubble. Rather, I'm proposing that in everything we do, we consider the challenges posed by a digitally connected world, and the opportunities that world presents to us.

The Internet as a commercial phenomenon is nearly two decades old. Many techniques for digital insight and learning within business and education are already well-grounded. Others are more nascent, but promising. All we know for sure is that digital connectivity will continue to grow denser and more pervasive. Blocking it out is not an option. Just ask Hosni Mubarak.

News Briefs

$3 Billion Down. $500 Million to Go

On February 18, Penn President **Amy Gutmann** announced a major milestone in the University's historic Making History campaign. Speaking to the Board of Trustees, Gutmann revealed that the campaign had reached the $3 billion mark—an achievement that she called an "extraordinary" affirmation of "our bold vision for Penn."

"Together we are creating the most gifted and diverse student body in Penn's history," Gutmann said in a message to the Penn community. "We are generating new kinds of knowledge to tackle society's most complex and urgent questions, and we are building a green urban campus unlike any other."

The campaign was launched in 2005 and is set to be completed in December of 2012. In all, it will raise $3.5 billion for Penn, including $550 million for Wharton. As of our press date, Wharton had raised $430 million toward its overall goal.

For more information about The Campaign for Wharton—and to find out how your gift can help Wharton remain the world's leading purveyor of business knowledge—visit www.thecampaignforwharton.com.

$6.5 million Establishes Lipman Family Prize in Leadership and Innovation

The University of Pennsylvania in late January announced a $6.5 million gift from **Barry R. Lipman** to establish the Lipman Family Prize, a new annual prize that will recognize and amplify the work of an organization devoted to positive social impact and the creation of sustainable solutions to significant social and economic challenges. Barry Lipman, W'70, is a co-founder of Goldfarb & Lipman (now Goldfarb Lipman, a leading California law firm).

Emphasizing leadership, innovation, social impact and transferability, the Lipman Family Prize will be a major award with a global scope, propelling the winning organization's achievements forward through a combination of financial rewards, media outreach and scholarly attention. Each year, the winning organization will receive a $100,000 cash award and opportunities for an ongoing relationship with the University of Pennsylvania and the Wharton School, including collaboration with Wharton Executive Education, partnerships with faculty researchers, internships with graduate students and development of course content. Finalists for the Lipman Family Prize will also receive the same non-cash benefits.

Prize winners will be selected by an interdisciplinary steering committee, comprising faculty and staff from across the University of Pennsylvania—drawing upon the expertise of such entities as the Center for High Impact Philanthropy, the Center for Leadership and Change Management, the Netter Center for Community Partnerships, the School of Social Policy & Practice and the Wharton School.

Wharton **Dean Thomas S. Robertson** said the School was "deeply grateful" for the gift. "Dedication to social impact is one of the pillars of the Wharton School," he said, "and it is an honor to administer such an important award that recognizes organizations with an effective, innovative approach to creating social and economic value worldwide."

The application process for the inaugural Lipman Family Prize is expected to launch in Spring 2011, with the first award ceremony to be held in Spring 2012.

Said Lipman: "My goal with this award is to expand the benefit of social impact organizations around the world by helping to improve their delivery of services through competition, to inspire Penn students to enter the field, and to encourage the transfer of successful methods of operation to similar local and regional organizations."

A Vision for Growth

Jason Wingard, Wharton's new Vice Dean for Executive Education, acknowledges the challenges of today's tough business environment. But he also sees boundless opportunities for growth—in Philadelphia, in San Francisco and in all corners of the globe. BY TIM HYLAND

In so many ways, it's a perfect fit.

When **Jason Wingard** arrived a year ago as Wharton's new Vice Dean for Executive Education, he brought along a portfolio of academic credentials and real world experiences that seemed to make him uniquely qualified for the position. Wingard not only boasts four degrees—including an undergraduate degree from Stanford and advanced degrees from Harvard, Emory and Penn—in subjects ranging from sociology to organizational development to technology, but he has also spent years on the front lines of the business world, working in a variety of management roles for such firms as Vanguard and Silicon Graphics.

The sum of those experiences, Wingard says, gives him a unique perspective—and a valuable one for somebody running one of the most prestigious executive education programs in the entire world.

"I know what keeps executives up at night when they're trying to balance profits and growth, manage emerging market analysis, and implement the leadership challenges we teach to optimize organizations," Wingard says. "I also understand how to build and leverage culture, value human capital and develop solutions that serve the global good. Having a background in all of those worlds has served me well."

In late January, Wingard spoke with *Wharton Magazine* about his vision for Wharton Executive Education, including the myriad of opportunities he sees for growth. He also talked about the state of the marketplace, his hopes for Wharton | *San Francisco* and the still-developing plans for Wharton's visionary "lifelong learning" initiative.

What role does Executive Education play in helping the School accomplish its broader goals?

Number one, it's a dynamic platform for showcasing the faculty's thought leadership to business leaders and executives from all over the world. Our faculty want to be able to disseminate their knowledge to a much wider audience. We deliver programs to about 9,000 individuals every year, and Executive Education is a great vehicle to allow the School to share its knowledge across all disciplines. We also contribute to research. Many of our faculty, through access to companies and the people who are actually implementing new ideas and strategies in the field, build on that information to contribute to articles and books. And then, obviously, there is the revenue we generate, which can then be used by the School to support students, research, faculty projects and other infrastructure needs.

What are the areas in which you'd like to see Executive Education be more visionary?

We do have the Steinberg Conference Center and the core business here in Philadelphia, but we also have tremendous opportunities to increase our knowledge reach geographically through channels such as Wharton | *San Francisco*, emerging markets like China, Brazil and India and by expanding into new delivery channels like online learning. With our global reach and faculty strength we have a competitive differentiation that can really set us apart from our peer institutions. We need to find new ways we can continue to be best in class. There is also the

Bottom Line

The learning experience at Wharton reaches far beyond the undergraduate, MBA and doctoral levels. The School's **Aresty Institute of Executive Education** administers a global array of custom and open-enrollment programs that deliver leading-edge Wharton knowledge to a broad audience—and empower participants for success in their own careers.

62 open enrollment programs scheduled between March and December 2011 in 5 different global locations

11 open-enrollment program categories: corporate governance, finance, health care, industry associations, innovation and technology, leadership development, management development, marketing/sales, negotiation and persuasion, senior management, and strategy/management

9,000 annual participants

Debrief

Wharton brand, and we have a role to play in further developing and promoting that brand. The opportunity we have is to enhance and extend Executive Education to a global population, all the while making sure that the design and delivery of the program creates measurable business impact.

What is the state of the executive education market today?

Open enrollment programs are tailored for individual executives, and one of the trends we're seeing is that leaders are looking for more of the basics in global business. Their boundaries are expanding, and there's a greater need to know how to do business in China, how to do business in Brazil, and how to use the Internet to extend competitive advantage. As the market continues to change, we have to be able to identify the topics that our clients are looking for, and then be able to not only deliver them, but also redesign and market them at a much faster rate than we used to.

What about the custom side?

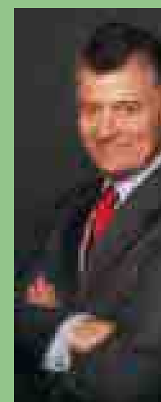
What we're seeing from clients is an interest in more of a consultant-type relationship. Instead of just designing modules specifically for corporate teams, they're asking for a highly complex engagement. They want a multi-methodological education offering that includes a needs assessment, a strategic plan and a post-program ROI evaluative process. So the engagement length is much longer and the involvement we have with all key stakeholders extends beyond the classroom and into the field with our clients.

What's the marketplace like? What competitive advantages does Wharton have over its peers?

I think one of our areas of competitive advantage is in serving the entire value proposition continuum. We have strengths across the board. Some of our peers are strictly thought leaders, which means they only use their faculty to design and teach programs, and they only deliver to the executive education audience a modified version of what they deliver to their students in their degree programs. Other peers don't really have the thought leadership advantage but they'll roll up their sleeves,

'A VERY HEALTHY DEBATE'

At the Estée Lauder Companies, the Learning Never Ends—Not Even for the Company's Highest-Ranking Executives.



Debate. Discussion. Deep thinking.

That's what **William Lauder, W'83**, executive chairman of the Estée Lauder Companies, wants to get out of his company's executive education initiatives.

And at Wharton, he says, that's exactly what he gets. Estée Lauder has been sending its most senior executives to Wharton since 2004, and even in the midst of a still-recovering economy, the company has remained as committed as ever to executive education.

We here at *Wharton Magazine* recently sat down with Lauder (in his stunningly beautiful Manhattan office) to ask him why he believes so strongly in high-level executive education—and what he believes his executives gain from their experiences here at Wharton.

Tell me how your partnership with Wharton got started.

The relationship was formed out of a number of different things—primarily our longstanding relationship with Wharton and our to desire to start changing the nature of our executive education program for our most senior executives. Instead of making those programs just happenstance, whenever the opportunities might occur, we really wanted to make it a more thorough and engaging experience.

What sparked the desire to create programs specifically for your senior-level executives?

In the past, these programs had always been aimed at the next level down—or even the level below that. So instead of the most senior executives, we were targeting the brand managers or the regional presidents or even a level or two below that. But then we realized that we had been assuming a certain level of education and executive education experience at the level above, and it just wasn't consistent. We had people working with people who had been through a common experience, and yet

continued on page 14

41 international custom program clients, in countries such as Brazil, Barbados, Denmark, the Netherlands, Scotland, England, France, Ireland, Germany, Switzerland, Lebanon, Israel, Saudi Arabia, India, United Arab Emirates/Dubai, Thailand, China, South Korea, Japan, Malaysia and Australia

6 industry sectors featuring established industry practice custom programs: financial services, health care and pharmaceuticals, manufacturing, public and social sectors, and professional services

30+ unique open-enrollment programs

use a variety of faculty and facilitators, and do the consultative work in a strictly integrated-type process—more action learning. The advantage that we have is that we do both. We are able to deliver the best thought leadership with the best design acumen for a complex pedagogical model.

How can Executive Education leverage Wharton | *San Francisco*?

There are a lot of opportunities on the West Coast to build relationships with new companies and grow significantly in executive education. We've already started, too. We have a program with Google that we run at our San Francisco campus. We're also in the process of developing a business plan by which we intend to grow in a very meaningful and strategic way in the Western region.

Is it difficult to compete in the Bay Area because of nearby competition from Stanford?

We are interested in the entire West Coast, not just the Bay Area—from Los Angeles to Phoenix to the Pacific Northwest. And, as for Stanford, they do much more open enrollment than custom work, so there are opportunities for us to share the custom business market. Then there are only smaller schools, such as the Haas School at Berkeley, so in a sense the market is wide open. But even if our West Coast competitors were different, it would still be analogous to doing business here in Philadelphia, going up against the other top East Coast schools. What is different, though, is that we have to compete with products designed specifically for the region. We cannot just transport the offerings we have here on the East Coast and expect that they will be applicable on the West Coast. We need to engage a broader set of faculty and create programs specifically for this market. We have faculty doing work in a variety of areas—social networking, technological innovation, venture capital—that would definitely be of interest on the West Coast.

> "The opportunity we have is to enhance and extend Executive Education to a global population, all the while making sure that the design and delivery of the program creates measurable business impact."

In December, the School announced a new lifelong learning initiative as part of its new MBA curriculum. What can you tell us about this, from an Executive Education perspective?

We are in the process, as a School, of further defining what kind of executive education opportunities we can provide to our alumni. What is certain is that we are going to offer a tuition-free executive education offering to the MBA graduates moving forward. What we're in the process of doing now is completing a needs assessment of what our other 86,000 alumni need or want. Our alumni base is very diverse. We want to make sure that we understand what the different areas of need are for our alumni, and what kinds of offerings would be most useful for their ongoing development.

'A Very Healthy Debate' continued from page 13

their bosses hadn't. It just made sense for us to bring in the next senior level of the company up to that same level, so they could speak the same language and work more effectively as peers.

You could have chosen a business school closer to your New York headquarters. Why Wharton?

The primary reason for going to Wharton was its reputation in global leadership, and its reputation as a leading center of business education. It is forward-looking in its research and offers excellence in its teaching and faculty. There's also the long-term relationship that my family has had with Penn and Wharton. Finally, there was the accessibility of the Penn campus itself. Most of our executives are located in New York, and Penn is an easy train trip for most of them. For those who live in New Jersey, it's an easy drive. And even for those outside the U.S., Philadelphia offers a very accessible airport.

How do you measure the success of these programs?

Our level of success is primarily based on this question: "Did we stimulate some level of thought—some good thoughts about potential action at the executive level?" We want the professors to raise issues with us, stimulate the thought process and act as moderators as the executives debate and discuss and apply their knowledge and expertise to help us come to a decision. A lot of the professors we've worked with have stimulated a great deal of thought and forced us to look at our businesses on a number of different axes.

The dynamic between the faculty and your executives must be very interesting.

It's a very healthy debate. With the executives, you have an average age of well over 40, not to mention 20-something years' worth of experience, and the result of that is that some of those executives have as much hands-on experience [in any particular field] as the professors do. So there isn't the same kind of dynamic as you might see in a normal classroom environment. Oftentimes, it seems the role for those of us living in the trenches is to perhaps bring the professors out of the clouds and into the harsh reality of the real world [laughs]. But honestly, from my experience, the professors enjoy dealing with a level of experience that they don't see in their normal classroom environment, and it should be said that sometimes the executives will debate the academic facts with the faculty at their own peril. What they're trying to do, and what our goal is, is to stimulate thought and conversation … so we can make better informed decisions and strategies.

How do you keep your programs fresh, challenging and interesting?

It's about advancing the agenda and not repeating what you've already done. The most important thing is to remember that there are a number of different faculty in a number of different disciplines who have helped us change the way we look at our company and our performance and our metrics. In a number of cases, they've given us a better way to think about the different things that we do. But then there are also the very tangible benefits of having brought many different executives from different brands together in an off-campus environment so they can work in a collaborative manner with their peers—people they may not have otherwise spent time with.

Making a Statement

As one of the key project managers behind New Delhi's massive new airport terminal, **Kanika Dewan, W'98**, helped send out a message to the world: India has arrived. BY LAUREN ANDERSON

Over 11 million square feet of stone. The world's eighth-largest passenger air terminal. An 800-person team with members hailing from Europe, Asia and the Middle East. An unforgiving 14-month deadline.

And one person overseeing it all: **Kanika Dewan, W'98**.

Last July, India unveiled its new multi-billion-dollar terminal at the Indira Gandhi International Airport in New Delhi—the largest public building constructed in India since the nation achieved independence in 1947. Completed in a record 34 months, Terminal 3 (T3) opened just in time for Delhi to host the XIX Commonwealth Games, which brought over 6,000 athletes and many more spectators to India. Dewan, the 33-year-old President of the Bahrain-based mining and stone firm Bramco Group, played a key role in the project, overseeing all of the stonework design and installation for T3's flooring, lifts and lobby areas.

She says she understood quite clearly the importance of the T3—not only for her company, but her nation as well.

"As the Commonwealth Games were coming, I wanted to demonstrate that India was no longer a developing country but an evolved one," she says. "And that you can achieve standards associated with the developed world in the developing world."

Clearly, the T3 project was a huge one, and it presented some massive challenges. Given her past successes—not to mention her entrepreneurial drive—it's hardly a surprise that Dewan pulled it off.

Dewan began her career in project finance at Citigroup, but quickly learned that she was, at heart, an entrepreneur. As a result, she utilized the skills she had gained at Wharton, where she served as president of Wharton Women, to launch her own business—Natural Stone Depot. Within a few years, she had expanded her interest in stone design to become the President and Founder of KA Design Atelier and President of her family's business, the Bramco Group.

Guiding her to success at the T3 was a team-focused philosophy that she can trace to her upbringing in Bahrain, and her schooling in the United Kingdom and here in America.

"The various cultural groups [working on the project] flocked together and wouldn't integrate with other groups," she says. "We had to divide them up and place them on different floors [of the terminal] to get them to integrate. It was like freshman year; you couldn't choose your roommate, you were eating different foods—everyone was all thrown together. We also implemented this in our corporate residential environment, as we provided housing for our largely international staff. And it worked."

Another similarity to her days at as an undergrad? The long days—and nights. "I worked 20-hour days nonstop," Dewan says. "It was like Wharton, where we'd stay up all night to work on our case studies."

With a timebound project, she says, "we frequently had to think beyond the box and determine how we would achieve what we needed to despite the days we lost"—and without sacrificing quality.

Despite the on-the-ground challenges, Dewan remained inspired by a grander vision for this project, which she saw as an opportunity to announce India's arrival as a global power. With a capacity to handle 34 million passengers per year, the potential audience for T3's message was tremendous. She believes visitors—and the people of India—will hear that message loud and clear.

"You can communicate a story to people through a building," she says, "and you can improve the standards to which they aspire."

One School.

Three Entrepreneurs.

$700 Million.

How Wharton helped three bright young business minds build—and eventually sell (at enormous profit)—their unique Internet-based companies.

BY KIMBERLY MARSELAS

Marc Lore, WG'07

BILL WADMAN

Just six short years ago, one-time investment banker **Marc Lore, WG'07**, created a corporation to house his burgeoning online business. He named the firm Quidsi—Latin for, "What if?"

As in, *what if* he took a low-profit product like diapers and sold them with such reputable customer service and super-fast shipping that he could move a half billion diapers in a single year? *What if* that diaper business could grow into an all-things-baby sales empire with expected annual revenues topping $300 million? *What if* he could use his diaper delivery model to roll out vertical operations in the household cleaning and beauty markets?

Lore and his partners got the answers to those questions this year, as their innovative techniques and market saturation attracted the attention of none other than online retailing giant Amazon.com, leading to a $545 million acquisition deal that closed in February. It was a huge deal. But at Wharton, at least, it was hardly unique. Because as it turns out, Quidsi was one of three businesses founded by former Wharton students bought by Internet behemoths in the past year. Combined, their deals reportedly totaled more than $700 million.

In June, Google announced it was buying display ad company Invite Media, founded by **Nathaniel Turner, W'08**. And in December, eBay announced it had purchased Milo.com, a local comparison-shopping site founded by Turner's classmate and friend, **Jack Abraham, W'08**.

Both bona fide businessmen before they were teenagers, Abraham and Turner spent their undergraduate years taking entrepreneurship classes and participating in formal business-building programs as they began to envision the companies that would make them millionaires in their 20s. Lore, for his part, had already created and sold one online venture and in 2005 entered Wharton's MBA Program for Executives in San Francisco, looking for connections and inspiration while diapers.com was still in its infancy.

By combining savvy ideas, round-the-clock commitment and hands-on experience, all three were able to navigate the recession, win over investors at some of the nation's top venture capital firms and cash in on their user-friendly concepts.

"The most rewarding thing is to see how students connect and link what they learn in the classroom and apply it," says **Raffi Amit**, the Robert B. Goergen Professor of Entrepreneurship and academic director of the Goergen Entrepreneurial Management Program. "That's basically the heart of what we do in all of our outreach programs. We facilitate the dreams of our students."

BORN TO BUILD

Abraham grew up with the Internet.

In 1999, his father, Magid Abraham, created comScore, the first company to measure e-commerce trends and a global leader in digital marketing intelligence. "When I was 12 or 13, my dad said, 'We're going to measure everything that everyone does on the Internet. Is that something you'd like to do?'" remembers Jack, now 25. "It's where I fell in love with programming and technology."

While in high school, he ran a custom-computer configuration company and hired other teenagers to serve as tutors in a Washington, DC-area test-prep service. By the time he arrived at Wharton, he knew he would be a lifelong entrepreneur. And he figured if the Internet and social networks were fueling consumers' decision-making, there must be some way for him to capitalize on the trend.

"I was puzzled that no one was doing anything in shopping," Abraham says, recalling how once-novel sites like Shopzilla began lagging behind consumer demand. "Shopping was where all the businesses had been built . . . but there didn't seem to be much innovation there anymore."

As he wrestled with ideas, he dropped in every two weeks or so to get advice from **Leonard Lodish**, the Samuel R. Harrell Professor of Marketing and Vice Dean of the Program for Social Impact. Lodish knew the Abraham family through a previous venture and wrote a letter of recommendation for Jack when he applied to Wharton, a step he rarely takes. He saw great possibilities in Abraham's passion for business and competitive nature. "It was really a lot of fun," Lodish remembers. "His ideas were good. My job—and I do this for a lot of students—is to find holes [in those ideas], and ways to improve them."

After about a year, Abraham settled on the concept that led to Milo.com, eventually adopting a Jack Russell mascot—and a live dog—to bring home the website's "Go fetch it" philosophy.

Around the same time, Turner was filtering through his own tech-based ideas. His previous experience ranged from breeding 600 rare and exotic snakes to a trading card operation to a web design shop. In 2004, a site he created to enable customers to swap gift cards landed him a TCU Texas Youth Entrepreneur of the Year Award.

Wharton, he says, didn't make him an entrepreneur, but it gave him "access to people." Wharton Entrepreneurial Programs (WEP) also gave him and Abraham the guidance and financial support to pursue the concepts that eventually morphed into Invite Media and Milo.

WEP began in the 1970s as a curriculum focused on theory for undergraduates, MBAs and Ph.D. candidates. In 1997, a gift from **Robert Goergen, WG'62**, provided additional resources, and the first dot-com era sparked new student interest. During the 1997-98 academic year, students formed an entrepreneurship club, which launched the business plan competition—now part of WEP. In 2001, the Entrepreneur-in-Residence program began, offering students speed-mentoring sessions with successful business owners—including Wharton alumni.

During his freshman year, Turner was matched with Half.com founder **Josh Kopelman, W'93**, who was just launching Philadelphia-based First Round Capital. After one 30-minute meeting, Kopelman offered him an internship. Then, in 2006, Kopelman helped Turner secure a second summer internship at VideoEgg, where Turner learned what it took to launch a start-up. The School supplemented Turner's meager paychecks by granting him a Wharton Entrepreneurial Intern Fellowship.

When he left the VideoEgg office each night, he often went back to his apartment with future Invite Media co-founder and classmate **Zachary Weinberg, W'08**. There, the two brainstormed business ideas until 4 a.m. Sixteen-hour workdays were a habit he and Abraham would share for the next several years.

In 2007, Turner and Abraham both landed coveted Wharton Venture Awards, allowing them to commit to developing their business in the summer between their junior and senior years. Each summer, a total of five $10,000 awards are granted to undergraduates and first-year MBA students. The awards, funded in part by the Heller Family Foundation, free students up from the traditional internship to pursue their own concepts while still earning money and gaining experience.

"It legitimizes the work that they're doing," says **Emily Gohn Cieri**, managing director of WEP. "A successful launch isn't critical. We're not making an investment in the companies. We want it to be an educational experience."

Turner and Abraham pooled their resources, renting a Northern Liberties office that doubled as an apartment and hiring a group of engineers from other Penn programs.

Turner's team was "throwing spaghetti on the wall to see what stuck," meeting with potential investors and companies like Face-

big deals $$$

ENTREPRENEUR	COMPANY	CORE BUSINESS	SOLD FOR	PURCHASED BY
Jack Abraham, W'08	milo.com	Price comparison	$75 million	eBay
Marc Lore, WG'07	Quidsi	Baby products	$545 million	Amazon.com
Nathaniel Turner, W'08	Invite Media	Advertising technology	$80 million	Google

"It's really important to be persistent. Never give up when you're going out for capital."

book, as well as creating "random" coding, much of which was eventually scrapped.

"That's the good thing about undergraduates: they're fearless," says Amit. "In some sense, they may be naïve. And I see that as an asset. They don't take no for an answer."

THE VALUE OF PERSISTENCE

Abraham had tweaked his plans for Milo.com and began seeking capital in late 2008—that is, just as the economy tanked and many investors grew hesitant about new ventures.

Which, of course, was a problem. Milo.com was designed to let shoppers find out the cost and availability of electronics, clothing, household goods and thousands of other items at local brick-and-mortar stores. Taking it live required massive amounts of inventory data and the creation of a new search engine. The need for time-consuming development by skilled computer engineers meant a "decent upfront cost" was unavoidable.

Although a mutual friend had introduced him to Keith Rabois (who had previous successes with the likes of PayPal and YouTube), the investor refused to meet with Abraham for two weeks and then ripped his business plan apart via email. Abraham won't soon forget Rabois telling him, "You'd have a better shot playing for the Dallas Cowboys."

"It's really important to be persistent," says Abraham, who eventually got his meeting. "Never give up when you're going out for capital. I know teams that have pitched 50 investors and been turned down 50 times. They got a 'yes' on the 51st try and never had trouble raising money after that."

His selling points for Milo: 87 percent of U.S. consumers research products online before buying them in-store and "research online/buy offline" is estimated to be a $1 trillion market by year's end. Abraham had an obviously large market that brought with it the potential for large returns.

Jack Abraham, W'08

BILL WADMAN

Nathaniel Turner, W'08

With that in mind, he convinced Rabois to help him build Milo. In his first tranche, he secured $1 million from Rabois and other key venture capitalists, closing as the stock market suffered its worst week in three years. In total, he raised $5 million in the company's three-year history. Once he started taking investors' cash, he left school to concentrate on the venture full time.

Companies like Best Buy flocked to the site, paying commissions. In its first year, Milo went from zero users to a million a month. This year, Abraham expects to have 10 million a month, shopping more than 140 retailers in 50,000 locations.

Turner went after capital earlier, and though investors liked his approach, he found constantly raising money, traveling and haggling over terms to be time consuming. So was managing a company that suddenly had several million dollars in the bank and 20 employees ready to work on Invite Media's many technical challenges. "We had a hundred things we could build," he says. "Where do we start?"

They picked the brain of any would-be investor or advisor.

"We were so passionate about what we were doing and we knew how to make the technology work, even though we didn't know the industry," Turner says. "We had competitors who were in their 30s and 40s who had been in the industry for years. We played the student card. We were young and hungry for it. And every door was opened to us."

In 2008, the team created its signature program, Bid Manager. The technology allows advertisers and agencies to bid on online display ad space across exchanges using the same interface. By February 2009, engineers scaled it up and secured the first customer. Just two years later, Invite Media was coordinating display ads on more than 10 million websites, with reported revenues in the nine figures.

And instead of struggling through the economic downturn, Turner found his company uniquely positioned to take advantage of slimmed-down, targeted advertising budgets. For example, using real-time bidding, a retailer running a display ad campaign for a shoe sale could bid $5 per 1,000 impressions on a particular news website, but specify that it will bid $10 and show an ad for running shoes if it knows that browser has previously visited the athletics part of its website.

"Invite benefited because our clients were trying to become more efficient," Turner says. "We were all about driving action and conversions. We could walk in anywhere and make that point."

BEYOND THE BABY BASICS

That same factor helped diapers.com grow exponentially in the late 2000s.

"We were able to recruit more talented folks to the company and maybe gain more share as others pulled back on advertising," says co-founder Lore. "The economy did hurt us with respect to consumers, but because it was a new market, we were able to maintain growth."

In 2010, about two-thirds of the site's sales were in non-diaper categories. Quidsi added gear including strollers, car seats and cribs in 2009. It was a far cry from the early days,

> "That's the good thing about undergraduates: They're fearless. They don't take no for an answer."

when Lore purchased diapers in bulk from warehouse stores and resold them online to prove that it could work.

Cieri says Lore is part of an Executive MBA applicant pool eager to surround itself with other business leaders and faculty with far-reaching marketing and investment knowledge. As Vice Dean of the San Francisco campus from 2001-2009, Lodish also made it a priority to coach returning students. He calls Lore's initial business plan "one of the most well-crafted I've seen."

Customers, Lore theorized, would pay a slight premium for convenience and great service. Becoming a father of two solidified the idea.

"Seeing my wife having to keep us in stock with diapers and formula and stuff—it wasn't easy for her," he wrote in a 2009 *Inc.* magazine article. "I thought, if we could make this an easy experience for Mom, offer premium service and speedy delivery, we could extend into other high-margin baby products."

His customers became known universally as "Mom," and diapers.com representatives were empowered to meet their needs and address complaints with few constraints. Word of mouth quickly spread, and, along with service codes, drove the business. With more customers, he was able to attract manufacturers including Procter & Gamble, Nestlé and Johnson & Johnson. Then came overnight and two-day shipping, free with a minimum purchase.

Lore, who once headed risk management for London's Sanwa International Bank, put his analytical skills to work. When he wasn't figuring out the most-efficient size boxes to stock or comparing his margins to those of other successful web companies, he was working up monthly projections for investors. It was a method he developed after creating The Pit, an online trading card company, with diapers.com co-founder Vinit Bharara, C'93. The partners sold The Pit to Topps in 2001.

"What we learned the first time around and corrected was that, when it came to projections, we always made projections that we knew we could meet," Lore says. "We would show the VC funds what we were going to do, come back in a year and beat it by 10, 15, 20 percent. That becomes your currency."

In all, Quidsi built $60 million in equity with the likes of Accel Partners, Bessemer Venture Partners and NEA, but Lore says they always "left some money on the table" to ensure solid returns for all of their partners. The product base continued to expand, and then went vertical. Soap.com and Beautybar.com launched in 2010 using the same shipping and service standards.

WHAT NOW?

Today, Quidsi is the nation's fastest-growing e-commerce business and Lore remains on leave from Wharton as he focuses on his company's future.

Quidsi's five-year plan didn't cal for a sale at any particular point, bu Amazon was a logical partner for customer service-oriented Lore. The tw business cultures meshed, and Amazon agreed to allow Lore and Bharara to run their ventures independently This summer, they will roll out yoyo com and another vertical Lore wa unable to disclose, bringing Quidsi's suite of online services to five.

Now that he no longer has to raise equity, Lore spends 90 percen of his time planning one to two years ahead.

"A lot of our discussions revolve around the realm of possibilities, he says. "How can we push the envelope?"

Turner and Abraham, for their part, don't plan to let up now tha they've teamed up with Google and eBay. Each still maintains hi previous role with the company he built.

Turner was looking for a very large company with the resource and "symmetry" to help his own product evolve. "We recognize that we're not going to be Facebook," Turner says of Invite Media "There's going to be a point in this growth in which we're going t need to sell."

A reported acquisition by Omniture was squashed when the we analytics company was bought by Adobe. But then Google cam calling, seeking an ad-services company to complement Doubl Click. After a three-to-four month process, Google announced it purchase of Invite Media on June 3, 2010—three years to the da after Turner incorporated. Terms of the deal were not disclosed but reports put the sale at more than $80 million.

Abraham's goal was to build Milo into a "big, enduring Interne company," like his father had done. But after partnering with othe web businesses—including eBay for six months—he realized how much he could accomplish with the resources of a larger corporation

The resulting purchase, reportedly for $75 million, wasn't th first time Abraham made money through the online auction leade During a computer class at Wharton, Abraham built a program that automatically bought and resold Xbox 360 consoles on eBa Abraham says officials eventually figured out what he was doin and asked him to stop.

The reception was considerably warmer when his company move to eBay's San Jose campus and took over a building once occupie by Skype. As director of Local at eBbay, he's focused on rolling ou Milo-like services for his new employer. He's still coming up with a new business idea every four of five days, but for now he's too bus to think about another start-up.

Turner, though, is thinking back as he thinks ahead. The two me invested in each other's businesses and celebrated their mutua successes with a trip to Mexico.

"Our goal," he says, "is to start the next one together." ■

Thinki

How does one compete in the cruise business? According to Royal Caribbean Chairman and CEO Richard D. Fain, WG'72, it takes a thorough understanding of your customer base, an intense focus on improvement and incredible logistical know-how. But mostly, it takes the willingness to think big.

Really, really big.

BY SAKI KNAFO

ng Big

ON a frigid night in December 2009, the world's largest cruise ship pulled out of the shipyard in Turku, Finland and glided across the Baltic Sea towards its new home in Florida. At 225,000 tons, the *Oasis of the Seas* weighed as much as four *Titanics*. If you could have somehow propped it up on its stern, it would have reached almost all the way to the top of the Empire State Building. Last year, its nearly identical twin sister, the *Allure of the Seas* (which, due to a fluke, is actually five centimeters longer than *Oasis*) made its own inaugural journey. Compared to these two behemoths, the next-largest passenger ship in the world, the 150,000-ton *Queen Mary 2,* suddenly seemed like little more than an oversized ferry.

The *Oasis* and the *Allure* are just two of the 40 ships owned by Royal Caribbean Cruises, Ltd. (NYSE: RCL), a $15 billion dollar cruise giant led by CEO and Chairman, **Richard D. Fain, WG'72**, who has been helping the corporation turn big profits since he started as a director on the Board of Directors in 1979. After a rocky couple of years following the 2008 economic downturn, the tourism industry is finally seeing some growth. And Royal Caribbean Cruises Ltd., in particular, which comprises Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises, Pullmantur, Croisières de France and 50 percent of TUI Cruises, has been on an upswing, reporting a 2010 fourth-quarter profit of $42.7 million, up from a $3.4 million profit for the same period a year before.

The new ships are a big reason why, because in the cruise industry, at least, size does seem to matter. Besides allowing the company to pack in approximately 6,000 paying passengers per voyage, the fantastic proportions of the *Allure* and the *Oasis* mean ever-more entertainments and amenities, including some that have never been seen on a cruise ship before: an "AquaTheater," where synchronized swimmers and acrobatic divers cavort amid arcing jets of water; a "park"—"Central Park," actually—with meandering paths, gardens and lampposts; and, believe it or not, real live trees.

Recently, Fain took some time at his Miami office to chat with *Wharton Magazine* about his strategies for success in the cruise industry, the unique challenges of overseeing a fleet of floating destinations at sea … and his love of arguing.

Wharton: You recently launched a new ship, the *Allure of the Seas.* At 1,200 feet from bow to stern, it's the largest ship in the world. How do you create something like that?

Fain: We started out almost six years ago with the concept of wanting to do something new and different. Oftentimes when you design a new vessel you start with an existing vessel and say, "I want it to be taller or shorter or fatter." Here we decided to start with a blank sheet of paper and said, "What do we want our guests to do? What activities do we want to offer them?" The name of this project was "Project Genesis." The idea was to indicate that this was a fresh start in terms of design. We didn't actually start out intending to build something quite so large. The original concept was to start with, "What is it people want?" You start with blocks of space and say you want all these activities and ask how much space it will require for a particular activity. In addition to offering more internal space for our guests—things like the dining rooms and theaters and the show lounges and all the indoor activities—we wanted to offer more outdoor activities. The whole thesis was to give people more choice. So instead of one large pool deck divided into two we wanted to have a series—one just for families, one just for adults, one just for sports … When we added up all the things we wanted to provide for people to do, it turned out the ship was much bigger than originally expected, as we were also able to provide much more in terms of activities and amenities. And then the ship began to take shape. We brought in world-class architects for what felt like a world-class ship in the making. But probably the most valuable thing was that our people throughout the company really felt that this was 'their' vessel. And so probably the biggest factor was the passion. People throughout the organization came up with ideas and concepts, and that's why we have so many novel ideas on the ship.

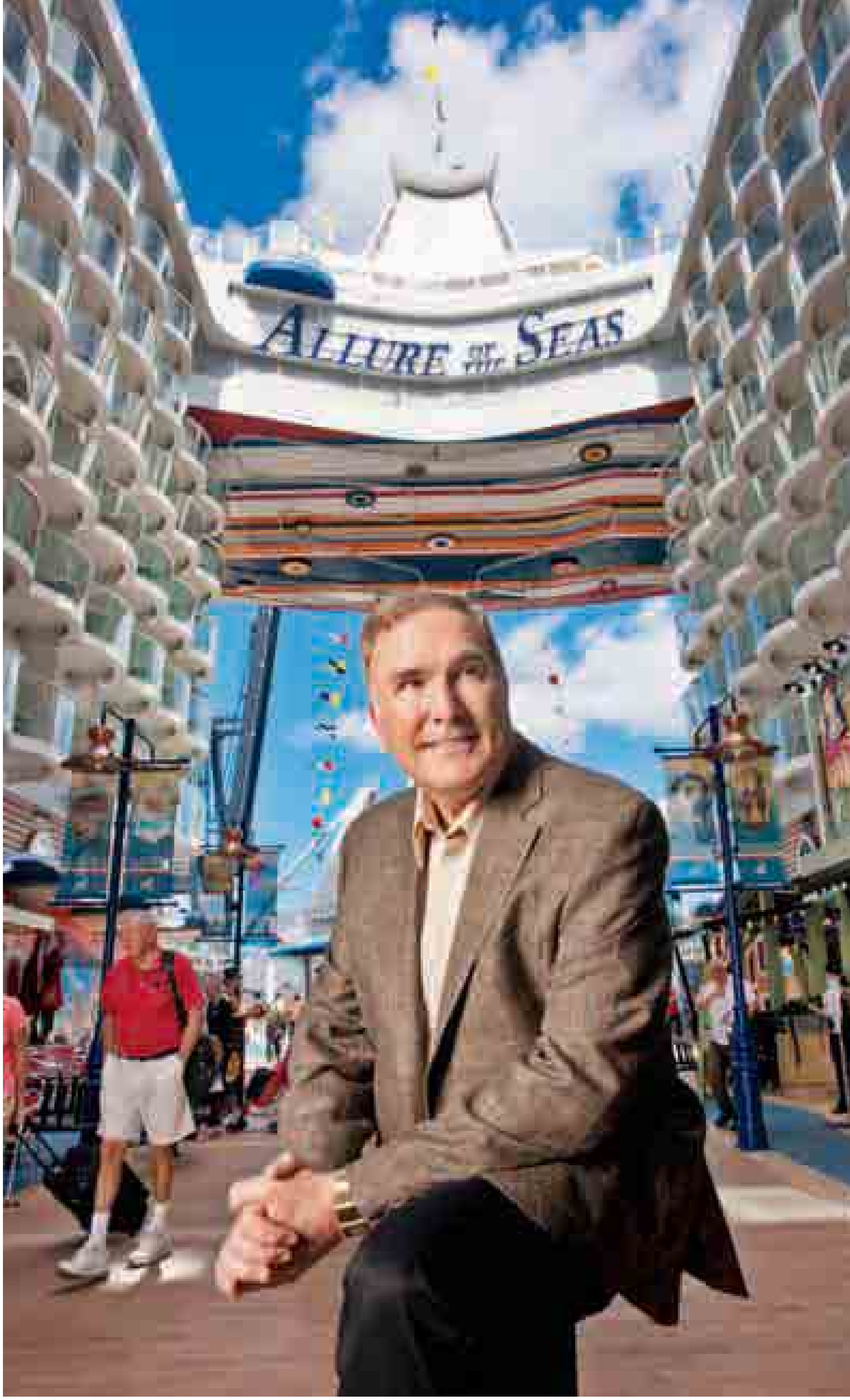
W: Can you tell me about one of those novel ideas?

F: I'll take one, which is the AquaTheater at the stern of the vessel. Someone came and said, 'What if we open up the stern?' Technology was also an enabler here. Historically, it's been very common that you put air conditioners at the core of the ship, and this is always a point of serendipity. One of the things we set out to do was make the ship as environmentally sound as we know how and one of the ideas that was put forward technologically to make that true was to replace centralized air-conditioner rooms with distributed air-conditioners. So instead of one larger air-conditioning space that sends the heated or cooled air through the ducts throughout the ship you'd have a lot more smaller, individual units, which are more energy efficient because you don't have the energy loss of transporting the treated air through all that ductwork. But it also freed up the central core in the middle of the ship. That's usually space that's hard to use but by opening it up we were able to open it not only for "Central Park" but also for the Boardwalk leading out to the AquaTheater, so that gave us an opportunity to have a large space for people to enjoy an outdoor activity. We already had a pool and sports space so the idea came to do an AquaTheater.

W: Can you give me a sense of the costs involved?

F: The ship costs close to one and a half billion dollars.

"Every Saturday, 6,000 people will disembark and go home with great memories, and 6,000 new guests will come and start a vacation of their lifetime. And that's quite a logistical feat."



W: And that's just the ship itself, right?

F: Right.

W: It must be incredibly expensive to operate something like this. I mean, I heard that you hired Taylor Swift the other night. How much does it cost to get one of the world's biggest pop stars to perform for one night?

F: What we want to do is offer our guests an unprecedented level of entertainment and activities so, like you say, we have Taylor Swift, we have a partnership with DreamWorks, we have a Starbucks on board, so there are a lot of other costs associated with that. There are a lot of costs you wouldn't even think of. We didn't want any lines on board—no queues at all. And we actually concluded that if we did have any lines, even if those lines were shorter than they were on comparable ships, people would attribute the lines to the size of the vessel—that's a common misperception. Just for example, it normally takes between 40 minutes to an hour-and-a-quarter to go through all the boarding processes to get on board a cruise ship. We set ourselves a goal of being able to do it in 15 minutes from curbside to being on board a ship. That's simply an unheard of standard. We needed a facility to make that possible and so, working with Port Everglades, they built a terminal—Terminal 18—and the terminal itself and the technology they used to make it effective have cut it down so we are consistently beating the standard by 15 minutes. So there are other costs associated with that. Similarly, when we go to Jamaica there are two very nice ports but we wanted to take it to another level. There was an undeveloped port situated halfway between the other ports in Jamaica, so we've worked with the authorities there to make that into a destination. We've had to build a pier and an entire infrastructure. Again, these projects are tens of millions of dollars and they all support the ship.

W: These are the costs of running a small city.

"I love to argue. Things come out of the woodwork when you argue about them."

F: It has a lot in common with running a small city. We generate our own electricity, make our own water. We have a crew of 2,200 people to make the bread, cook the meals. ... So it's a major city. It's a major operation. And every Saturday, 6,000 people will disembark and go home with great memories and 6,000 new guests will come and start a vacation of their lifetime and that's quite a logistical feat.

W: Can you tell me about the ups and downs of the business? I know your earnings were up the last quarter, but it's obviously been a rocky few years.

F: The last decade is an exciting time to be in any business and the tourism business has had more than its share of interesting challenges. Basically the business model is that we give a vacation that people really enjoy at a reasonable price. So the all-in costs of taking a cruise with us is actually less than the costs for taking a comparable vacation on land or lower, but the satisfaction is higher—in surveys people say that they prefer our cruises. If you go on a tour package or go to a resort or go to Disney World, and if you look at the all-in costs—people often just look at the airfare—it's just as expensive. If you look at a cruise, it includes your transportation between countries, within countries, between islands, it includes your entertainment, and it includes your food. However, if you look at land vacations you're paying for everything separately. The business is doing well but we had two major hits over the past decade. The first of course was 9/11, which was pretty devastating across the board in the tourism industry. But I think while we suffered the fact that we didn't suffer so badly shows how resilient the industry is. And then of course right when we were coming into our own after 9/11 we had the Lehman Brothers collapse and everything associated with that. That was a big hit for us. We're recovering from that and although we're still not back to our previous yields before the collapse we're looking at profitability that will be the best in our company's history.

W: How do you account for that?

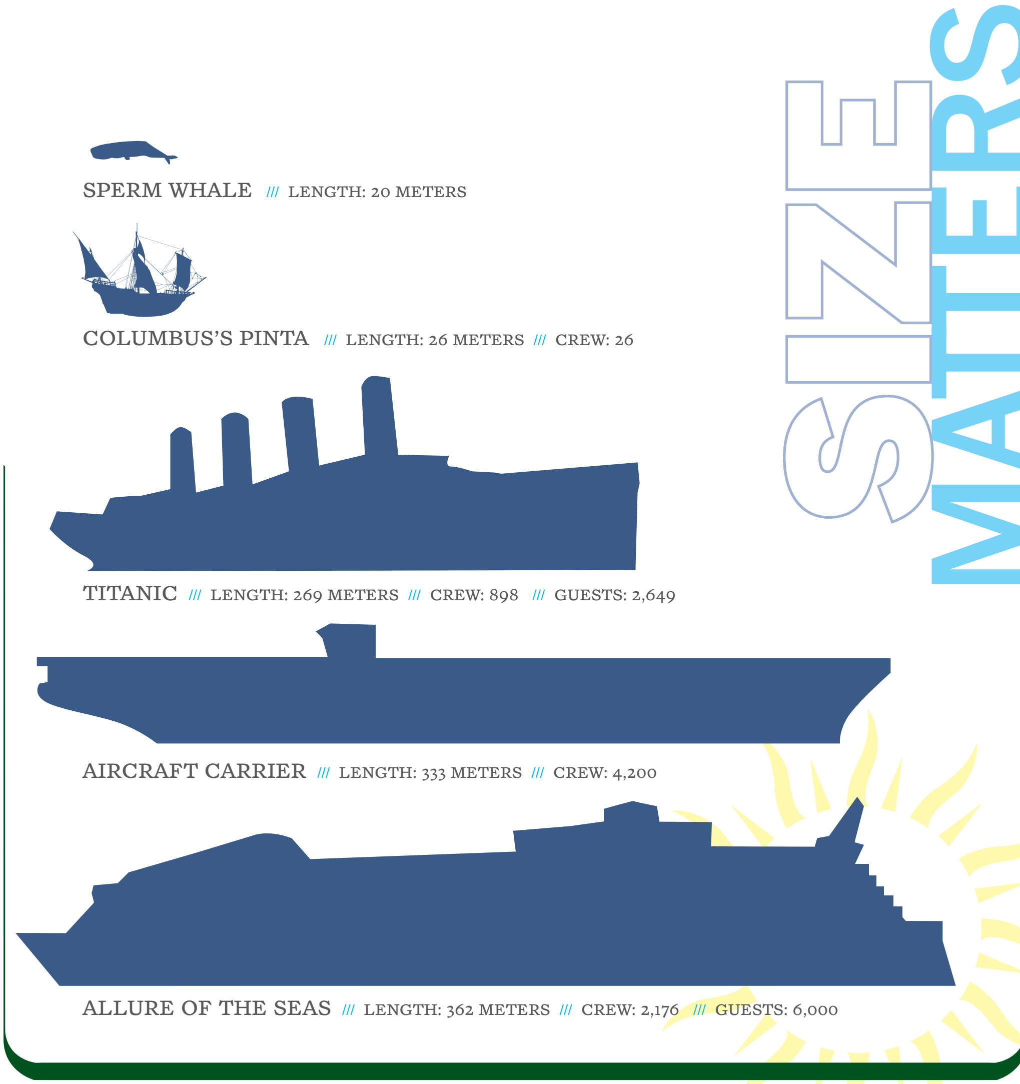
F: I think it's the strength of the business model. Our brands are doing well in spite of the economic situation. We've worked hard to manage our costs. The new ships are very powerful drivers. Because of their amenities they generate higher revenues. When you offer people all the beauty and the choices that we do people tend to pay more for that. There's an economy of scale for having a larger vessel, so the fuel costs of a larger vessel—and I've already talked about the environmental efforts we've made—a larger vessel is more energy efficient. It also reduces our energy costs. You have the same navigational team as you would on a small ship. If you're baking 50 percent more loaves of bread it doesn't cost 50 percent more to do that.

W: What do you mean by your brands doing well?

F: We offer six brands and the key to any consumer business is to have a brand people recognize and trust. When you're considering a vacation you're thinking, I can do that with this company or that company, and if one company has a reputation for delivering consistent quality at a reasonable price, that's your brand. We've worked hard to make sure that each of our brands is at the top of the competitive set.

W: How do you do that?

F: I think the most important thing is the crew. For us, historically, the crew has been the thing that most people enjoy the most. They produce a wonderful vacation with an enthusiasm that I am in awe of, so people come off of the cruise and say they had the time of their life.



W: What is the competition like in the cruise space?

F: It's a highly competitive industry. Tourism is something that people care intensely about. People take vacations because their time is so valuable and they value their time and experience highly, so they're careful about it. I'm pleased to say the industry has not succumbed to the problems that some other industries have—to competing primarily on price and to homogenizing the product. So the different cruise brands are well understood. Each has its own characteristics and appeals to its own set of customers. And we compete heavily on the attributes, activities and amenities that we offer. Obviously, in addition, pricing is an important component to that, but I'm happy to say it isn't the primary component.

W: How does Royal Caribbean position itself?

F: There are six different brands, based on nationality, based on age and income. We position ourselves based on pyschographics, so for example the Royal Caribbean International brand tends to be for more active cruisers, oftentimes with families. Celebrity Cruises targets the affluent vacationer, the wine enthusiast, the foodies, while Azamara Cruises gives destination immersions, staying overnight in most ports. The TUI Cruises brand appeals almost exclusively to German customers. Pullmantur is a three-star brand operating mostly for Spanish guests and South American guests, and if you go on Pullmantur you have to like paella and the first dinner seating starts at midnight. If you went on Pullmantur ships out of Brazil I think you can expect to be dancing until quite late at night. If you're on Croisières de France you'd better speak French and you'd better like French cooking. So I think the important thing is we try to appeal to our different market segments.

Obviously, we've grown and we've added new brands as we've expanded, so we've grown internally—generating growth by building and adding new ships. And we've grown by building and buying new brands. Azamara Club Cruises and TUI Cruises are two of the newer brands within in our family, but the overall Royal brand is celebrating its 40th anniversary.

W: How else has the company changed over the years?

F: One of the things that we've been very pleased about is the increased concentration on using technology and innovation to make our cruises more interesting and better for the guests. So we've made it easier to book the cruise and offer experiences that you couldn't otherwise get, but also, at the same time we've reduced the ages. The average age of a Royal Caribbean International cruise guest last year was 44 years old. On average that's a 10-year drop from where it was 10 years ago. That's a huge change. Good marketing has helped communicate a brand that has a clear personality and experiences that our guests want.

W: Why are you proud of lowering the age?

F: I think we're proud of it because we do it well. I think you can appeal to any market segment. What's important is that, you be true to that marketing vision. We set out to be at the top end of our competitive sets in terms of quality and pricing—we actually set out to appeal to a slightly different demographic—and, yes, they tend to be younger.

W: What are the metrics you use to measure success, beside market share?

F: In the end, the measure of success is profitability. And we use a lot of other metrics in making sure that we're addressing the right market and serving the right market properly. That includes guest satisfaction, guest relations with the brand which includes employee involvement. We're also very focused on "things that go bump in the night"—safety, security, environmental protection, etc. All those things hopefully come together and produce good financial results and that's what they've seen. We measure guest satisfaction, mostly through surveys, but also through repeat rates, etc. Profitability is obvious. For safety, security and environment you tend to measure actual incidences and their severity.

The Allure of the Seas features not only a full-sized amphitheater (above), but also beautifully manicured gardens (left).

W: Change of pace here. You did your undergraduate work at Berkeley. How did you end up at Wharton?

F: I actually went relatively quickly from undergraduate to graduate. In between I did a stint at Wells Fargo Bank—operations research—and then I joined the National Guard and did basic training. And then came to Wharton.

W: Why?

F: There had never been a doubt in my mind that I wanted my career in business and I'd heard so much about Wharton. My undergraduate work was in economics, which was very fine on the theoretical basics and I'm glad I had that, but there was very little practical application of anything I studied. I felt from an early stage that business had a great deal of ability to accomplish things, and you had a clear understanding of what you were trying to accomplish. I also felt it was a meritocracy, and so it evolved over time.

W: Looking back on your days at Wharton, do any classes stand out as particularly memorable or valuable for you?

F: I think the real value I got from it was not so much the specific learnings, though I do remember being forced to learn calculus and hating every moment of it, but I think it did teach me to be constantly questioning. I think one of the things that is consistent between my experience at Wharton and the culture here at Royal Caribbean is a constant striving for improvement. Our mantra here is "continuous improvement." I think one of the things I liked at Wharton was that there was constant questioning, and here I like the fact that people are constantly striving to outdo themselves.

W: How do you encourage that?

F: I wish I knew. I think it starts with people who are passionate about what they do. I think you have to enjoy what you do to do it well. Again, when I was at Wharton people really seemed to care about trying to do better. And I think here we've been fortunate enough to have very good people whose biggest critics are themselves. So I think it starts with the right people and I was fortunate enough to find here a culture that welcomes debate. I love to argue and it's a wonderful thing. Things come out of the woodwork when you argue about them.

W: Like what?

F: On one of our earlier ships we had a space we were looking to add more activity to, and we asked a team to go out and bring us some possible things we could do with that space. And they came back with a set of four choices. I looked at them and all four were really silly and I thought all four were terrible. We argued about it at length but they really pressed for one idea, which was a rock climbing wall. And I really thought that was a dumb idea. But there were very strong arguments for it. They came and brought evidence of the growth of interest in rock climbing throughout the country. They showed how it could be done. Their arguments forced them to refine both their idea and how it would work. We did put it on the ship. It turned out to be amazingly popular. We now have rock climbing walls on all of our ships, and now as we look back I'm convinced it was one of the better ideas we've ever had.

W: How do you encourage argument without dismissing ideas before they have a chance to evolve, or creating an environment where people feel discouraged?

F: I think arguing is one of the best ways to refine ideas. But I don't think many people with open minds leave an argument without some change in their own view. The purpose of argument is often just to convince, but I think the result is that you learn something about your own position as well as someone else's position when you argue it through. Also, if you know you're going to argue something, you tend to be more careful in your calculations. You don't just assume things. You do the research to make sure that your intuitive feeling is supported by empirical evidence. Most of us here—and I'm lucky enough to work among people who enjoy that process—find it invigorating. And I would say probably most of the time the argument serves to reconfirm one's starting positions. But oftentimes the argumentation ends up as an eye-opening experience, and we all say, "Wow, I never thought about it in those terms and now I get to think about it in a different perspective." There's no question it's more demanding, but most of the people enjoy that challenge. ■

A golden OPPORTUNITY

Wharton has spent 10 successful years in San Francisco. But even as the School celebrates a great decade on the West Coast, Wharton | *San Francisco* Vice Dean Doug Collom is looking to the future—and seeking ever more ways of building the School into a West Coast powerhouse. BY TIM HYLAND

10th Anniversary
WHARTON
San Francisco

The past 10 years have been eventful ones for Wharton | *San Francisco*, the Wharton School's home base on the West Coast. In its first decade of existence, the campus has seen the average size of its enrolling classes nearly double. It has become home to such signature Wharton initiatives as the Entrepreneur-in-Residence Program and **Prof. Karl Ulrich's** cutting-edge modular courses. It has built strategically important relationships with West Coast companies across numerous sectors—entertainment, technology, aerospace and others—and it has welcomed such dignified Commencement speakers as Jon M. Huntsman, Jr., C'87, and Paul S. Otellini.


Doug Collom

In other words, it's been a pretty good 10 years.

Doug Collom hopes the next 10 will be even better.

Collom, who has served as Vice Dean of Wharton | *San Francisco* for the past two years, believes the campus is on the verge of a breakthrough—one that will ultimately make it a major player in business education not only in the Bay Area, but for the entire West Coast, from Seattle to Phoenix.

What is going on at Wharton | *San Francisco*?

We have numerous initiatives aimed at bolstering the campus' presence on the West Coast, strengthening relationships with companies in the region and generally creating a better sense of place. That last task, at least, will be made easier next year, when the School will make its much-anticipated move into the stunning Hills Plaza building, which may one day be recognized as the Huntsman Hall of the West Coast.

You are moving into your new home next year. How important will Hills Plaza be for your campus?

You have to see it. First of all, it's a big improvement in terms of space—from 25,000 square feet at our old site to 33,000 at Hills Plaza. That's more than a 30 percent increase, and we need that for our growth plans. From a design perspective, we've got an internationally renowned architect designing the space. We'll have killer views. Everything will be state of the art. It will just be a wonderful venue, and to my thinking, one that's on par with the elegance and stature of Huntsman Hall. When you walk into Huntsman Hall, you think to yourself, 'Now, this is a serious institution.' When you walk into Hills Plaza, with its prominent signage for the Wharton School on one of the biggest streets in San Francisco, you'll get the same sense.

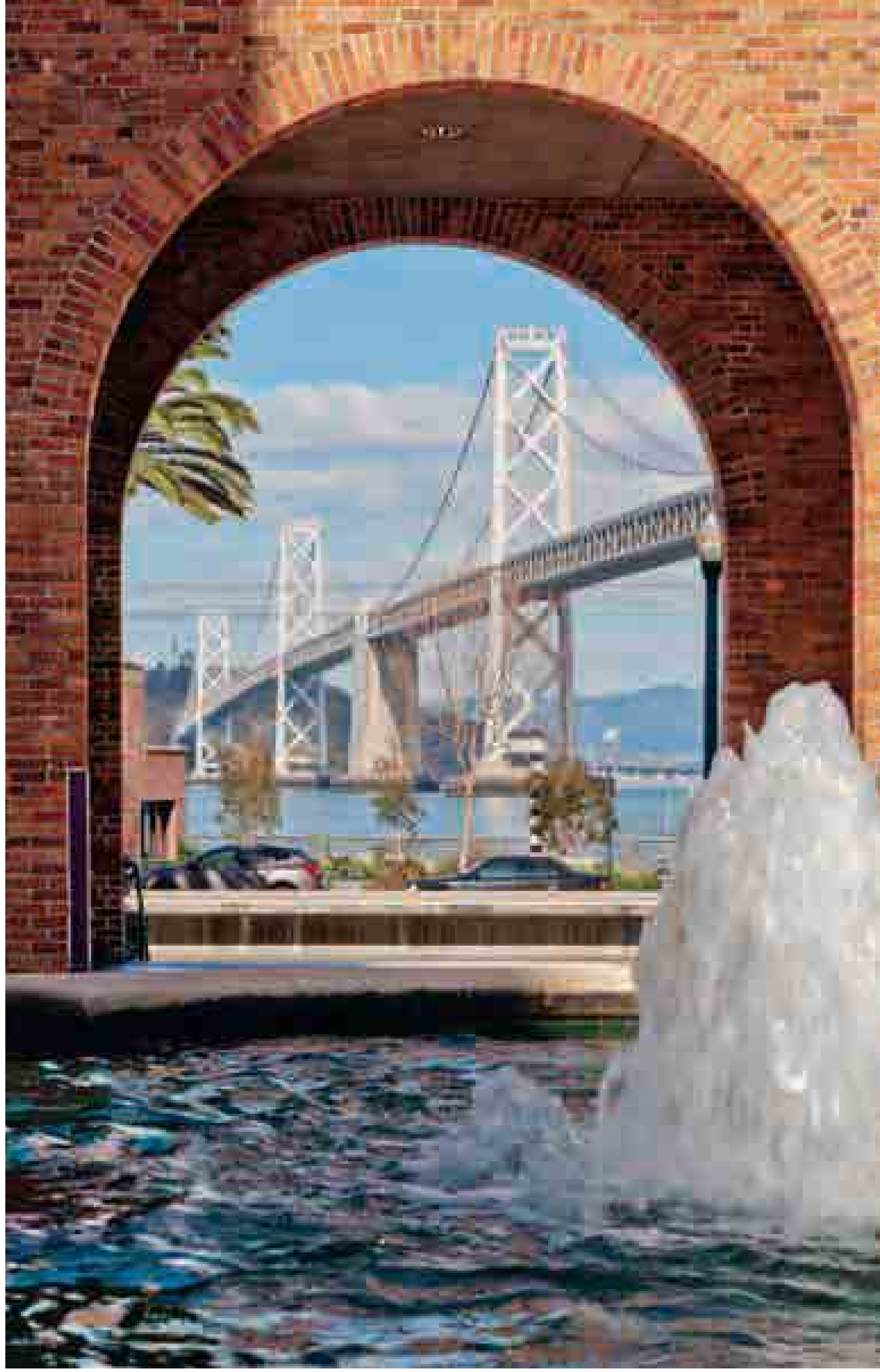
What is your main strategic focus right now?

We're expanding the suite of services and activities on the campus to include more companies from the area and more outreach activities, and that includes increasing our focus on executive education on the West Coast, while at the same time continuing to use the MBA as the cornerstone of the operation. What's going on now is, really, a full-court press to expand the executive education program and to get it going in San Francisco and the West Coast in general.

How are you working to improve the visibility of Wharton | *San Francisco* out on the West Coast?

We're doing a lot right now. Over the past two years, we've done about 15 or 20 events, bringing in the local business community, and they've all been sellouts. We have no problem getting people onto the campus. We do workshops for entrepreneurs, and we've got an active program to expand our relationships with business, and have contacted 60-80 companies through the alumni we know. We're also focused on redefining our relationships with the local media and the local business press. We're making some progress, but more needs to be done.

“We’re at ground zero of Silicon Valley, renowned as one of the most important centers for innovation in the world.”



How do you sell Wharton | *San Francisco* to prospective students?

First and foremost, we ask ourselves, ‘Why would somebody want to go to school here?’ And, really, there are a lot of reasons. One is that it’s absolutely a way for them to advance their careers. Wharton is recognized as a top school throughout the world. We’re the only Ivy League school on the West Coast, and there are a lot of Ivy League alumni who live out here, so we are desirable to them. Also, our program is very immersive. Our students go to class together, study together, stay in hotels together. They get to experience a lot of bonding while in this program. We believe that this is the single hardest MBA program for executives to get into, anywhere.

You’ve been there two years. How has the adjustment been for you? And what are some of your achievements so far?

I feel like I just navigated my way through the first year, learning about the institution, and I do think we’ve had our successes. The successes we’ve had in outreach have been enormous, and I take personal pride in some of the various speakers and events. We’re pushing for more collaboration. We’re going to expand our presence in Southern California. Everything we do here is to create a platform or a center for campus life.

How much collaboration exists between the Philadelphia and San Francisco campuses?

There is a great strategic tailwind coming from Philadelphia to make sure that Wharton | *San Francisco* is a success, and that it rises to a level of parity with the Philadelphia campus. I’ve been very impressed with the degree of support and encouragement and we’re seeing more and more of it. More faculty are coming out here to work with different industries, and we’re seeing a lot more interconnectedness between the coasts in general.

Though your campus is part of the Wharton School, it is located in a much different market, business-wise. Do you take that into account when planning your programming?

On the West Coast, of course, technology is the dominant sector. We’re at ground zero of Silicon Valley, renowned as one of the most important centers for innovation in the world. That’s one substantial difference, and it leads to a second difference, which is this: I think there’s a much different expectation about jobs on the West Coast. People redefine themselves and change careers much more frequently, so we need to take that into consideration. We definitely believe that our outlook includes investment banks, consulting and also technology, health care and the Southern California aerospace industry. It's about the entertainment industry. It's about biotech as well. We have to play to a very diverse audience.

Looking ahead for a moment, where would you like to see Wharton | *San Francisco* in five years? Or 10 years?

I'd like to be able to walk down the street in San Diego, ask somebody if they know about Wharton | *San Francisco* and have them say, "Yes, I've heard a lot about it, actually." That's key—to have succeeded in having a strong presence and brand. And I really think everything else is a subset beyond that. We'd definitely like to develop new activities and programs and reach into new geographic areas. We need to establish more of a presence in Seattle and the Pacific Northwest. I would like to see more faculty out there on possibly a rotational basis, or as temporary residents, with them staying here for a period of six months to a year. I think we could leverage that in pretty amazing ways. For instance, as part of that kind of established faculty presence, I'd like to see Wharton | *San Francisco* recognized as a leader in the West Coast technology sector.

I think we can make a real impact in the business community out here. ■

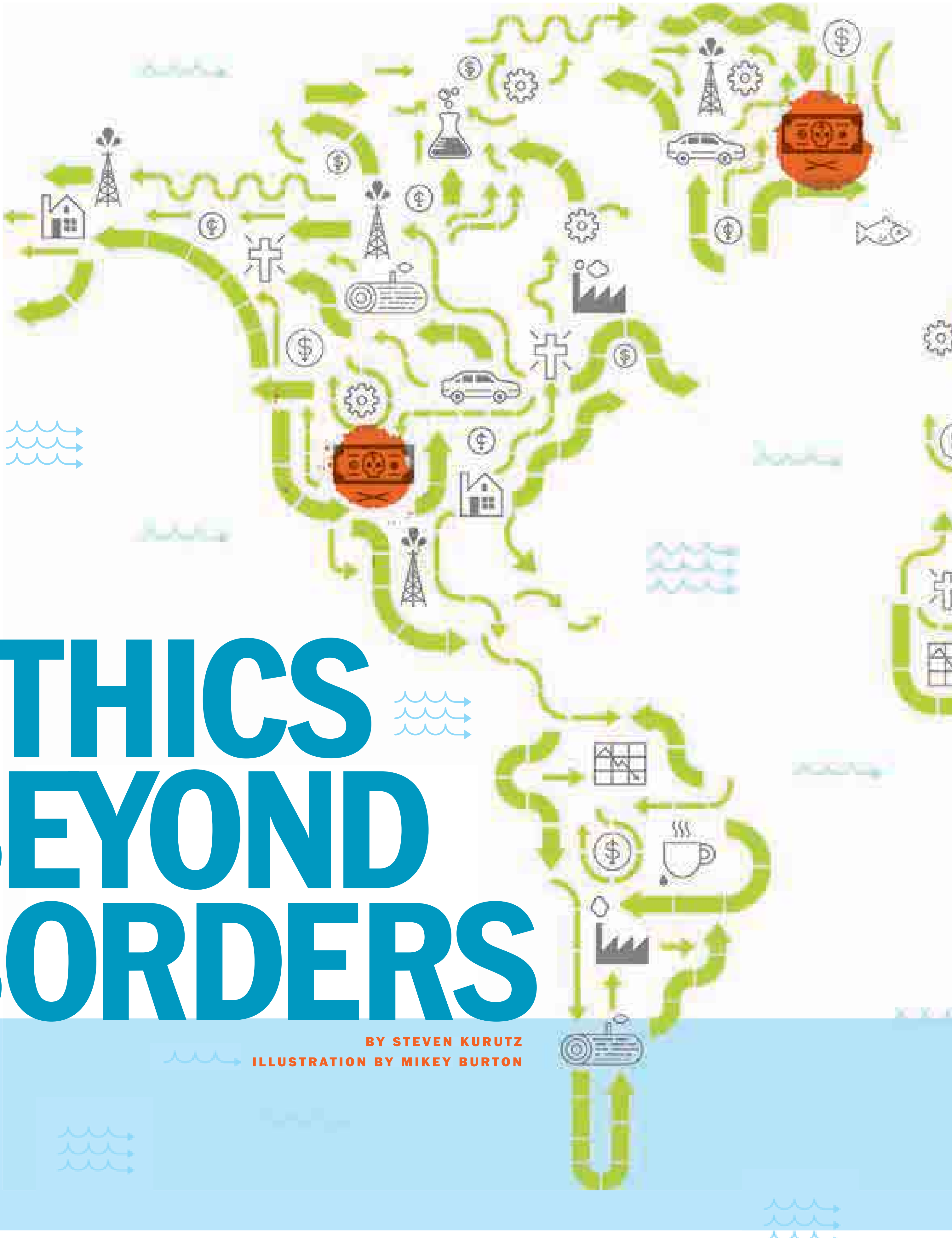
The Wharton Global Alumni Forum

SAN FRANCISCO - June 23-24, 2011

Wharton will host its 2011 forum in San Francisco, which coincides with the 10th anniversary of the establishment of Wharton | *San Francisco*, the School's West Coast campus.

All Wharton alumni are welcome and encouraged to attend this historic Forum. Forum speakers will hail from North America, South America, Europe, the Middle East and Africa, and Asia, toward the goal of showcasing the views of a broad cross-section of those who are working toward positive change in the world.

For more information, visit **www.whartonsanfrancisco11.com**



ETHICS BEYOND BORDERS

BY STEVEN KURUTZ
ILLUSTRATION BY MIKEY BURTON

Globalization, technology and the integration of markets have created a frightening new frontier in the realm of business ethics: An ethical lapse in Arizona can now contribute to disaster in Ireland. So how can we build a new ethical code for a fast-changing world? Experts at Wharton and elsewhere are working to answer that very question.

For many years, visitors to the Carol and Lawrence Zicklin Center for Business Ethics Research at the Wharton School were greeted by icons of corporate scandals: large office signs from WorldCom, Arthur Andersen and Enron. Installed by Professor **William Laufer,** the Julian Aresty Professor of Legal Studies and Business Ethics, Sociology and Criminology, who served as the Center's director from 2000 until last year, the signs were reminders of how compliance and governance failures (or many of them, repeatedly) can precipitate the fall of even the most porfitable and prominent coporations. The signs are tucked neatly away in Prof. Laufer's office now, but the subprime mortgage meltdown, and the resulting global financial crisis, have created plenty of replacement candidates—AIG's blue box logo, say, or Countrywide's tiny pastel house.

The financial crisis has precipitated all sorts of structural redecorating—on Wall Street, in Washington, DC, inside the homes and minds of average Americans. Given the accounting scandals, reckless lending practices and terrible risk management during the bubble years, along with the wide-reaching consequences those unethical actions have wrought, it seems likely the crisis will also influence the teaching of business ethics. At Wharton, for instance, as part of the School's sweeping changes to its MBA curriculum, the Department of Legal Studies and Business Ethics is getting a fine-tuning. The law and ethics classes, each six sessions and currently taught separately, will be combined into one 12-session course beginning in the fall of 2014. According to **G. Richard Shell,** the Thomas Gerrity Professor of Legal Studies and Business Ethics and Management, the curriculum overhaul was already underway when the financial crisis hit, but he says the meltdown "certainly informed our thinking." The course integration especially made sense in light of recent legislation like the Dodd–Frank Wall Street Reform and Consumer Protection Act, the single biggest overhaul to financial regulation since the Great Depression. "The fact that we have periodic scandals, and more government regulation, just underscored combining law with ethics," Shell explains. "The two things are related; in many cases, legal rules take their foundations from ethical norms." At the moment, he says, the department's professors are in the process of creating the integrated course. "We're identifying subjects, legal or ethical, that each of us has a passion about and we'll present that to each other over the next six months. We're pooling our intellectual capital."

"We're all blaming the banks and the financial services industry for overly risky behavior, but individuals perpetrated this behavior. We can't just blame institutions."

Thomas Donaldson, the Mark O. Winkelman Professor of Legal Studies and Business Ethics and the current director of the Zicklin Center, says the two courses hadn't previously been combined largely because "in the academy we balkanize ourselves," creating separate disciplines with territory-specific journals. He notes, wryly, "The world doesn't listen to the journal editors so much." A lack of knowledge in either law or ethics, he says, hinders a student's ability to understand an issue. "If you're looking at a question like insider trading, some big ethical questions arise out of how you define it," Donaldson says. "If you don't know what the laws are in the U.S. or Switzerland, it's hard to get deep into the subject."

More topical issues have also arisen out of the financial crisis, like executive compensation and bonuses. In many cases during the subprime era, bankers were rewarded with bonuses for concluding a deal that appeared to have present value to the company but posed long-term financial or reputational risk—the so-called pay-for-peril phenomenon. The practice was likely one of the workforce pressures that pushed employees into making unethical decisions. "I can't teach a course in business ethics after the crisis without addressing pay-for-peril," Donaldson says. Speaking more broadly of the influence the crisis has had on his classroom, Donaldson adds, "I don't know of anyone teaching at Wharton who hasn't changed to some extent."

For **Diana Robertson,** Wharton's Joseph Kolodny Professor of Social Responsibility in Business, one of those changes has been a greater emphasis placed on risk management. "We're all blaming the banks and the financial services industry for overly risky behavior," Robertson says, "but individuals perpetrated this behavior; we can't just blame institutions." Ethics courses have always emphasized critical thinking, Robertson says, but, "I'm trying to get the students to understand the level of risk involved in various decisions they make and recognize when an issue is crossing a line and becomes unethical. There's much more of an emphasis on risk than in the past."

Judy Samuelson manages the Business and Society Program at the Aspen Institute, which every two years issues "Beyond Grey Pinstripes," a report that measures how business schools prepare MBAs for social, ethical and environmental stewardship. According to Samuelson, there was a big uptick in the interest in business ethics post-Enron that has deepened with the current crisis. Still, she says, "students exit business schools thinking more like profit maximizers than when they come in. If you enter as a consumer and exit thinking about shareholder value—externalize costs, discount the future—you can teach ethics until the cows come home but you're running against the grain." The subprime crisis, however, may provide an opportunity for business schools to instill social responsibility across the entire curriculum and curb what Samuelson calls "short-termism."

Samuelson also believes the conversation surrounding ethics is deeper now. “After Enron, it was, ‘Why did they let the Jeff Skillings of the world into Enron?’” she says. “It’s not just about getting the bad apples out now. People are more willing to say we had a global meltdown here. We’re looking at big questions: executive compensation; regulation; too big to fail; the role of influence peddling in Washington. It’s also raising interesting questions about the purpose of the firm. Is the purpose of the firm what Milton Friedman said: shareholder primacy? I think you’re starting to see a much broader interest in the purpose of corporations. Is it societal as opposed to financial?” Samuelson says the global recession may be “the Rahm Emanuel moment” for ethics leaders to reshape how society views the role and responsibility of corporations.

On a more practical level, the financial crisis is also adding to the roster of case studies that ethics professors use with students—classic examples of behavior both bad (Enron, WorldCom) and good (Johnson & Johnson’s handling of the 1980s’ Tylenol recall). **Nien-hê Hsieh**, Associate Professor of Legal Studies and Business Ethics at Wharton, says he’s lately been discussing the Goldman Sachs Abacus case in his classes. In the mid-2000s, the investment bank created collateralized debt obligations, sold them to investors and bet short against those CDOs. Hsieh says: “It’s part of the general question of what are the responsibilities of investment banks and financial services in general—to their clients, to their shareholders—and how do we think about the role of financial services in the broader economy.” Debating the Abacus case, he adds, allows students to think about their role as future business leaders in the economy and society.

Donaldson says that whenever he cites the Abacus case in class, or the BP spill or the fall of Lehman Brothers, “I have everyone’s attention.” Students perk up when he raises questions about pay and bonuses, too, as well as the ways in which industries are lulled into negative practices, like bundling toxic mortgages. “When I taught the MBA class, which finished a few weeks ago, five of the six classes dealt with ethics issues that had been significant in the last five years.”

The classroom changes, post-crash, aren’t just happening at Wharton. Patricia Werhane, Wicklander Chair of Business Ethics and Executive Director of the Institute for Business and Professional Ethics at DePaul University, says that her department changed the syllabus during the 2008 school year to reflect the subprime crash. “When we have something that’s very timely and happening as we’re teaching, we go right to the source,” she says. “We ask students to look at Countrywide or Bear Stearns, analyze what they did and didn’t do. There are lots of lessons to be learned from looking at those cases,” like proper risk management and the way in which a firm’s rewards systems may promote unethical behavior.

Even the Bernie Madoff case provides a learning opportunity. “A lot of business ethics teaching asks, ‘Is this the right thing to do or not?’” says Hsieh. “In Bernie Madoff’s case, you could argue that it’s clear cut. I would love to hear the student try to make the case that there’s nothing wrong with what he did. But I think it’s useful for two reasons: It’s helpful to see there are clear-cut wrongs. It’s not always grey. And I think the other reason is that it raises questions about what responsibilities investors have. Challenging the mentality of, ‘Things are going right, [so] I’m not going to question it.’” Or, as Werhane succinctly puts it: “If you’re getting a flat 15 percent return every year, that’s impossible.” She adds: “The lesson there is find out where your money is going. To me, the sad part about Madoff is that he took advantage of his friends. He undermined our trust even in each other. It’ll be a long time before I give money to the people I play golf with—and I play golf.”

Madoff is a figure that stands out in the global financial crisis because he’s one of the few offenders the public can name. Unlike corporate scandals of the past—the fall of Enron, say, or the Savings and Loan defrauding in the 1980s—there have been few courtroom scenes this time around or handcuffed executives sent off to jail. The subprime crash was fueled by behavior that may not have been illegal, but was ethically suspect. “The leaders of some financial institutions engaged in decision making that perhaps did not fully give credibility to what the potential operational and reputational risks might be to the firm,” says Dean Krehmeyer, Executive Director of the Business Roundtable Institute for Corporate Ethics, a partnership between the Business Roundtable and faculty from top business schools that studies business practices in regards to ethical decision making. “That’s different than an Enron, where you can clearly see fraudulent activity.” In some respects, helping students learn to make the right decisions within the grey space has always been a key part of teaching business ethics. (“If it was simply a matter of legality, that would be the easiest course I’d teach,” says Werhane. “Just don’t break the law.”) But the lack of identifiable villains from the financial crisis is indicative of the increasing complexity of the global financial system. “In the case of Enron you could say there were a few bad apples and that led to why bad things happened,” says Hsieh. “Here, it’s not really a bad apple theory, unless you point to Bernie Madoff. For the most part, people were doing what everyone else was doing. That makes a very diffuse response and very complex and difficult to talk about.”

Still, Krehmeyer says, the subprime crisis has provided business schools with “an opportunity to train future leaders to face the complex decisions that will occur during their careers, so they can make decisions that truly create long-term value.”

“To me, the sad part about Madoff is that he took advantage of his friends. He undermined our trust even in each other. It’ll be a long time before I give money to the people I play golf with—and I play golf.”

The Enron sign in the Zicklin conference room was a visual reminder of something else about ethical scandals: their cyclical nature. "In the 25 years I've been teaching, there's been a crisis every half decade," says Tim Fort, the Lindner-Gambal Professor of Business Ethics at George Washington University's School of Business. "The subprime crisis. Enron before that. Drexel Burnham before that. The Lockheed bribery scandals before that." Several people interviewed for this story underscored that the subprime crisis isn't the first business ethics scandal, nor will it be the last. Fort says that while "students love it when what they're learning is in the *Wall Street Journal*," he hasn't been analyzing any Lehman case studies in class. "There are ethics lessons in the whole shakeout—perennial ethical issues of greed and lax regulation—but on the particulars I'm withholding judgment," he says. "I tend to wait until some of the facts settle out, though I think we're probably getting there."

Richard Shell expressed a similar view. "I followed the current crisis and I'm not completely clear what caused it to metastasize the way it did," he says. "Bubbles are not unethical. Bubbles are just capitalism. I think the sounding bell that's different in this case is not so much the level of unethical behavior but the integration of the global market. I never coded it myself as some extraordinarily new form of ethical lapse."

But there is something that feels different about the subprime scandal—its global impact. The mortgage broker in Arizona who knowingly issued home loans that couldn't be paid back and the Wall Street banker selling toxic mortgage-backed securities both helped to cause the economic collapse of European countries an ocean away. "In a global economy, these crises can become increasingly widespread, compared to prior crisis," Krehmeyer says. "While it's terrible what happened to the Enron shareholders, for those of us who weren't Enron shareholders or living in Houston, TX, the impact was not as traumatic." Along with other Wharton faculty, Diana Robertson attended the World Economic Forum in Davos, Switzerland this year, and recalled hearing a comment about the pervasive damage caused by a few institutions. "Nicholas Sarkozy was talking about regulation, and Jamie Dimon of JPMorgan Chase said we don't need more regulation, we need jobs," Robertson recalls. "Then Sarkozy comes back and says, 'Let's not forget this crisis started with the failure of a U.S. bank.'"

Every person interviewed for this article spoke of the ways in which globalism is making business ethics more complicated—from the interconnectedness of global markets to how the Internet can expose the smallest wrongdoing ("You can take a cell phone picture and it goes worldwide in 10 minutes," Fort says) to figuring out how to do business in a multicultural global environment. "Companies are moving into new countries, cultures, religions," says Werhane. "How do you deal in those markets? Or do you just not go in?" For instance, in some countries it may be the custom to pay small amounts of money to get goods through customs or make contributions to the government when bidding for a project. As Donaldson puts it, "To what extent can we say, 'When in Rome, do as the Romans do?'"

One case study that's become a modern classic of globalism is Google in China, in which the tech company made attempts to expand its search engine into the communist country but was required by the government to censor information. Says Donaldson: "If Google is asked to redirect users who type 'Tiananmen Square' to a government propaganda website, how is Google to face that situation? Certainly it's the law in China that you have to censor searches. Do you not obey the laws in the localities you're in? Or do you say no, as Google eventually did?"

It's worth noting that many of the issues surrounding globalism have been cropping up in domestic business situations for decades. "Bribes are standard operating procedure" in a number of American industries, Shell says. "It's not really a third world problem; it's a capitalism problem. One of the things to cover is fiduciary duties and conflicts of interest. Look at Lehman. They were both selling and buying the same securities. Our goal as educators is to put those warning signs in place."

According to Robertson, while many multinationals are actively working to develop global standards, students who are hired by smaller firms to work internationally may be "in much more dangerous territory," ethically. As a result, she says, ethics professors are placing greater emphasis on the importance of corporate governance, and teaching global differences in corporate governance. "If we're in a global economy, we have to be cognizant of those differences," Robertson says, adding that such questions are "among the most difficult kinds of ethical issues." Not surprisingly, Shell believes that at least one of the two courses will be organized around a special topic relevant to a business sector—for example global business, financial services, or marketing. The department is currently doing research to determine exactly which special topic or topics the courses may cover. Another key aspect will be a focus on continuing education. Moving forward, "we're offering one free week-long executive education program every seven years for life for Wharton MBA graduates," Shell says. "We're hoping they come back as they rise through the ranks and become more responsible for decisions." The thinking is that a business school can educate students about social responsibility, but 15 or 20 years later when those students are executives and faced with complex decisions, demands to meet quarterly profits and other workplace pressures, it's difficult to remember lessons of the classroom—or to even foresee what those needs will be in new and emerging fields. Or to act on them when you're a junior-level executive fresh out of business school. Fort recalls a student once writing him a letter that said, in effect, I can't do anything for the first 20 years of my career, but when I get in power I'll be a good guy. "You may have lost that moral anchor by then," Fort says. "You have to prepare people in a way that they can always maintain a dimension of their own integrity."

Ultimately, it goes back to the fundamentals of business ethics—things like providing students a framework for good decision-making, no matter the variables of the situation, and instilling the moral courage to speak out about unethical behavior one may see. Dean Krehmeyer believes one of the positive outcomes of the subprime mess would be if business ethics became more integrated throughout the business school curriculum, breaking free from the academic silo in which it has often been viewed. "The leading business schools provide increased emphasis on connecting ethics and business, refocusing on areas such as risk management, the value of an ethical culture and a strong corporate commitment to value creation over the long term," he says. "This crisis hopefully illuminates the real value of continuing to truly embed ethics in every aspect of corporate decision making." It would be nice if the walls of the Zicklin conference room stayed empty for a while. ■

NIGEL BUCHANAN

Knowledge@Wharton

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ON THE WEB

The New BRICS on the Block: Which Emerging Markets Are Up and Coming?

Building on the foundation of the well-known BRIC countries—Brazil, Russia, India and China—a new set of up-and-coming emerging markets is gaining attention. The so-called "CIVETS" countries—Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa—are now touted as hot markets because they have diverse economies, fast-growing populations, relatively stable political environments and the potential to produce outsized returns in the future.

Far-flung geographically and shaped by vastly different cultural, religious and political structures, the CIVETS show the potential to develop rapidly and reward those willing to take on emerging market risk beyond the more-established BRIC countries, experts say.

The BRICs were christened a decade ago by Goldman Sachs then-chief economist Jim O'Neill. Goldman Sachs now predicts that the BRICs' combined GDP will surpass U.S. GDP by 2018 and that they will account for half the global economy by 2020. The CIVETS owe their acronym to the Economist Intelligence Unit (EIU), which forecasts the countries will grow at an annual rate of 4.5 percent during the next 20 years. That's only slightly below the 4.9 percent average predicted by the EIU for the BRIC nations, and far above the rate of 1.8 percent forecast for the world's richest—or "G7"—nations. (For what it is worth, a civet is a nocturnal, cat-like mammal found in at least two of the CIVETS countries—Indonesia and Vietnam.)

"Whenever you have risk, if you are savvy you are going to make a nice return. This is a difficult game, but it is an interesting one."

In a recent survey conducted by *Knowledge@Wharton* and the global communications firm Fleishman-Hillard, a majority of corporate executives, investors and business leaders indicated that they would be interested in doing business with multinationals in the CIVETS countries. Respondents said they were most attracted to CIVETS because of low labor and production costs and the countries' growing domestic markets. When asked to identify weaknesses, the survey participants cited political instability, corruption, a lack of transparency and infrastructure and homegrown companies without much of a reputation or brand identification.

According to Wharton management professor **Witold Henisz,** while there are a total of 150 emerging markets worldwide, a catchy name and new focus may give multinationals and investors more incentive to look toward these lesser-known countries. "An acronym is a simplification, but it calls attention to growth opportunities in rapidly growing markets abroad that managers need to come to understand," he says.

The *Knowledge@Wharton*/Fleishman-Hillard survey of 153 corporate and business leaders found a range of enthusiasm for different CIVETS. When asked to say which of the six countries offered a "great deal of opportunity" or "some opportunity," 86 percent cited Indonesia, followed by South Africa (84 percent), Turkey (82 percent), Vietnam (77 percent), Egypt (61 percent) and Colombia (56 percent). A significant set of respondents (42 percent) predicted that by 2020, the CIVETS countries would be on a level playing field with the BRICs in the global economy.

When compared to the BRICs, the CIVETS are much smaller. Indonesia is, by far, the largest with 242.9 million people, followed by Vietnam with 89.5 million, Egypt (80 million), Turkey (77 million) and Colombia (44 million). By contrast, Russia has a population of 139 million, Brazil has 201 million, India 1.2 billion and China 1.3 billion.

'Frontier Markets'

Henisz says size is one reason the decision to invest in the CIVETS countries is not as clear-cut as it is with the BRICs. A Western company might be willing to accept some missteps in China because the rewards would be so great given China's size. Entering a CIVETS country, however, is a more complicated strategic decision, he notes, and will probably come with added pressure for short-term results, compared to larger countries where companies might be willing to stay the course. "China is so critical that if you mess up the first year, you can stay around. That's not so clear about, say, Colombia—it's not seen as mission critical."

Wharton management professor **Mauro Guillén** points to another important difference between the two blocs. Unlike China, Brazil, India and other emerging markets like Mexico, the CIVETS lack established multinational corporations to act as platforms for further economic development, although that could happen in the future. "What makes the BRIC group unique is that not only are they big, but they have their own companies that are destined to be very important outside their own countries," says Guillén.

The EIU acknowledges that the CIVETS do not have the economic power to "reshape the global economic order" as much as the BRICs and their combined GDP will only amount to one-fifth the size of the G7 nations' combined GDP by 2030. Instead, the CIVETS are second-tier emerging markets that have relatively sophisticated financial systems and do not face runaway inflation, massive current-account deficits or public debt, according to the research firm.

"With emerging markets there is always risk," cautions Guillén. "But whenever you have risk, if you are savvy you are going to make a nice return. This is a difficult game, but it is an interesting one."

Romeo Dator, a portfolio manager at Texas-based U.S. Global Investors, which specializes in emerging markets and natural resources, says the only CIVETS country his firm has invested in is Indonesia, which, according to Bloomberg, had overall investment returns of 57 percent last year. The others, Dator notes, are still too small for major fund investments which need greater liquidity. The BRICs, he adds, are still far from mature, and the CIVETS "are almost like frontier markets, a step below the emerging markets in terms of size." When does a country graduate to "emerging" status? Dator points to one sign: "Once you start seeing ETFs [exchange-traded funds] developed around them, that means there's enough interest and it's worth looking into."

Michael Geoghegan, chief executive of HSBC, is a CIVETS promoter. In a speech to the American Chamber of Commerce in Hong Kong last year, he remarked, "Any company with global ambition needs to act now [with] regards to these markets. In today's world, you can't afford to wait for business. You have to go where the business is."

Each of the CIVETS presents opportunity and risk, according to emerging market analysts and Wharton faculty:

Colombia: Following years of high-profile drug wars, Colombia remains a small market, but has always been a dynamic economy with some key industries, including fresh flowers, oil and coffee.

Indonesia: The largest of the CIVETS, Indonesia has a huge, sprawling population and has already benefited from investment by the U.S., China and Japan, but political and social stability is never certain.

Vietnam: A low-cost alternative to China for manufacturing, Vietnam has ambitious plans to grow its economy despite a Communist government.

Egypt: Although Egypt has a well-educated, prosperous population in its Nile Valley cities, much of the country remains poor and the country has a high level of debt (80 percent of GDP). The political future beyond the rule of President Hosni Mubarak is cloudy, and the country could face religious turmoil.

Turkey: Not a destination for manufacturing because costs are already high, Turkey remains a promising regional center which has benefited from relative stability and ties to the West in a volatile part of the world. Membership in the European Union would be a plus, experts note, but religious turmoil might hurt its economic prospects.

South Africa: Although it faces problems with unemployment and HIV/AIDS, South Africa has strong companies, a well-developed business infrastructure and can serve as a gateway to southern Africa.

Henisz notes that in addition to their internal strengths, Turkey, Indonesia and South Africa have some companies that are strong in their regions, which might make these countries especially interesting for companies or investors looking to gain additional traction beyond a single country's borders. "They could be a platform for investment the way Ireland was for Europe," he says, adding that these countries could also provide opportunities for "reverse learning" about business approaches to their regions (as opposed to the traditional model of applying Western business methods to foreign markets).

Resisting Generalization

According to the survey results, respondents agree that the most important factors positioning CIVETS companies to compete in the global economy are: the value of their products and services (75 percent); GDP growth in their countries (74 percent); their financial position (53 percent); innovativeness of products or services (45 percent); and recognition of their brands outside their home countries (28 percent).

Respondents also characterized the strengths and weaknesses of CIVETS-based multinationals in the global marketplace. The top response (85 percent) was that these companies need more visibility to get the respect of leading companies in the United States and Europe. That was followed by 67 percent of participants who agreed that these companies lack appropriate transparency and corporate governance standards to compete internationally; 66 percent who felt the companies do not have the public policy or public affairs expertise needed to compete; 64 percent who said the firms do not have the marketing and branding capabilities to succeed in the global marketplace; 52 percent who felt multinationals in CIVETS nations do not have the communications capabilities to succeed in the global marketplace; and, finally, 51 percent who felt CIVETS companies are limited in their global thinking.

When asked what they look for in determining whether a CIVETS country has the potential to be on a level playing field with one or more BRIC countries, the respondents' top consideration was political stability. According to Wharton finance professor **Franklin Allen**, the CIVETS countries are so different, it is hard to generalize about politics across the group. He cites income inequality, religious fundamentalism and regional volatility as issues to watch for when evaluating investments in these markets. "You have to look at the politics carefully in each of the countries."

The era in which foreign investors had to fear nationalization of assets has largely faded, but foreign governments can still add risk to investment projects, perhaps through heavy taxation or regulation. "There are very few countries where the government believes that they should own the means of production. That's why we don't see political risk as too much of a problem, but I would be surprised if it went away for good," Allen adds. "It may take other forms. Government debt problems may [result in] taxation being much higher—although we have got a ways to go before I think that would happen."

In 2005, Goldman Sachs' O'Neill came up with a new concept for the next generation of emerging markets—the "Next 11" or "N11," made up of four CIVETS and seven other countries. O'Neill, who is now chairman of Goldman Sachs Asset Management, notes that Colombia and South Africa were not included in his N11 because their population size restricts their ability to grow into large markets. "Our N11 Group would also include Bangladesh, Pakistan, the Philippines, South Korea, Iran, Nigeria and Mexico, and these 11 would be a more diverse and attractive group," O'Neill says.

The EIU, in turn, narrowed that list down. Nigeria, according to the research firm, is too dependent on commodities. Iran's politics and international relations are too unstable. The Philippines—dubbed a "perennial underperformer"—also suffers from weak, unstable politics, according to the EIU. Political instability will hold back Thailand as well, and Pakistan's security problems are acute. Bangladesh, meanwhile, is too poor and vulnerable to the effects of climate change. O'Neill plans to release a paper this month elevating Mexico, South Korea, Indonesia and Turkey, along with the BRICs, to a new status as "Growth Markets." The EIU left Mexico and South Korea off its list because they were already successful and were "old news" to investors.

Wharton faculty point out that Russia, which remains dependent on natural resources and has faced political ups and downs, does not really rank with the other more successful BRICs. However, Henisz notes that Russia illustrates the gamble with any emerging market strategy, and he suggests that five or 10 years from now, one or more of the CIVETS may be laggards. "I'm not laying odds on which ones, but one or two will be outliers," he says. ■

Guest Commentary

TO SUCCEED IN NEGOTIATION, SAYS ONE WHARTON EXPERT, ONE MUST TAKE EMOTION OUT OF THE EQUATION.

By Stuart Diamond,
Practice Professor of Legal Studies and Business Ethics and author of *Getting More: How to Negotiate to Achieve Your Goals in the Real World*

Emotion: The 'Enemy' of Negotiation

A woman in my business school class, at Columbia Business School, Lisa Stephens, had a five-year-old daughter who fell in the kitchen one Saturday morning, gashing her forehead on the sharp corner of the kitchen table.

The child, Aubree, was hysterical. The child's grandfather, Lisa's father, was hysterical. Aubree clearly had to go to the hospital to get stitches. But she refused to go, clinging to the table for dear life. No one could pry her little fingers off the kitchen table. Lisa was about to become hysterical, too, when she suddenly stopped. She said to herself, "Wait a minute. I'm taking a negotiation course. I'm going to negotiate this."

So Lisa walked over to her daughter and touched her gently on the arm. "Does Mommy love you?" Lisa asked. "Yes," her daughter sniffled, calming down.

"Would mommy do anything to hurt you?" her mother asked. "No," her daughter said.

"When we get to be big people, do we have to do things sometimes that we don't like to do?" her mother asked. "Yes," Aubree said.

"Mommy has stitches," Lisa said. She showed her scar. "Granddaddy has stitches," she said. Lisa's father showed his scar. And within five minutes, her daughter let go of the table and walked to the car by herself.

Here are some things that we know for sure about this event.

First, Aubree's refusal to go to the hospital was entirely irrational. It was in Aubree's interest to go to the hospital, and get there quickly. But, as in millions of negotiations every day, she wasn't being rational.

The second thing this story shows is that we must start a negotiation thinking about the pictures in the heads of the other party. Lisa's goal was to get Aubree to the hospital without traumatizing her further. The mother realized that the picture in Aubree's head was, "I'm hurting and alone. I need love."

So, having considered, "What are my goals?" and "Who are they?" The mother thinks, "What will it take to persuade Aubree?" So Lisa asks, "Does Mommy love you?" The question shows her daughter that her mother understands that her daughter needs love. Lisa draws her daughter out as Aubree answers the question.

Lisa then realizes her daughter is probably thinking, "Okay, Mommy loves me, but I'm in pain." So her mother asks, "Would Mommy do anything to hurt you?" And Aubree realizes that her mother is thinking about her daughter's pain, too.

This whole process is incremental, starting from the mother thinking about the pictures in the child's head to achieving the mother's goals. It doesn't take very long—it happens step by step. And in the end, within five minutes, Aubree walks to the car of her own free will, rather than being dragged kicking and screaming—a more common and more traumatic way to do it.

In sum, what Lisa gave Aubree was a series of emotional payments. They directly addressed Aubree's fears and showed her that her mother understood. In other situations, the emotional payment could be an apology, words of empathy or a concession. It could be just hearing someone who is upset.

Emotional payments have the effect of calming people down. They get people to listen, and be ready to think more about their own welfare. They start from irrationality and move people, little by little, toward a better result, if not a rational one.

Emotion is the enemy of effective negotiations and of effective negotiators.

People who are emotional stop listening. They often become unpredictable and rarely are able to focus on their goals. Because of that, they often hurt themselves and don't meet their goals. Movies often show scenes of impassioned speeches, suggesting these are highly effective. Whether that is realistic or not depends on whether the speaker is so emotional that he or she is not thinking clearly.

Emotion, used in the context of negotiation, is when one is so overcome with one's own feelings that he or she stops listening and is often self-destructive. The person can no longer focus on his or her goals and needs. Empathy, by contrast, is when one is focused on the feelings of the other person. It means being compassionate and sympathetic.

In other words, emotion is about you. Empathy is about the other party. Empathy is highly effective. Emotion is not.

Genuine displays of emotion—love, sadness, joy—are of course part of life. But it's important to recognize that these emotions, while real, reduce listening, and therefore are not useful in negotiations where processing information is critical. People feeling such emotions are almost always absorbed in the moment, for solace or gratification. The long-term goal of reaching the best outcome, and the broader world, often recedes. The feelings can be needed and important, but not effective to reach well-considered results. Indeed, emotions can push people to do things they later regret.

The emotional strategies that I teach are designed to enhance relationships both personally and in business. I believe it is possible to be dispassionate and compassionate at the same time.

When people get emotional, here is what happens. Instead of focusing on goals, interests and needs and effectively communicating, emotional people focus on punishment, revenge and retaliation. Deals fail, goals are unmet, judgment is clouded and people don't meet their needs. Emotion destroys negotiations and limits creativity. Focus is lost. Decision-making is poor. Retaliation often occurs.

Emotion in negotiation has received increasing attention since 1990. Researchers, teachers and practitioners began to realize one had to address the emotional side of people, not just the rational side. The results of this attention have generally been mixed and not always helpful.

For example, there has been a trend suggesting that it is okay to feign emotions such as anger or approval to get others to do what you want. This is, of course, dishonest, and usually manipulative. The tactic aims to get other people emotional so they are scared or flattered into doing something they would not otherwise do, and which too often is not in their best interests.

The tactics are called things like "strategic emotion," "false-positive feedback," "a display of fury to extract a concession," "on-demand emotional expression," "tactical emotions," "impression management," "strategically angry" and "emotion manipulation." These are variations of "good cop, bad cop;" they destabilize situations and make them unpredictable; they often aim to get the other party to make a mistake, such as disclosing information that can be used against them.

Most of the advice on using emotion to manipulate a negotiation doesn't consider the long-term effects on the relationship, which usually ends when the manipulator is found out. Credibility and trust take a big hit. If you find the other party displaying false emotions just to get you to act in a certain way, I suggest that you never deal with them again if you can help it.

Some people point out times when they have used emotion as negotiation tools and they have worked. The problem is that they are risky and unpredictable in terms of the results, and cynical and untrustworthy in terms of attitude. They destroy relationships. Demands to take it or leave it increase rejection rates, studies show. People perceive them as unfair and will sometimes reject good deals out of spite. Only half as many offers are accepted when negative emotion is used.

Let's look more specifically at what the introduction of emotions often does to a negotiation.

First, they destabilize the situation. You are much less sure of how the other person is going to react. The outcome is less predictable when the parties are emotional.

Emotion reduces people's information-processing ability. That means they don't take the time to explore creative options. They don't look at all the facts and circumstances. They don't look for ways to expand the pie. As a result, they don't get more. In fact, emotional people, studies show, care less about getting a deal that meets their needs than about hurting the other party.

It is true that positive emotions have been shown to increase creativity and the likelihood of reaching an agreement. But such negotiations are often conducted at a pitch and with a fervor that are risky. You've seen an ebullient group suddenly turn on someone or something that had previously been the object of their affections. That kind of instability should worry you. Try to conduct negotiations that are calm and stable. Warm feelings, perhaps, but

laced with solid judgment. The emotional temperature needs to come down if you want to meet your goals and solve thorny problems.

What about the strategy of good cop, bad cop? This is a favorite tool that participants in negotiation courses say they use. The police use this tactic to try to destabilize a suspect by causing emotion. They hope the suspect will make a mistake and make an admission (against their goals and interests). So, yes, anger and emotion work in a situation where you want to try to harm the other party. But unless you want to harm the other party and get them to make a mistake, you probably don't want to use anger as a negotiation tool.

Another problem with using emotion on purpose is that the more you use it, the less effective it becomes. If you raise your voice or shout once a year, it can be very effective. If you do it once a month, you become known as "the screamer," and you lose credibility. This applies to walking out of negotiations as well.

A tone change is fine once in a while. If you are normally quiet, every once in a while you might raise your voice. If you are normally a pretty loud person, once in a while you might be especially quiet or soft-spoken. But such tactics must be well thought-out and measured.

Negotiations are more effective when they are stable and predictable.

So how do you control emotion in a negotiation?

If you are emotional, you are no good to anyone in a negotiation. If you start to get emotional, stop! If you can't perhaps you aren't the right negotiator, at least not at the time. If you try to negotiation when you are upset, angry or otherwise emotional, you will lose sight of your goals and needs. And you will make yourself the issue.

Lower your expectations. If you come into a negotiation thinking that the other side will be difficult, unfair, rude or trying to cheat you, you won't be likely to have dashed expectations—and you won't be as emotional. When you lower your expectations of what will take place in a negotiation, you will be rarely disappointed—and you might be pleasantly surprised. Dashed expectations are a big cause of emotion.

So you can control your own emotions. Dealing with the emotions of others can be trickier.

The first step toward dealing effectively with the emotions of others is to recognize when they are being emotional. The key is whether the other person is acting against his or her own interests, needs and goals. You have probably watched people do exactly the opposite of what benefits then. You ask yourself, "What's wrong with them? Can they see this won't help them?"

They can't. They have lost focus on their goals and needs. They are being emotional. They aren't listening clearly. To persuade them, you have to begin by increasing their ability to listen. That means you have to calm them down. You have to become their emotional confidante. Try to understand their emotions. What gave rise to them? What can you do to calm them down?

You have to figure out what kind of emotional payment they need.

Today, more than a dozen years later, Lisa Stephens and Aubree still talk about the extraordinary experience they had in the kitchen that day.

"We see the small scar on Aubree's forehead and remember the twelve stitches and how we handled it together," said Lisa, now a senior manager for a major consulting firm in Washington, DC. "Not a day goes by that we don't use the negotiation tools to improve our lives."

Lest you think this anecdote is the exception: I had an executive in one of my programs at Wharton named Craig Silverman, a financial advisor on Long Island. Craig went to a local medical laboratory one day for a routine blood test. In the next room was a young girl, about five years old, screaming at the top of her lungs "as if she was being tortured," Craig said. She was supposed to get a blood test, too, but she wouldn't let the nurse stick her arm with the needle. Her mother, soon joined by Craig's nurse, was holding the girl down, while a second nurse was trying to stick the needle into the girl's arm. It was a nightmare of a scene.

Craig, remembering the story of Lisa and Aubree, decided to be of assistance. He went to the girl's room and asked her mother's permission to talk with the girl, which he received. "Look at me," he said to the girl. "Do you think your mommy loves you?"

"Yes," the girl said.

"Do you think your mommy would do anything to hurt you?" Craig asked.

"No," the girl said.

Craig went through the entire litany, with some variations, of what I described at the beginning of this piece, including, "Don't you want to get better?" and then, when the girl had calmed down a bit, "The doctor can't make you better unless they do this test." Within two minutes, he said, the young girl calmed down and was ready for the needle.

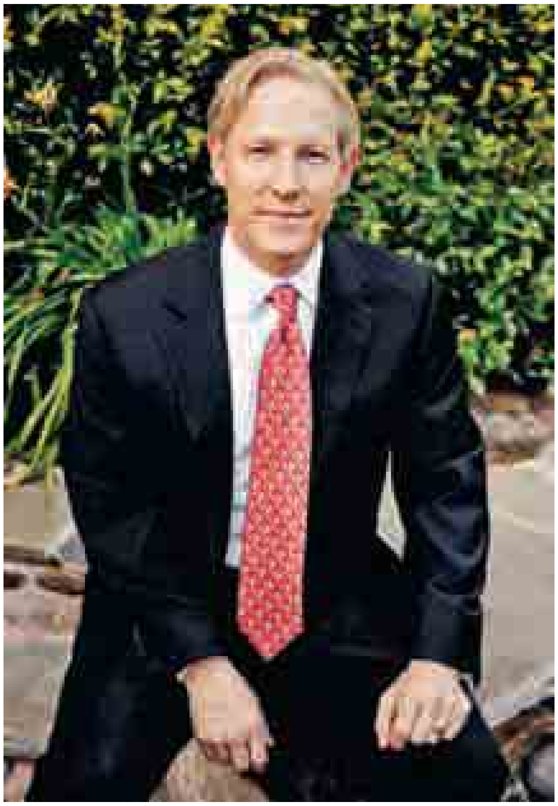
"Her mother and the nurses looked at me like I was some kind of magician," Craig said. "Where did you learn that?" they asked. I am happy to say he referred them to my book. ■

This piece was excerpted from Stuart Diamond's Getting More: How to Negotiate to Achieve Your Goals in the Real World, *published by Random House/Crown Business. For more information, visit www.gettingmore.com.*

Alumni Association Update

Dear Wharton Alumni,

Thank you for your generosity during my five years as President and Chairman of the Wharton Alumni Executive Board of Directors. It has truly been an honor and a pleasure to serve our great alumni in this capacity. During this time, we have made great strides in advancing the cause of ensuring the Wharton global alumni experience is world class and that we deliver true value to alumni. As alumni of the top business school of the world we owe it to ourselves to ensure that the experience after graduation is of equal caliber to the experience on campus.



About seven years ago, I set it upon myself to transform the Wharton reunion experience into a program that would merit alumni coming from around the world to celebrate themselves, the School, and the business education experience. We piloted a program in 2005, which has continued to grow and mature, to deliver a multi-day experience that delivers something of value to all alumni. We increased the family orientation and incorporated networking, continuing education, affinity interest and more into an increasingly well attended and appreciated event. Wharton continues to invest in all of us through its commitment to this program, and we on the Alumni Board are proud to partner with the School in this effort.

Our global club system has continued to become ever more integrated across borders and affinities. The Alumni Board's Global Clubs Committee is now elected by the clubs themselves. Clubs gather annually at the Global Clubs Conference, facilitating idea sharing, leadership training, best practices, collaboration and interaction with the Alumni Board and Alumni Affairs. Our club network has expanded both via the opening of new club geographies as well as the founding of new global affinity clubs, such as the Wharton Energy Club, and the emerging Wharton Women in Business. This club network is the vanguard of Wharton in the field, and provides an extensive schedule of continuing education, networking and idea sharing for alumni of all ages.

We've advanced the cause of alumni connectivity through what has become Wharton***Connect***. This platform was the brainchild of Wharton alumni, who, in collaboration with the Alumni Board, pushed the envelope to stimulate what has become Wharton's enterprise platform for alumni connectivity, as well as club IT infrastructure. The Wharton***Connect*** platform has been adopted by other leading universities including Harvard Business School and the London School of Economics. Our platform permits ease of directory search, flexible global scheduling, sharing of online continuing education, linkages to LinkedIn, Facebook and Twitter, and more. We are extremely proud of this platform, which continues to evolve thanks to significant input from our alumni and phenomenal Wharton IT and Wharton Alumni Affairs support. If you haven't yet joined the more than 40,000 who have updated their profile on Wharton***Connect***, please visit the website and start benefiting from this investment today, like so many others have already.

From the vantage point of those alumni based outside the United States or who reside in smaller markets, the Alumni Board via its Outreach Committee strives to guarantee access and activity for this growing and important population. We are extremely dedicated to ensuring that all constituencies enjoy maximum benefits of the Wharton brand and alumni experience. Distance learning is becoming increasingly fundamental, and IT product development strongly considers the diaspora of alumni. We sincerely hope you will continue to provide feedback to how we can improve our reach and effectiveness.

I wish to again share my deep thanks, and offer appreciation for everyone who has supported my goal to give back some of the benefit I've received as a Wharton alumnus. Our great progress is directly correlated to the fantastic Alumni Board members and the work they do in partnership with an outstanding Wharton Alumni Affairs and Annual Giving staff. Please join me in welcoming incoming **Chairman Robert Newbold, WG'99,** and **President David Mounts, WG'04,** to their positions as defenders of the Wharton brand and in their mission to continue to enhance and expand the Wharton alumni experience. As I move into the role of Chairman Emeritus, I believe many of us feel the sense of pride and obligation: pride in being part of the world's best business school community and an obligation to defend the brand and contribute though our time and treasure. I hope all of you share in my lifelong commitment to the Wharton alumni network, the School and the alumni experience. I hope to see you in both business and personal contact over the years to come.

—Craig Enenstein,
WG'95, G'95

ON THE WEB

For more alumni news and events visit Wharton***Connect*** at www.whartonconnect.com

MAX ALDRICH

Final Exam

In each issue of *Wharton Magazine,* we'll test your knowledge with a question straight from an actual Wharton exam or sent in by one of the School's esteemed faculty members. Submit the correct answer and you might just walk off with a great prize—a Wharton Executive Education program.

This issue's Final Exam challenge comes from **Dean Foster,** Wharton's Marie and Joseph Malone Professor of Statistics, who sends along a unique challenge—one that, to be honest, left the staff here at the magazine scratching our heads. You see, we work best in words. Not statistics.

The Basics:

Suppose you put the following ten letters—S, T, A, T, I, S, T, I, C and S—in a bag. Suppose you then drew out those letters, one at a time, until every letter had been selected and the bag was empty.

Question:

What is the probability that, as you selected the letters, you would correctly spell out the word "STATISTICS?"

ON THE WEB

Think you know the answer?
Submit your response at *finalexam@whartonmagazine.com* or *magazine@wharton.upenn.edu* by June 1. Professor Foster will post the correct answer on June 4. One winner will be selected to attend, tuition-free, one Executive Education, 3- to 5-day open enrollment program.

Does not include travel, expenses or personal costs incurred; subject to availability and admissions criteria; excludes the Advanced Management Program, Executive Development Program, Essentials of Management, Health Care, Industry-Specific and Global Programs.

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