

Spring 1997

Wharton

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



THE IMPACT OF FAMILY-CONTROLLED CORPORATIONS

... AND THE CHALLENGES
THEY FACE IN THE
GLOBAL MARKETPLACE

The Wharton School
University of Pennsylvania

Roberto Civita, W'57
Chairman and CEO
The Abril Group

Wharton *alumni reunion*

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global.wharton.connections

The University of Pennsylvania will host a potpourri of activities throughout Alumni Weekend. Art Exhibitions, Childrens' Activities, Tours of Campus, Alumni/Faculty Exchanges and the Alumni Run are just a few of the events offered to alumni.

friday, may 16

2:00 pm to 7:00 pm

Registration

2:30 pm to 4:00 pm

Alumni/Faculty Exchange

Managed Care: Coping with the Counterrevolution

3:00 pm to 5:00 pm

Joseph Wharton Scholars — Class of 1992

Reunite and Review JWS Program

4:00 p.m. to 5:30 p.m.

Executive Education

Developing your Leadership

Michael Useem, Professor of Management

5:30 pm to 7:30 pm

Welcome Cocktail Reception

7:30 p.m. to 10:30 p.m.

MBA Reunion Class Parties

WG '87, '82, '77, '72, '67 — "Philly Feast"

WG '92 — "Nostalgia Night at the Pub"

Joseph Wharton Scholars Party

W '92 Dinner Event

saturday, may 17

8:00 am to 4:00 pm

Registration

Continental Breakfast 8:00 am to 9:00 am

9:00 am to 10:15 am

Student/Alumni Program

The Wharton Laboratory — Seeds of Entrepreneurship

9:00 am to 10:15 am

Seminar

Career Transition — Utilizing Wharton's Resources

10:30 am to 11:30 am

Executive Education

Stocks or Bonds — Where Do We Stand Now?

Jeremy J. Siegel, Professor of Finance

11:45 am to 12:30 pm

Wharton Town Meeting with Dean Gerrity

12:30 pm to 2:00 pm

Picnic Lunch

2:00 pm to 3:00 pm

Penn Parade of Classes

3:00 pm to 4:30 pm

Seminar

Browse the Learning Technologies of the 90s

7:00 pm to 12:00 am

MBA Reunion Dinners

WG '87, '82, '77, '72, '67 — The Union League of Philadelphia

WG '92 — The Academy of Natural Sciences

sunday, may 18

11:00 am to 2:00 pm

Farewell Brunch

Society Hill Sheraton

COVER ARTICLE

To go public, or not to go public. That is the question, among others, that family-owned companies must deal with as they strive to stay competitive and maintain the advantages of the family enterprise.



Photograph by
Peter Olson

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4TH ASIAN REGIONAL ALUMNI MEETING

May 29-31, 1997 • Shanghai
People's Republic of China

"Shanghai Into the 21st Century"

Thursday, May 29

4-7 p.m.

Registration and Cocktails: Shanghai Hilton

Friday, May 30

9-10 a.m.

Breakfast Briefing: Shanghai Hilton

11 a.m.-4 p.m.

Scenic Tours

6-8 p.m.

Welcome Dinner: Shanghai Museum

Guest Speaker: Gu Xiang Wu

Deputy Curator

Saturday, May 31

9-11:30 a.m.

Seminars: Shanghai Hilton

- Shanghai's Development as a Financial Center
- Shanghai's Partnership with Hong Kong
- Shanghai: Regionalism and Strategic Alliances

12:30 p.m.

Lunch: Shanghai Hilton

Keynote Speaker: Xu Kwan Di

Mayor of Shanghai

7 p.m.

Gala Dinner: Peace Hotel

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WHARTON EUROPEAN FORUM '97

June 19-20, 1997 • Automobile Club de
France, Place de La Concorde, Paris

"Europe: The New Frontiers"

Thursday, June 19

8 p.m.

Gala Dinner

Keynote speaker: Woo-Choong Kim

Chairman, Daewoo Group

Friday, June 20

9 a.m.

Welcome Breakfast

9:30 a.m.

- The Euro: On Target for 1999

1 p.m.

Lunch

Keynote Speaker: Herbert M. Allison

President, Merrill Lynch & Co., Inc.

3 p.m.

- Multimedia and Telecommunications in Europe
- Emerging Markets of Eastern and Central Europe

7 p.m.

Closing Reception

Forum Co-sponsors:
Merrill Lynch & Co.
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For information and/or registration, contact
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AN IDEA WHOSE TIME HAS COME

It is no secret that today's competitive environment places increasing demands for breadth on every professional manager. We believe that Renaissance leaders of tomorrow will need even more breadth and depth *and* integrated perspectives than ever before.

Accordingly, we have created one of the true competitive advantages of Wharton and Penn through a unique structure that encourages and thrives on cross-disciplinary and joint-degree programs. These

programs cut across all of Penn's outstanding schools — from Wharton to the School of Arts & Sciences to the Law and Medical Schools to the Engineering and Nursing Schools. No other university can match the breadth of interdisciplinary offerings and activity. It has *always* been a distinctive attribute of Penn. Now it is truly an idea whose time has come.

**THESE PROGRAMS
BRING FACULTY TOGETHER
ACROSS DISCIPLINES
IN A WAY THAT STRENGTHENS
INTELLECTUAL LEADERSHIP
THROUGHOUT PENN.**

Our joint and dual-degree programs at both the undergraduate and graduate levels have never been more relevant. The pioneering undergraduate joint-degree Jerome Fisher Program in Management & Technology between Wharton and Engineering anticipated the important intersections between business and engineering when it was founded 20 years ago. The Lauder Institute (dual MBA/MA in International Studies with the School of Arts and Sciences) paved the way in 1983 for preparing leaders for the global marketplace. And the newly-endowed Huntsman Program in International Studies & Business between Wharton

and Arts & Sciences is the first of its kind to provide undergraduates with a unique dual-degree program in business, language and liberal arts (see page 4).

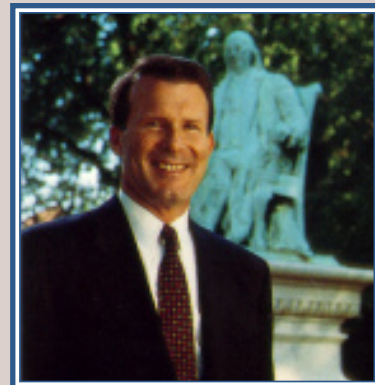
Our commitment to interdisciplinary initiatives continues to grow with several new programs announced in the past year. These include a new joint undergraduate degree program between Wharton and the Nursing School; a program between Wharton's Undergraduate Division and the Penn Law School that allows Wharton students to earn their bachelor's and JD in six years; as well as two new joint undergraduate minors between Wharton and the School of Arts & Sciences, one in actuarial mathematics and another in the history of the American legal system.

The results are clear: First, these programs bring faculty together across disciplines in a way that strengthens intellectual leadership throughout Penn. Second, these programs attract the highest quality students to the University. For example, the M&T and IS & B Programs draw students from the top 2 percent of their high school class with average SAT scores of nearly 1500 and 1479 respectively. And behind these statistics are truly extraordinary young men and women who are not only academically very capable, but who also bring with them a wealth of leadership experience, a wide range of work and community service activities, and a keen desire to broaden their skills and knowledge and contribute real leadership in business practice. Not surprisingly, they are also energetic and enthusiastic, and they contribute enormously to the Wharton and Penn communities beyond the classroom as well.

I am delighted that Wharton is playing such a key role in developing greater interdisciplinary opportunities for our faculty and students. These efforts give Wharton and Penn a distinct competitive advantage and help ensure that our graduates become the Renaissance leaders of the 21st century.



Thomas P. Gerrity



HUNTSMAN FAMILY DONATES \$10 MILLION TO UNDERGRADUATE PROGRAM



HUNTSMAN

Jon M. Huntsman, W'59, the founder, chairman and CEO of Huntsman Chemical Corp., and his family have donated \$10 million to endow an innovative undergraduate program in international studies and business.

"Globalization is the single most dramatic change factor affecting business," notes Huntsman. "Our family is proud to endow a program that is the first to fully integrate comprehensive international studies into a business curriculum for undergraduates in order to prepare

them to work effectively anywhere." Penn is unique, he adds, in offering an opportunity for "some of the brightest students in the country to combine high-level international and language studies with a Wharton education."

The program, which will be renamed the Huntsman Program in International Studies & Business, provides a rigorous understanding of the political, economic and cultural complexities facing the international business community. Students are required to specialize in one of 10 foreign lan-

guages and in the area of the world in which their target language is spoken. They earn both a Bachelor of Arts from the School of Arts and Sciences and a Bachelor of Science in Economics from Wharton.

"As part of the School's strategic planning process, this gift serves as an appropriate launching point for moving Wharton forward as the leader in international studies and business," notes Wharton Dean Thomas P. Gerrity.

The program will graduate its first class in 1998.

Huntsman heads Huntsman Chemical Corp., one of the world's largest producers of plastics and specialty chemicals. Today the firm has \$4.5 billion in combined annual revenues, more than 6,500 employees and 81 locations in 23 countries.

Huntsman currently serves on Wharton's Board of Overseers and is a former member of Penn's Board of Trustees. He has funded a research center at Wharton on global competition and innovation.

The Huntsmans have given to numerous other philanthropic causes including \$100 million to the University of Utah to fund a cancer research center. The Huntsman Chemical Corp. is also instrumental in a chemical industry coalition to develop environmentally sound plastics recycling and disposal systems. ▼

DISNEYLAND ON TOUR: Nine Wharton alumni sponsored a trip to Disneyland last December for 25 children from underprivileged areas. "Community experience was an integral part of our two years at Wharton," says Lesley Maclean, WG'96, event organizer. "It was nice to do something special for these kids during the holiday season, and it was an ideal opportunity for us as alumni to get together."

Other alumni participants, all MBA class of 1996 and all based in Los Angeles, included: Dan Shapiro, Courtney Chapman-della

Cava, Phil Needles, Jeff Edelman, Lauren Wittels, Rebecca Whellan, Charles Benson and Anton Kuzmanov. ▼



A DAY IN THE LIFE OF AN MBA STUDENT, TECHNOLOGICALLY SPEAKING

When Joe Wharton (not his real name) realized late one night that he had inadvertently skipped his statistics class on regression analysis, he took the simple way out: He fired up the 200 megahertz Pentium-Pro PC in his off-campus apartment, accessed the School's student intranet communications system, clicked on the course number, read a recap of that day's meeting and picked up the assignment for tomorrow.

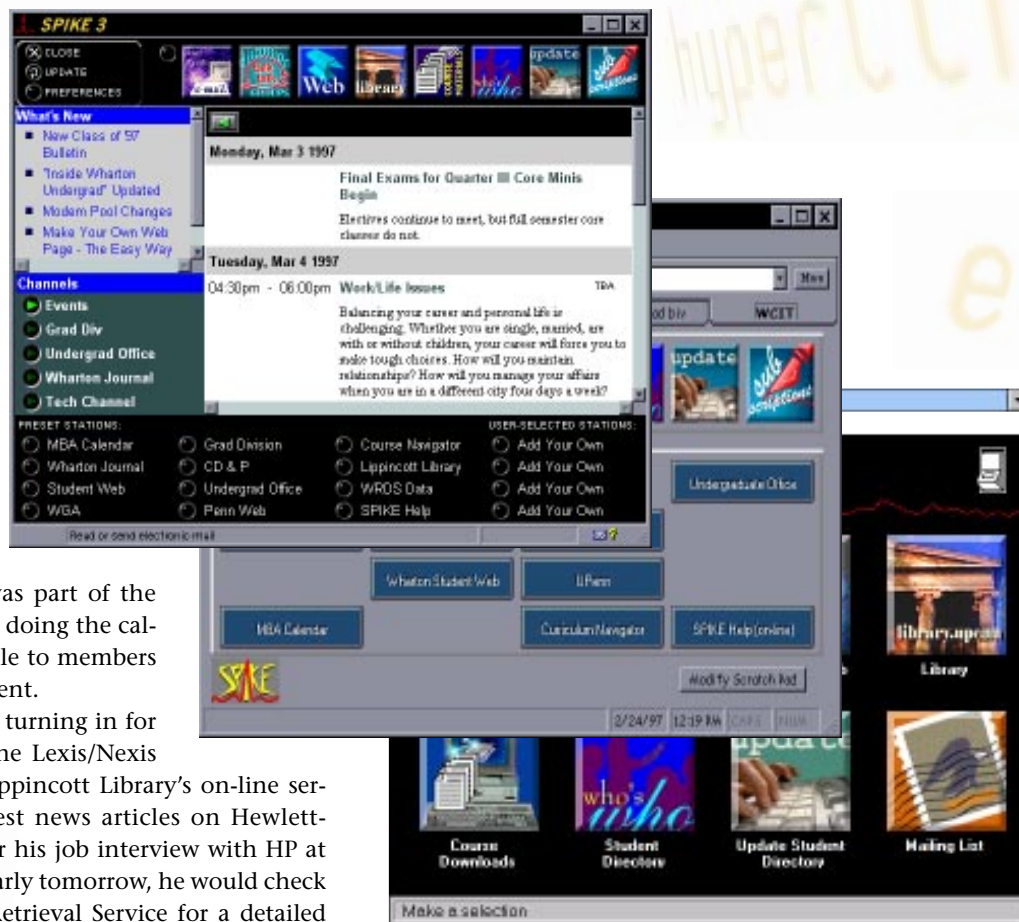
He then downloaded an Excel spreadsheet that was part of the assignment, spent two hours doing the calculations and e-mailed the file to members of his study group for comment.

It was now 2 a.m. Before turning in for the night, he clicked into the Lexis/Nexis law/business database via Lippincott Library's on-line services and called up the latest news articles on Hewlett-Packard — in preparation for his job interview with HP at 11 a.m. the next morning. Early tomorrow, he would check with the Dow Jones News Retrieval Service for a detailed investment report on the company.

Time to turn in. Oops. A couple more things. Send an e-mail to cohort classmates pointing out the latest updates to his personal home page on the World Wide Web, then click to the e-mail distribution list that offers ongoing information about the Wharton-India Economic Forum scheduled for next month.

Welcome to SPIKE (Students Personalized Integrated Knowledge Environment), a set of communication tools for MBAs that bundles student electronic information resources onto one screen, with icons signifying the availability of such services as downloading course material, accessing library databases, sending and receiving e-mail, and "conversing" on a specific topic among different students through an electronic bulletin board system.

Once they are plugged into SPIKE, students can also call up a calendar of the daily, weekly and monthly events at Wharton; check to see if required reading materials are available; and join electronic mailing lists and discussion groups that allow a student to communicate with other students



THE EVOLUTION OF SPIKE

who share similar interests, such as a desire to work in Hong Kong or a need to find housing in New York City for a summer internship.

"While most organizations now have e-mail and intranet capabilities, few — if any — have the depth of services combined with the simple user interface offered by SPIKE," notes Kendall Whitehouse, associate director of Wharton Computing and Information Technology (WCIT). "SPIKE brings together in a single integrated tool kit all the key electronic information needs of Wharton students."

SPIKE, introduced two years ago, is already in the middle of its second major revision — SPIKE 3. "WCIT is developing a number of new projects to enhance the computing environment for Wharton students," says Gerry McCartney, Wharton's Chief Information Officer. "Many of these projects are being developed in direct response to ideas and suggestions from the students."

Continued on page 30

UNDERGRADUATES JOIN THE CLUB

For Wharton undergraduates interested in student club activities, the month of February offered any number of possibilities.

The **Awareness of International Markets (AIM) Club**, which is organizing a trip to Hungary for its members, heard a Hungarian entrepreneur speak about business opportunities, a finance professor speak about "Privatization in Eastern Europe" and a Hungarian student panel discuss "Life in Hungary."

The **Wharton Futures, Options, and Hedging Strategies Club** organized a trip to the Philadelphia Stock Exchange.

The **Wharton Technology Club** sponsored a visit from the CEO of DotCom Technologies.

The **Black Wharton Undergraduate Association** presented a forum on black management in the entertainment industry.

The **American Marketing Association** held a conference on "Marketing in the 21st Century" with speakers from AT&T, Price Waterhouse, Andersen Consulting and Nantucket Nectars, among others.

Throughout the year, more than 30 clubs run by Wharton undergrads organize events, speakers and trips that relate

to their own particular interest. The **Wharton Media and Entertainment Club**, for example, which helps students find networking opportunities in the media and entertainment industries, hosts its own Academy Awards party.

Wharton Women, one of the most active clubs at Wharton, brings to campus prominent women from

business, law and other fields, visits companies in New York and Philadelphia, supports a mentoring program and sponsors a "Dinner with Professionals" near campus.

The **Wharton Latino Undergraduate Association**, which provides opportunities for discussion, research and education related to Latin America, also holds dinners featuring Latin American foods.

The **Wharton Fashion Society** is working to establish relationships with representatives from

the fashion world and provide an overview of career opportunities and trends. Co-president Nancy Ng emphasizes that the stereotype of fashion as a women's field doesn't apply here. "Both men and women are encouraged to join," she says.

Continued on page 8



NEW ASSOCIATE DEAN APPOINTED

Craig J. Leach, formerly Vice President for University Affairs at Seton Hall University in South Orange, N.J., joined Wharton in February as Associate Dean for External Affairs.

Leach will oversee the School's development and annual fund programs, alumni affairs, corporate fundraising, donor relations, public relations and publications.

In his position at Seton Hall, Leach directed a successful \$100 million capital campaign, established a major marketing initiative to enhance the University's academic image,



LEACH

tripled the number of alumni association chapters nationwide and tripled grant and contract funding for faculty-sponsored projects. He served as the University's executive director of development from 1984 to 1992.

From 1982 to 1984, Leach was director of development for the New York Regional Office of Georgetown University.

Leach has a BA in political science from Fairfield University in Fairfield, Ct., and expects to earn a law degree in May from Seton Hall University Law School. ▼

FOLLIES 1997: THE TREASURY HUNT

Here's the scene: Four army commandos stand at attention in front of their sergeant, one of them about to "volunteer" for an incredibly dangerous you-might-not-come-back-alive type of mission. His buddies prepare him for battle.

Who is he (a Domino's pizza delivery man), and where is he going (to deliver pizza to the MBA pub) and where does this all fit in?

Nowhere, of course. It's the 21st annual Follies, a rolling, rocking, irreverent genre all to itself that this year invites us to join an MBA learning team's search for a \$5 million treasure hidden *somewhere* on campus. A series of clues leads the students to salesmen pitching Hickey Freeman suits, the pool table at the MBA pub, a casino (where students gamble on getting a job), the course pack line at Reprographics and a recruiting session with the mob.

The students never do find that money but it doesn't matter because along the way the audience has the

good fortune to meet up with Beavis and Butthead — a show-stopping duo — as well as Dean Gerrity, his chief of staff Sam Lundquist and Vice Dean Bruce Allen in a wetsuit on the way to the Jersey shore (don't ask).

For those who need brushing up on terminology, The Treas\$ury Hunt offers some definitions:

- Beta: the most often used but least understood word at Wharton. Used as a measure of risk and volatility, and not just in relationships
- Ding: the sound of an MBA's self-esteem evaporating
- Domino's: Not just a pizza delivery service, but also a Pavlovian mechanism through which aggressive behavior is reinforced in Wharton students.

Then there are the tunes:

Here at Wharton (to Seasons of Love) from Rent

One million fifty one thousand two hundred minutes
Revelations, accomplishments and too many beers

Eight quarters, summer jobs and 21 credits
How do you measure, measure two years?

Stock to Get (to Fugue for Tinhorns) from Guys and Dolls

I got the stock to get
It's on the Internet
And I like its ratio of equity/debt

I know the S&P
Won't hit its apogee
Until the bond market gets real
panicky

But look at IBM
I see a bearish trend
I really fear a crash by this year's end

We're the Best (to Be Our Guest) from Beauty and the Beast

We're the best! We're the best!
Put our ranking to the test.
If you're from another business school
Don't bother to contest.

We can work, we can lead
Expectations we'll exceed

Continued on page 29



Campus NEWS

■ Wharton's sixth annual Latin American Conference on Feb. 21 drew more than 400 business leaders, government officials, diplomats and students to hear participants discuss "Succeeding in Times of Change." Panamanian President Ernest Perez Balladeres, WG'70, was among the featured speakers, as were Roberto Civita, W'57, chairman and CEO of The Abril Group and Robert A. McCormack, executive vice president, Citicorp.

Panel discussions focused on investment banking opportunities in Latin America, new approaches to increased competition in consumer products and alternative visions for business development.

■ "Growth Through Leadership" was the theme of the 23rd annual Whitney M. Young Jr. Memorial Conference held January 17-19 in Philadelphia. Keynote speakers at the event, sponsored by Wharton's African-American MBA Association, included former U.S. Secretary of Energy Hazel R. O'Leary; Malcolm Pryor, WG'72, chairman, Pryor, McClendon, Counts & Co., an investment banking firm in Philadelphia; Harvey Coleman, president of Coleman Management Consultants, Inc. in Atlanta, and Kirbyjon H. Caldwell, WG'77, a clergyman who is founder of the Power Center, a multi-service community development project in Houston.

■ Participants at the Wharton India Economic Forum on March 21 heard panel discussions on "Investing in Infrastructure for Growth," "Attracting Investment Capital" and "Investing in India's Consumer Industries."

The theme was "India: Investing in a New Era". Speakers included P. Chidambaram, finance minister of India; Naresh Chandra, Indian Ambassador to the U.S.; Gary Wendt, chairman and CEO, GE Capital; Purnendu Chatterjee, chairman, Chatterjee Group; Rebecca Mark, chairman and CEO, Enron Development Corp. and C. Rangarajan, governor, Reserve Bank of India, among others. ▼

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UNDERGRADUATE CLUBS

Continued from page 6

The **Wharton Technology Club** referred to earlier focuses on the role of technology in the workplace as well as business trends in emerging technologies. "There are not that many opportunities for people to interact in this field," says president Michael Ho. "The club is a forum to meet other people with similar interests."

The **Wharton Transportation Club**, which encourages its members to study and learn more about the transportation industry, recently hosted events featuring the presidents of Southwest Airlines and Amtrak.

There are other clubs as well, focusing on finance, accounting, emerging markets, Asia, the environment and real estate, to name a few. Many clubs are assisted by The Wharton Undergraduate Student Association which, for example, provides supplemental funding and offers advice on hosting a speaker or organizing a club activity.

Wharton students can also choose from approximately 150 Penn student organizations ranging from sports, music and acting clubs to religious and community service clubs.

"A lot of the Wharton clubs have a professional/career focus but they also provide opportunities for socializing and mentoring," notes Belinda Huang, undergraduate division associate director for student affairs.

In addition, she says, students who run the clubs or are involved in organizing club activities "find it's a very good way to get experience in leadership, communication, teamwork and motivation." *Julia Feldman* ▼



FAMILY-CONTROLLED COMPANIES ARE THE DOMINANT FORM OF BUSINESS ENTERPRISE WORLDWIDE. A WHARTON PROGRAM DOCUMENTS THEIR UNIQUE CAPABILITIES — AND THE CHALLENGES THEY FACE — IN THE GLOBAL MARKETPLACE

"I feel great pressure from the investment bankers to go public," says Roberto Civita, W'57, chairman and CEO of Sao Paulo-based The Abril Group, the largest publishing, printing and electronic media company in Latin America.

"They come and they say, 'Look, there are so many reasons to do this now. You can give employees stock; you can make your children more liquid; you can raise capital as you need it; you will have better discipline inside the company,' and so forth and so forth.

"These reasons are all good," says Civita, whose \$1.5 billion company was founded by his father in 1950. "But then I look at the world and I see a business climate where the quarterly earnings report has become deified. Once you go public, you get all these analysts saying that you promised to make 67 cents a share this quarter and you only made 65 cents. Your shares drop and everyone goes crazy. At stockholder meetings there are angry people asking why you made this or that decision. I would want to answer that I did it because I wanted to, or because it was important, or because I'm placing a bet on the future ...

"I told my children last week that I have had enough experience with the requirements of publicly-held joint venture partners and with the due diligence of American lawyers and SEC filings to know that I really don't want to go public."

Civita is hardly alone in his concerns about public ownership and the whole question of how companies like his can stay competitive and still hold on to the advantages of family enterprises.

Indeed, the names of some of the largest family-controlled corporations in the U.S. read like a *Who's Who* of successful businesses: Cargill, Inc., Jockey International, Inc., Goya Foods, Mars, Inc., Kohler Co., Levi Strauss & Co., Koch Industries, the Bechtel Group and Continental Grain — all privately held. Publicly held family businesses include Estee Lauder, Inc., the Marriott Corp., Berkshire Hathaway, Inc., Hasbro, Inc., J. M. Smucker Co., Campbell Soup Company, Gerber Products Co., Carnival Cruise Lines, Inc., Playboy Enterprises, Inc., Wal-Mart Stores, Inc., Tootsie Roll Industries, Inc., and Adolph Coors Co., to name a few.



In one form or another, all these companies are family-controlled corporations where family members still retain a significant (up to 100 percent) ownership of the company and, in many cases, senior management responsibility.

According to the most recent research, 37 percent of the Fortune 500 companies in the U.S. are family-controlled. In the *Business Week* 1000, top managers in 21 percent of the companies are descendants of the founder; 60 percent of all public corporations are family-controlled.



CIVITA: SETTING UP A MECHANISM FOR TRANSITION

Abroad, the figures are even higher. In Latin America and Europe, the family-controlled corporation has long been the predominant form of business entity. In Mexico and Chile, for example, 80 percent and 65 percent, respectively, of the largest firms are family businesses.

In Europe, 99 percent of Italian companies and 71 percent of Spanish companies are run by families. And in Asia, almost all the largest businesses — from the Salim Group in Indonesia and the Formosa Plastic Group in Taiwan to Li & Fung in Hong Kong and the CP Group in Thailand — are family conglomerates.

While New York-based Estee Lauder might seem to have little in common with Mexican beer exporter Grupo Modelo or Thailand's CP Group, these family-controlled corporations all face the challenge of operating in a global marketplace.

Two years ago, the Family-Controlled Corporation Program (FCCP) was established at Wharton to enhance the competitiveness and adaptability of family-controlled companies. The program's initial focus has been on Latin America: The opportunity to study the efforts of this region's multi-generational businesses to meet the challenges of global competition is unprecedented. The FCCP has targeted Asia as its second area of concentration. Studies of family corporations in the U.S. are ongoing.

While the predominant research on family corporations tends to view family ownership as a negative influence to be

contained if not excised, the FCCP's belief is that family businesses have potential competitive advantages over other firms.

"Family ownership has always offered inherent efficiencies and strengths — such as consolidated decision making and the ability to take a long-term approach to planning — especially in a company's early years," notes FCCP director Timothy G. Habbershon. "But in later-stage multi-generational companies, these efficiencies can become liabilities. Companies tend to lack formal incentive systems and communication channels, effective financial accounting, long-range strategic planning and other concepts that professionally managed non-family companies take for granted."

Such distinctions gain added importance as the opening up of new markets worldwide "forces companies to rethink corporate strategy more quickly than ever," Habbershon notes. "How do you structure the organization and professionalize your firm to compete in today's marketplace?"

Also at issue in Latin American and Asian countries is the reluctance of family businesses to open their companies to outsiders. The perception exists that outside ownership will weaken family control and eventually lead to acquisition or bankruptcy.

That doesn't have to happen, Habbershon would argue. "Many in the investment banking community suggest that family firms are obsolete in the global marketplace," he notes. "I disagree. Family-controlled companies and 'familyness' can continue to influence societies and enterprise in a positive way without being turned into short-run organizations ... In fact they shouldn't be. A recent study concluded that family-controlled corporations over the last 20-year period have outperformed, by as much as 3 percent, non-family controlled corporations. They are still maximizing value."

To address issues related to family ownership, the FCCP has undertaken research, outreach and education programs intended to generate new knowledge of family-controlled corporations and cultivate a network of family business partners around the world.

The FCCP's approach to its research is practical as well as theoretical. In January, Habbershon initiated a project with Banco Popular, the commercial banking subsidiary of BanPonce, a \$16.8 billion financial services company based in San Juan, to collect and analyze relevant data from 50 family businesses. Habbershon sees it as a unique opportunity to build a long-term firm-level relationship with a group of top-tier companies whose market value is more than \$3 billion.

"We are not only addressing the competitive strengths of family companies but we are doing so on a global scale," he says. "In addition, we are looking for outcomes-based success criteria of family firms and we are developing a strategy for getting at firm-level data and doing firm-level research."

The big difficulty with trying to mobilize family businesses, says Ian MacMillan, executive director of the Sol C. Snider Entrepreneurial Center and George W. Taylor Profes-

sor of Entrepreneurial Studies, is that “you have sets of procedures, decisions and processes that are family-driven but may not be that efficient. So the organization succumbs to looking after family interests instead of getting on with making the company more competitive.

“Our goal,” he adds, “is to help businesses which have significant family control achieve two objectives: First, to grow successfully over long periods of time and second, to compete using their advantages. These firms are facing a serious onslaught from competitors and in many cases an erosion of the family power base. What does it take to mobilize — and renew — the family business structure as opposed to the non-family business structure?”

ADAPTING TO GLOBAL COMPETITION



Federico Zorraquin, WG'87, general manager of IPAKO, a family-controlled public chemical company based in Buenos Aires, remembers the difficulties brought on by a restructuring of the Argentine economy several years ago. “It meant a lot of pressure for companies like us because our markets were opening up to foreign competition on one side, and our currency was becoming severely appreciated with regards to the dollar on the other side. Meanwhile the chemical industry worldwide was facing one of the biggest recessions in history so there was lots of product available at very cheap prices. It was an explosive situation.”

Zorraquin was able to restructure IPAKO by, among other things, selling off an unprofitable joint venture, restructuring debt, finding a British mining conglomerate to purchase 30 percent of the company, and in 1995 selling off two of its three plants to Dow Chemical. Today IPAKO is a smaller, more tightly run and profitable business “with substantial financial resources which we will be reinvesting into new activities,” notes Zorraquin. “We are redesigning the future of the company.”

Similarly, a recent *Latin Trade* magazine article on the success of Grupo Modelo, a beer exporter based in Mexico with sales of more than \$2 billion, noted the company's ability to establish a global vision and marketing campaign. Although the 72-year-old family firm went public two years ago, family members still own more than 40 percent of the company.

IPAKO and Grupo Modelo, whose Corona Extra is the second most popular imported beer in the U.S., “are great examples of companies that grew with the times,” says Habbershon. “In Grupo Modelo's case, it happened primarily because it formed a strategic alliance with Anheuser Busch. In the case of IPAKO, Zorraquin and his father, rather than fighting with each other, worked as a team to make the hard decisions needed to refocus and adapt the business.”

“Successful family-controlled companies in the Dominican Republic have one thing in common,” states Jose Miguel


Bonetti, W'61, CEO of Sociedad Industrial Dominicana C. por A. (SID), a manufacturing and consumer goods company founded by his father 60 years ago. “They have all looked for technical assistance from, or partnerships with, foreign companies. We are a small country. There is no way we can keep up with new technologies and developments in the world without looking outside.”

Adapting to global competition heads the list of challenges facing firms all over the world, but perhaps especially in areas like Latin America, Eastern Europe and parts of Asia. Free market economies and greater access to international markets have made change a matter of survival.

“Virtually everywhere I travel, companies are facing very tough competition not just internationally but also locally because of privatization within their own countries,” notes Michael Useem, professor of management and director of Wharton's Center for Leadership and Change Management. “There is the sense that they might get eaten up by bigger global firms or even smaller local enterprises.”

Along with the challenges of global competition, Useem adds, are the challenges of growth. “As these family-controlled companies get to a reasonably large size — 300 or 500 or 1,000 employees — a host of new problems develops around management and leadership. Professional management tools — ranging from process reengineering, outsourcing and activity-based costing to incentive compensation, strategic business units and creative international financing — are needed to make companies run better and more efficiently.”

Al West, WG'66, chairman and CEO of SEI Corp., a \$226 million global asset management/investment systems and services firm, “decided four years ago to go global. We ran smack into something we couldn't get around and that we



“These firms are facing a serious onslaught from competitors and in many cases an erosion of the family power base.”

have ended up embracing — the family business. We concluded that if we didn't learn the special needs of family businesses that we would have to stay in a small market.

“Emerging economies are privatizing large sections of their industry — including in many cases their pension systems — and in the process creating local capital markets,”

RESEARCH

If the family-controlled corporation is the predominant form of business organization in the world, it follows that the great majority of Wharton alumni will have some contact with family-owned and managed companies during their careers. "Either they will work in their own family-owned firm, in a consulting company whose clients include family firms, in a financial institution securing capital for family firms or in a major corporation that itself is family-controlled," notes Habbershon. "If you are a Wharton graduate in the middle of any of these situations, you need to understand how family dynamics impact enterprise — both the efficiencies and inefficiencies they create."

The influence of family firms on the U.S. economy is impressive. About 49 percent of all GDP comes from family owned firms, 59 percent of the workforce are employed by them, and at least 78 percent of net new jobs — some say close to 100 percent — are created by them.

For Habbershon, it all provides a rich universe of research and teaching opportunities. "My overall goal is to encourage Wharton faculty to conduct world-class research on the family form of business organization and then have it delivered to family firms in educational programs," he says. "But you can't deliver what you don't understand."

The FCCP has a number of projects underway:

❖ The Wharton/Banco Popular Family Corporation LEADS Project is the pilot for a worldwide network of institutional partnerships created to conduct firm-level research on family corporations.

Central America, Brazil and Chile are currently being explored as sites for future LEADS projects.

"It's one thing to say there is intergenerational disagreement," says MacMillan, "and another to say exactly where the disagreement is and measure it. Once you do that you can reach some consensus and get on with forging a strategy for the business rather than just battling away over things like succession planning."

❖ The Next Generation Network is a series of workshops focusing on leadership development and the transition process in multigenerational family firms. Successor generation persons are invited to three-day entry workshops offered in Philadelphia for the U.S. market and in Miami for the Latin American market.

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notes West. SEI has already expanded into Latin America and South Africa by, for example, setting up programs to educate Registered Investment Advisors, many of whose clients are family firms.

The new global order sets in motion a chain of events that family-controlled corporations either adapt to and thrive on, or ignore at their own peril, Habbershon says. "Global competition causes strategic realignment, which means moving the family beyond the closed borders concept of the market to the global market. That creates capital needs which often means going outside the firm. At this point family firms have to ask themselves if they want outside investors, and if so, what role the investor will play. Does the family let outsiders in? Give them shares? Give them control? How much control? How much is too much?"

"Does the family have a solidified shareholder group? Shareholder agreements? An active board of directors? Once you have outside partners as shareholders, you have to reorganize, give partners a place to get involved, do different types of training, add outside managers, reassess family members, and so forth."

In short, owners/managers must professionalize the family-controlled corporation.

PROFESSIONALIZING THE FIRM



Going public, suggests Richard Carrión, W'74, chairman, president and CEO of BanPonce, "forces much greater discipline and transparency on the process of managing a corporation. Among other things, you have to be much more formal."

In the 1950s, when Banco Popular was still private, Carrión's grandfather went to the U.S. and bought 20 percent of the former Continental Bank of New York. Eventually, Carrión remembers, his grandfather got around to telling family members back home of the transaction. "It was like he had eaten lunch at the Palm Restaurant and was putting it on his expense account," Carrión says. "It doesn't work that way anymore. You can't do that in a public company."

Following a series of acquisitions plus the decision to raise capital by going public, the Carrión family's ownership of Banco Popular has gone from 60 percent to 20 percent. They still retain control, however, and Carrión is the third generation to head the company. Today Banco Popular is opening additional banks in the U.S., expanding operations in the Dominican Republic, Costa Rica, Jamaica and the Virgin Islands, and looking for local partners in Central America and the Caribbean.

"When I say professionalization, many people think I mean getting the family out of the business," notes Habbershon. "I don't. I mean creating guidelines and structures which clarify the relationship between the family and business."



"When a company is seeking capital from outsiders — whether it's through the formal capital markets or a joint venture partner or some other outside source of funding — it has to demonstrate that it is a professionally run organization. Otherwise the outsiders will want to bring in professional non-family managers."

"The problem that companies in the Dominican Republic face," adds Bonetti, whose Sociedad Industrial Dominicana has annual sales of more than \$200 million, "is lack of professional management. It's extremely difficult to make family groups understand that in order for a company to be successful it must hire outside managers for specific areas of responsibility."

There are, of course, many ways to create a professionally run firm. In Civita's case, The Abril Group under his guidance has spent the last few years moving into new technologies, new products, new alliances and new markets. Its three main divisions — publishing, the direct marketing/telephone directory group and the TV/Video group — operate 28 subsidiaries in all, often in conjunction with international partners such as Hachette, Hearst, Hughes, U S West, Disney/ABC, Viacom, Polygram and Time-Warner. Its news weekly magazine *Veja* is the largest circulation magazine in Latin America.

Yet Civita is well aware of the dangers of family ownership. "I have seen it happen in most of the big companies in Brazil. Once the founder establishes a successful company, the big challenge is surviving the founder's death. Very few companies make it. Then you have to get past the second generation, which also isn't easy.

"If you get to the third generation, you generally have dozens of cousins. If you let them all into the business, and I know companies that did this, it becomes totally unmanageable. It goes bankrupt or somebody buys it."

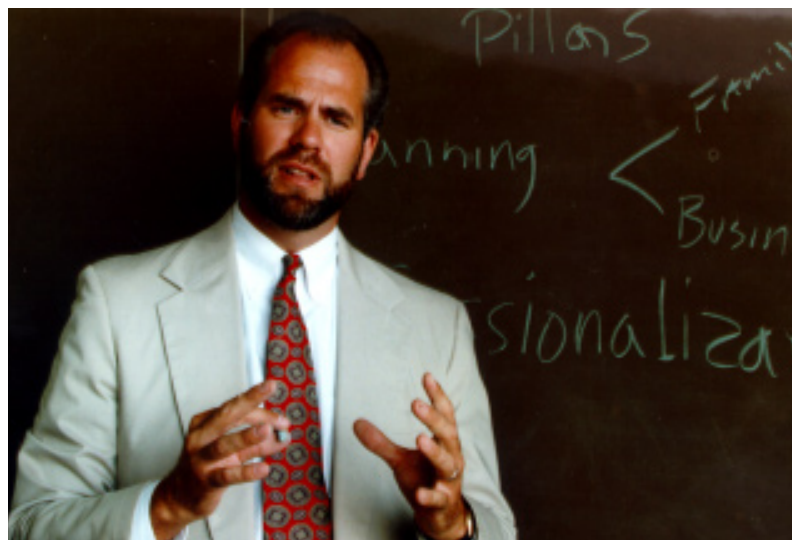
Civita, however, has a "recipe" for avoiding that scenario and it involves making a clear distinction between ownership and management. "Working in a company is one thing; owning stock in it is another. A family member doesn't have to work in the company if [he or she] doesn't want to or isn't well-prepared to do so, but he does have to learn to be a responsible stockholder. This is the minimum I demand."

Civita, who has two sons and one daughter, likes to say that "50 percent of my children work in the company." One son works full-time in The Abril Group and the other son works part-time. But all three children are members of an "advisory council" that also includes five members whom Civita has personally selected. "It is not a board of directors, because it doesn't make decisions," Civita says. "We meet every other month and the five men are all highly-qualified outsiders representing different backgrounds and viewpoints. The board is there to advise me. I want them to tell me if they think I am doing something crazy or if they don't think a particular initiative should be pursued, or whatever.

"This board is also a mechanism for transition. When I am no longer around, there will be these five men, plus my children. They could likely become a real board of directors whose first order of business would be to find a new CEO. In other words, this group would plant and nurture the seeds of change."



"Either you are ready to adapt to the rules and quality standards of a multinational or you run into trouble," notes Bonetti, whose Sociedad Industrial Dominicana is in the edible, cleaning and personal products business.



HABBERSHON: CLARIFYING THE RELATIONSHIP BETWEEN FAMILY AND BUSINESS

Bonetti's strategy has been to establish relationships with a number of consumer goods companies whose products are imported by his company and sold in the Dominican Republic. These companies include, for example: Unilever PLC, Hershey Foods Corp., Kimberly-Clark Corp., Kellogg Co. and Pillsbury Co. "We have achieved a very good relationship with Unilever," notes Bonetti. "They give us technical assistance on the products that we manufacture in return for royalties. We have several people that have come from Unilever to work for us in Santo Domingo. They have been a tremendous help."

Bonetti, his brother and his sister maintain control of the company in partnership with the Armenteros family which owns about 30 percent of the company. Another 35 people have close to 12 percent ownership. "The big challenge looking ahead will be for my children and my siblings' children," Bonetti notes. "I hope that at the very least we can leave them a well-organized, professionally-run company."

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ALIVE AND WELL AND WORKING IN ...



OUR SERIES ON CITIES TAKES US TO HONG KONG, HOME TO NEARLY 200 ALUMNI WHO WORK IN A CITY KNOWN FOR EFFICIENCY, SOPHISTICATION, COSMOPOLITANISM AND, PERHAPS MOST OF ALL, OPPORTUNITY. BUSINESS, ACCORDING TO EVERYONE WE SPOKE WITH, IS BOOMING, FUELED BY NEW INVESTMENTS IN CHINA, CONTINUING EXPANSION THROUGHOUT THE ASIA PACIFIC AND CONSTRUCTION OF A NEW AIRPORT, THE LINCHPIN OF A MASSIVE HARBOR DEVELOPMENT PROJECT. ON THE FOLLOWING PAGES, ALUMNI SPEAK OF THEIR EXPERIENCES IN HONG KONG AND OF THE FUTURE THAT LIES AHEAD UNDER HONG KONG'S REVERSION TO CHINESE SOVEREIGNTY ON JULY 1.

PAUL M.F. CHENG, WG'61

**Chairman, Inchcape Pacific Ltd., and
N M Rothschild & Sons (Hong Kong) Ltd.**

For Paul Cheng, it's been an unusually busy 12 months.

On the company front, Inchcape Pacific — the Greater China regional arm of the £6 billion international distribution group Inchcape plc — formed a joint venture with Mainland Chinese partners to provide warehousing, logistics, distribution and retailing services in Shanghai.

This was followed a few months later by another joint venture to develop logistics operations in South China. Meanwhile, Nanjing Hong Kong Changjiang Co. Ltd., which is 60 percent owned by Inchcape, has opened its latest motors service and maintenance center in East China, and the container trucking joint venture, Land-Ocean Inchcape, is moving into a brand new 52,000 square meter terminal near Shanghai's main port.

While these initiatives represent a tiny fraction of the Inchcape Group's business interests throughout Asia, they reflect Paul Cheng's strong belief that China is clearly the market of the future. "China is changing, and changing for the better," he notes. "Reformists among the 'old guard' have done a remarkable job to date in opening up China to the outside world; in effecting the transformation from a centrally planned economy to a market economy; and in changing the attitudes and values of the Chinese people."

Cheng himself is a close observer of that change, particularly given Hong Kong's upcoming return to Chinese sovereignty on July 1 — an historic event in which Cheng is deeply involved. For nearly three years, he has visited Beijing almost every month to discuss key transition issues with Chinese officials. He is a member of the Preparatory Committee — the body appointed by China to prepare for the establishment of the Hong Kong Special Administrative Region — and a member of the 60-person Provisional Legislature, which will take over from the current legislature (on which Cheng also serves) on July 1 and serve until new elections are held in 1998. In addition he is a Hong Kong Affairs Adviser to the Chinese Government.

Born in China, raised in Hong Kong and educated at Lake Forest College and Wharton, Cheng talks frequently about the "One Country, Two Systems" concept devised by the Chinese government in 1978 as, he says, "the guiding principle for the reunification of China — not just with Hong Kong but also with Macau and Taiwan. Hong Kong in 1997 is the first test."

If the test is passed, and Cheng believes it will be, then "the ultimate capitalist society (Hong Kong) will continue, largely unchanged, as part of the world's largest Communist country (China)."

He is as bullish about Hong Kong after July 1 as he is about China. Both, he says, will thrive, despite what he acknowledges

is increasingly negative international media coverage of the transition.

His optimism stems in part from the fact that China and Hong Kong each stand to reap significant gains from a smooth transition. "China is one of the leading investors in Hong Kong, with major interests in trading, banking and finance, property, manufacturing and transportation," notes Cheng. "Total investment is estimated at close to \$30 billion. As for Hong Kong, China is Hong Kong's largest trading partner while Hong Kong is China's third largest (after Japan and the U.S.). About half of China's total exports are handled by Hong Kong. In addition, Hong Kong is the largest foreign investor in China, and now employs more than four million workers in South China."

Ultimately, China and Hong Kong are tied together not only by history but also by shared knowledge. "Hong Kong is the most developed center anywhere in the world for information and expertise on China and China trade, and for the practical experience of doing business in China," notes Cheng.

At the moment, Hong Kong remains one of Inchcape's largest and most important operational centers worldwide. Inchcape Pacific is the leading distributor of motor vehicles in Hong Kong, and the premier marketing and distribution company, representing more than 200 brands. Hong Kong is the regional headquarters for the Inchcape Group's global shipping agency network, while Inchcape NRG, a Hong Kong-based joint venture between Inchcape and Ricoh, is the largest independent distributor of office automation equipment in the Asia Pacific region.

After Cheng graduated from Wharton, he spent eight years at Richardson-Vicks (then Richardson-Merrell) in New York, Singapore, Malaysia and Thailand. He returned to Hong Kong in 1969 to work for Warner Lambert where he headed up the Asia region in the mid '70s. For the next 10 years he was a partner with SpencerStuart & Associates executive search firm. Cheng joined Inchcape Pacific as an executive director in 1987 and was named chairman in 1992.

In 1995, he took on the added role of chairman of Rothschild (Hong Kong). The Rothschild Group, which operates in more than 30 countries and employs more than 2,000 people, has been doing business with the People's Republic of China since 1953. In 1994 it opened a representative office in Shanghai.

In recognition of his service to the international business community in Hong Kong and Asia, Cheng was decorated "Chevalier de l'ordre de la Couronne" by the king of Belgium in 1991.

Hong Kong "will change after 1997," Cheng says. "To think otherwise would be naïve." Among those changes will be "the greater influence of Mainland Chinese-backed cor-



porations, which will become increasingly active investors in Hong Kong and will seek more listings on the Hong Kong stock exchange," although not at the expense of a "level playing field for other companies," he adds.

Hong Kong will not "lose its international flavor," Cheng notes. "After 1997, I expect it to be business as usual."

ROBERT V.J. NIEN, W'70, WG'72

Executive Director, Hopewell Holdings Ltd.

As a credit officer in Citibank's Hong Kong office in the mid '70s, Robert Nien specialized in real estate lending. A major account was Hopewell Holdings, at the time one of Hong Kong's largest property developers.

In 1976 Nien accepted a job with Hopewell. "I've been here more than 20 years and grown with the company," he says.

"Grown" is the key word. Nien is one of seven executive directors of a company with net assets of approximately \$3 billion, a workforce of 8,500 employees spread throughout Southeast Asia, and diversified interests ranging from power plant operation and highway construction/investment to residential and hotel development and property management.

"When China opened up in the late '70s, we were one of the first companies to go into infrastructure investment," notes Nien, who was born in China and educated in a Catholic school in Hong Kong. "A power station that we built in southern China became a model for other private power station projects in the mid to late '80s ... Two years ago we completed a 123-kilometer expressway from the border of Hong Kong to the city of Guangzhou (formerly known as Canton). It's the most modern freeway in China."

Current company projects include: a 102-kilometer network of four interconnected roads in Guangdong Province in China; an elevated road and train system in Bangkok, Thailand; a 16-kilometer three-lane suspension bridge in Guangdong Province and a planned road project in the Philippines.

In addition, Hopewell already owns or is developing extensive properties, including hotels, apartment buildings and shopping centers, in Hong Kong, Thailand, China, Macau and Malta. (Indeed, Nien's favorite restaurant and hotel are company-owned.)

Many of Hopewell's projects are on a build-operate-transfer (BOT) basis, which means that the project is privately owned and operated for a pre-determined number of years before reverting to government control.

Hong Kong over the past 20 to 30 years "has been a very aggressive place where things

get done quickly," notes Nien, who is responsible for the company's financing and accounting functions. "It is compact. There is very little bureaucracy or red tape within the government and very little corruption. It means that Hong Kong has been able to sustain progress.

"We expect to change a little after July 1. Hong Kong will probably be a little more bureaucratic and things will probably rely a bit more on relationships. But whereas there were uncertainties a few years ago about what the July 1 turnover will mean, gradually that uncertainty has faded away. Many who emigrated to the U.S. and Canada have actually returned because the employment opportunities here are quite good. People in general are more confident."

CARL A. LOO, W'79

Managing Director, First Eastern Investment Group

"If you want to invest successfully in China," suggests Carl Loo, "you need to do two things right. First and foremost, find the appropriate Chinese partner who has not only the requisite strengths but whose interests are fully aligned with your own. Second, ensure that your Chinese partner puts their own capital into the venture."

That strategy is the linchpin of First Eastern Investment Group, a Hong Kong-based private equity firm specializing in direct investment in China. First Eastern, founded in 1988, currently manages \$400 million from institutional and private clients.

Investors in First Eastern's seven funds — six China funds that are structured as joint ventures with major Chinese enterprises, plus one Taiwanese equities fund — range from GE Capital, Bechtel Enterprises, Dow Chemical and the United Nations pension fund to Credit Suisse, Barclays Bank, NatWest pension fund, Nomura Securities and investment arms of the Singapore and Hong Kong governments.

Over the past four years First Eastern and its Chinese partners have made 35 investments in manufacturing enterprises and infrastructure projects in eight provinces in China. "We have exited five," notes Loo. "The internal rate of return on those investments has ranged from 20 to 70 percent."

Each of First Eastern's funds is managed by a team of six professionals, half from First Eastern and half from its Chinese partners. "In order to protect our interests," Loo says, "we reserve the right to appoint the deputy general manager and the CFO of the joint venture or the investee company."

What blue chip investors in First Eastern's funds get in return for their money, says Loo, are strategic relationships with major Chinese enterprises and ministries at a time when the country is increasingly transitioning to a free market economy.

FAVORITE RESTAURANT

The Revolving Restaurant

FAVORITE HOTEL

Kowloon Panda Hotel

Loo brings to First Eastern a broad range of experience. He was born in New York, lived in Hong Kong from ages 7 to 14, and attended Phillips Academy in Andover, Mass., before coming to Wharton. A Thouron scholar, he studied philosophy, politics and economics at Oxford, worked in corporate finance at Morgan Stanley for two years and graduated from

Harvard Business School in 1985. He spent the next two years with Boston Consulting Group, then returned to Hong Kong and managed a real estate development company founded by his late father-in-law. In 1990 he joined a private equity firm called Morningside Asia where he oversaw Southeast Asian investments for a Hong Kong family before joining First Eastern two years ago.

Once Hong Kong reverts to Chinese rule in July, Loo predicts that it will become “a less international and more Chinese city. By that I mean that personal relationships will become more important. The system will run more on who you know and the relationships you have, rather than on political and legal institutions per se. A lot more importance will be put on personal trust rather than faith in institutions.

“Hong Kong has long been the most effective place to conduct business in Asia,” he adds. “In the last 25 years it has also been a regional headquarters for operating in the Asia Pacific because it is strategically located and has an efficient infrastructure. Also, English has been the medium of communication.

“Much of this will change. Hong Kong will become more of a hub for foreign companies doing business in China. Companies operating regionally may look for other places to establish their headquarters. The standard of English may deteriorate because mainland Chinese prefer to communicate in Mandarin and written Chinese.

“I think this will all happen sooner than people think. Many mainland Chinese companies will be establishing operations here in Hong Kong. It will be their window on the outside world.”



KENT YEH, WG'80

Managing Director, Tai Ping Carpets International Ltd.

In 1982, after two years with the Arthur Young management consulting group in California, Kent Yeh was “summoned” back to Hong Kong to join the family business.

“Actually I was partly summoned and partly given an offer,” he says. “My father had started the company, a custom carpet manufacturer, in 1955, and there was a need for professional managers to run it. This is especially difficult in Asia where the culture is such that employees like the boss to be

an owner rather than an outside professional. Every time the board found a manager they couldn’t keep him very long.”

Yeh obeyed the summons, and he and his wife moved back to Hong Kong where Yeh went through the company ranks, first as a mid-level manager, then as a member of the export department and now as managing director, or the equivalent of CEO. His father is no longer active in the business.

Tai Ping Carpets is a \$40 million public company with about 3,000 employees if you add in factory workers. They design and manufacture custom carpets for the high end of the market, including hotels, restaurants and wealthy individuals.

“When I joined the company, we were one of the first in Asia to invest in a fax machine because we knew it would be very useful for sending designs back and forth,” says Yeh. “But now everyone has one at home. So that is a big difference between then and now. At the same time, the technology of carpet manufacturing has not changed much. It is all hand done and very labor intensive.”

One of Yeh’s main responsibilities is maintaining relationships with hotel groups, institutions, customers and designers. Although the company has sales offices around the world, Yeh is frequently on the road meeting with existing and potential clients.

“We have factories, or associated factories, in Thailand, the Philippines, Indonesia and two in China,” he notes. The company closed down factories in Singapore and Hong Kong because of high costs. “Manufacturing in Hong Kong is generally too expensive and it’s difficult to find young people who want to work in factories.

In addition, most Asian countries impose very high import duties on luxury goods.”

Yeh was born in Hong Kong and graduated from Berkeley. He and his wife, a Stanford graduate, have two sons.

Tai Ping manufactures about 6,000 carpets a year. “We get to deal with a lot of people who appreciate beauty and color and design,” says Yeh. “I find that very refreshing.”



BHANUSAK ASVAINTRA, W'68

**Director and Executive Vice-president:
CP Group/Chia Tai Group**

In 1980, a Thai-based agricultural company called the CP Group made two moves: It hired Bhanusak Asvaintra to work in its Hong Kong office and it decided to invest a small amount of money in China.

Today, the CP Group — now an approximately \$8 billion company that manufactures motorcycles in China and has power plants and real estate there as well — is one

of China's biggest investors. "Back then, we realized that China was going to change, that the Chinese believed communism had taken them about as far as it could and that it was time to look for other forms of enterprise," says Asvaintra.

"Yes, it was risky for us, but we weren't investing all that much in the beginning."

The CP Group (known within China as the Chia Tai Group) was one of the first foreign companies to enter China. "The Chinese government listed our business registration number as 001,"

Asvaintra remembers.

Hong Kong and China are closely linked, he notes, not just by the upcoming change in government but by mutual advantage. China offers a huge market for investors and Hong Kong "offers China sophisticated technology, management know-how, good ports, and advanced communications."

Asvaintra, who was born in Thailand and came to the U.S. to attend St. Paul's School and Wharton, earned an MBA from the University of Chicago and then worked for Chase Manhattan in New York. Chase's global training program sent Asvaintra to Hong Kong in 1972 where he remained with the bank for four years before starting his own garment manufacturing business.

He feels that "people accept the fact that Hong Kong is going to continue to prosper. In these last few months alone, property prices have gone through the roof..."

"Hong Kong is basically now a service economy. Manufacturing is too expensive. Most of the factories have moved into China."

WILLIAM EBSWORTH, WG'84

Chief Investment Officer, Fidelity Investments

"Investing in Southeast Asia means investing with family-owned businesses," notes William Ebsworth, chief investment officer for Fidelity in the region.

Specifically, that means "understanding family dynamics and looking for partners who treat minority shareholders fairly. That's why we employ analysts who speak the languages of the countries we invest in."

Fidelity's track record in Asia is excellent. Ebsworth and a staff of 30 investment professionals now manage more than \$9 billion, up from \$4 billion in '95 and substantially up from the \$400 million under management when Ebsworth arrived in Hong Kong in 1990.

Fidelity's presence in Asia includes offices in Hong Kong, Singapore, Taipei, Sydney and Tokyo, staffed by analysts,

fund managers and traders representing 11 different nationalities. A team of 20 analysts based in Hong Kong visits approximately 3,000 companies throughout Southeast Asia each year. Another 16 based in Tokyo make more than 2,000 visits in Japan.

Analysts specialize in both countries and sectors, and Fidelity builds portfolios stock by stock, rather than by making top-down allocation decisions on entire markets, says Ebsworth. "Fidelity's bottom-up approach means we hire people with local understanding in each of the markets. We generally recruit MBAs who grew up in Asia and went abroad for university. Our fund managers all started as analysts."

This has helped Fidelity build a strong track record despite generally mixed markets in Asia. "Stocks have been oblivious to all the rhetoric about the dawning 'Asian Century,'" notes Ebsworth. "Ironically, the U.S. market has been the place to be over the past three years, as America has regained competitiveness while Asia has become a more expensive place to operate."

Fidelity's client list includes retail customers from Hong Kong, Europe and America in mutual fund accounts as well as domestic and foreign institutions such as British Steel, Hong Kong Telecom, Hong Kong University and the British Post Office.

Ebsworth, who earned a BA from The Johns Hopkins University in Baltimore, joined Fidelity in Boston after graduating from Wharton. Over the next six years, he rose from analyst to assistant fund manager and then fund manager in the firm's Boston and Tokyo offices before relocating to Hong Kong in 1990.

"I was born overseas and have moved quite a few times," says Ebsworth. "I've lived in more than a dozen cities and Hong Kong simply works better than any of them. Why? Because we have the strongest human infrastructure — the best cops, civil servants, doctors, lawyers, plumbers, nurses and so on. If we have one worry about Hong Kong's reversion to China this year, it's a drift toward China's less efficient social infrastructure."

"If we can retain the people who make Hong Kong work and keep corruption down to a manageable level, this city will remain Asia's premier financial center long after the July 1 handover."

GEORGE HONGCHOY, WG'91

Assistant Director, Jardine Fleming Securities Ltd.

George Hongchoy joined Jardine Fleming in late 1992, just before the big rush of funds from U.S. money managers

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FAVORITE RESTAURANT

Fook Lam Moon

FAVORITE HOTEL

The Regent

FAVORITE RESTAURANT

China Club

FAVORITE HOTEL

The Regent

High-Stakes Decision Making

A WHARTON PROFESSOR LOOKS AT HOW CONSUMERS MAKE CHOICES
AND WHY THAT'S IMPORTANT TO MARKETERS

Decisions, decisions. Consumers make hundreds each day, from the mundane (do I buy Tropicana or Minute Maid orange juice?) to the important (do I lock in a fixed or adjustable rate mortgage?) to the life and death (do I undergo a screening for breast or prostate cancer?).

While many consumers recognize that their decisions are important, few think very hard about how they actually make them. Barbara Kahn, a professor of marketing at Wharton, does. She has spent more than a decade researching and discovering the intricacies of consumer decision making — everything from why people seek variety, to how much they're willing to pay for a product or service, to how likely they are to undergo life-threatening medical treatment.

"My research focuses on the complicated processes that go into consumer decision making," says Kahn. For example, "consumers sometimes want something just for the sake of variety, even if it's not what they like the most. The more companies understand the way consumers make decisions, the easier it is to focus on the customers' needs. It may sound obvious, but it's not."

What *is* obvious is the resurgence of marketing and its growing influence in the executive suite. According to a recent survey by the *Economist* Intelligence Unit for Korn/Ferry International, 37 percent of top executives in international companies now believe a marketing background provides the fastest path to the CEO's chair. By contrast, only 14 percent say finance is the best route.

That, according to Kahn, is not surprising given deregulation, the Internet and an around-the-clock, around-the-globe business climate which has triggered an emphasis on marketing in industries that historically haven't emphasized it, such as utilities, health care and telecommunications.

Marketing has also cast its net across national boundaries, in some unusual ways. For example, Thailand's Siam Cement, one of Asia's largest cement producers, is expanding its base manufacturing business into products such as bathroom fixtures and sinks, high-quality roofing tile and possibly a Home Depot-like store. As the company branch-

es out, marketing will play a much more prominent strategic role, says Kahn, who worked with Siam Cement as part of an executive education program. "Even in products like bathroom fixtures there is an issue of beauty, aesthetics, durability, brand name and prestige that is becoming more important to end users. Roofs are becoming a prestige item on houses."

The fact that companies are printing their names on bathroom fixtures and inside furniture drawers suggests that they're trying to build a brand





Kahn: "We want consumers to appreciate variety instead of being overwhelmed by it."

identity, adds Kahn. "One way to achieve this is to use consistent symbols in everything from labels on the product to packaging to advertising copy."

Kahn, who earned a BA in English literature from the University of Rochester, began her marketing career after writing advertising copy and promoting environmental initiatives in Washington state. She earned an MBA, MPhil and PhD in marketing from Columbia University.

Kahn became a full-time member of the Wharton faculty in 1990 and has also held teaching posts at the University of Tokyo, University of Sydney (Australia), UCLA and Pace University. She has consulted with organizations such as UPS, Bell Atlantic and Cigna. Below she discusses some of her research findings as well as trends in the field of marketing.

Making Trade-Offs

"What's interesting about consumer decision making in high stakes areas like medicine, finance and real estate is that it tends to be stressful due to high consequence and uncertainty," Kahn says. "Also, people may exhibit systematic biases in memory or in decision making, which can result in irrational and often poor judgments. For example, people's memory of objective information may be biased by such factors as fear or overconfidence. Research historically shows that naïve, or non-expert, decision makers may not deal well with uncertainty."

Take the health care field. "People generally did what doctors told them to do and had little involvement in the decision making," Kahn says. "Now, with HMOs and the ability to choose his or her own insurance, the patient is a real decision maker."

"A woman who has just been diagnosed with breast cancer, for example, has to learn very quickly about her disease and its possible

treatment options. She will no doubt have to make difficult trade-offs having to do with quality-of-life issues vs. survival rates. Since the outcomes of her decisions are uncertain, they are clearly risky. The woman is also likely to experience considerable stress and intense emotions during this period. People who don't want to think about death or a lower quality of life due to a debilitating illness may not be making an optimal decision because they would rather not deal with those trade-offs."

Marketers should pay attention not only to how people make health care decisions, but also to what kind of promotional campaigns can encourage behavior promoting good health, says Kahn. "For example, letters recommending mammography that included the name of the target person were significantly more successful in motivating women to sign up for this procedure than form letters without the name," according to recent research.

Another factor that has an impact on medical decisions is the growing influence of HMOs and their emphasis on routine tests for diseases such as breast and prostate cancer. Unfortunately, says Kahn, some of those tests have high rates of false positive results, which may wreak havoc with a patient's decision-making ability. Kahn and Wharton colleague Mary Frances Luce are currently studying the impact of false positives on women undergoing mammograms. "We're curious to see how a false positive affects a person's subsequent decision to get another mammogram in a year," Kahn says.

"Companies have not been paying enough attention to the psychological risks caused by inaccurate test results," she adds. "Our evidence seems to indicate that [inaccurate test results] do influence people's feeling of vulnerability and increase stress." From a consumer education standpoint, companies like Bristol-Meyers Squibb and Johnson & Johnson that make various home testing kits need to anticipate the mistakes a customer might make in administering a test. "If you can help the customer learn to take the tests properly, mistakes are less likely, which insures more accurate test results. That should lead to increases in loyalty towards the test manufacturers."

Kahn and Luce surveyed the factors that influence the likelihood of taking a test. "It's critical for companies selling products over the counter like pharmaceuticals and HIV self-diagnosing test kits," Kahn says.





"How expensive is the test? How painful is it? What is the likelihood of having the disease? How expensive or painful is the treatment? We're in the process of analyzing data that may help identify which factors are going to make people more likely to take a test. The answers can influence things like ad copy, packaging, labeling and/or where the test is ultimately sold."

Smart Agents

In any type of decision making, Kahn says, it is important for consumers to identify decision traps. Under stressful circumstances, for example, individuals may resort to easy, and seemingly more justifiable, decision rules.

Kahn points to the whole area of money management where people who are novices about financial investments may not want to think about the trade-off between risk and return because traditionally someone else — such as the benefits manager of their pension fund — made investment decisions for them. A sophisticated investor, on the other hand, knows that you have to trade off risk against return. "A novice avoids making that trade off because he or she doesn't like thinking about the possibility of a loss. It's easier to go with the risk-averse strategy — putting money into a certificate of deposit, for example, instead of the stock market — which is not always a good investment strategy. Experts have biases, too, but they tend to be a little better calibrated."

When consumers access information, they don't necessarily treat it in the same way professionals treat it, nor do they think they should, Kahn says. "They have expectations about how doctors, financial advisors, or other experts ought to make decisions that they don't place on themselves."

In a recent study with Jonathan Baron, a psychology professor at the University of Pennsylvania, Kahn found that people tend to use simpler decision rules when making their own choices, but they expect their doctor or financial advisor to use a more complex decision process that considers all the relevant information available.

What this means for consumers who are now making more of these decisions themselves is the need for decision tools, says Kahn. Already a number of marketers have come up with various "smart agents" such as software for tax preparation, financial investments and medical diagnostics. The World Wide Web alone has created an explosion in the amount of information available to a consumer.

"Smart agents can sometimes play the role of a lawyer, an accountant or even a doctor," Kahn says. For example,

health care area interactive videos, such as those developed by the Foundation for Informed Medical Decision Making in Hanover, N.H., allow patients to educate themselves about the details of their medical conditions on the basis of personalized information entered for each individual. In financial investments, new software packages provide consumers with information on investment opportunities, tax planning and estate management based on a consumer's own financial profile.

These smart agents "allow you to slowly, and by yourself, sift through a customized program and understand the different options and decisions you're going to make," Kahn says. "You're probably going to see more and more of that. It's not to say that the doctor or financial advisor is not important. It's that a consumer can become a more informed partner. If we as marketers understand and predict when consumers are either making mistakes or where they're likely to be uncomfortable in their decision making, then we can design smart agents to help these consumers make better decisions."

Competing on Service

In addition to the growing importance of consumer education, marketers must take into account a higher expectation with regard to service, Kahn says. "For example, a retail customer with Fidelity Investments may now expect that he or she can telephone every night to check on his or her account. Because companies are dealing more directly with end users, there is more long-term relationship building with the consumer. Record keeping, convenience, reduced risk, ease of decision making, knowing the consumer's name can all become critically important. It's not just the performance of the primary service, but also the associated service."

"For example, I might lean toward the medical provider that makes it easier for me to file medical forms," Kahn says. "I hate dealing with them. It would be a benefit to just pay what I owe and not get involved with paperwork. So organizations such as HMOs may start to position themselves on services other than pure medical care, like record-keeping."

Competition based in part on service will also have a bigger role in telecommunications where phone and cable companies are interested in offering Internet access,



Health care interactive videos allow patients to educate themselves about the details of their medical conditions on the basis of personalized information.



says Kahn. "The service aspect of the decision may present a definite marketing advantage for telephone companies. It's not clear yet whether Internet connections will be through telephone lines or cable lines, but cable companies' less-than-stellar track record for service may come back to haunt them. When consumers eventually get a computer hookup, reliability is likely to be very important." The advertising messages of some telephone companies, Kahn says, have begun to emphasize their reputation for reliability.

"Utilities, an industry notorious for ignoring customers' convenience, are beginning to change as well. A large energy producer, for example, has recently run ads emphasizing its personalized service. When buyers have alternatives, personalized quality service begins to make the difference. When buyers don't have a choice among providers, they are forced to take a product any way they can get it.

"What consumers ultimately want is the highest quality at the lowest price. But if that's not possible, then trade-offs must be made. Many marketing campaigns are built on showing that better service is worth paying for. You have to give up something to gain something else."

The Grocery Revolution

The retail grocery business, says Kahn, which historically has not been marketing oriented and only recently has begun to take advantage of customer data, is one industry where increased competition has brought a number of visible changes.

Kahn and Leigh McAlister of the University of Texas at Austin have recently completed a comprehensive review of the industry called *The Grocery Revolution: New Focus on the Consumer* (Addison-Wesley Educational Publishers, Inc. 1997).

Discount stores like Wal-Mart have driven prices down and non-supermarkets have entered the fray, the authors point out. Diapers can be bought in a Safeway or Toys R Us. Grocery items can be purchased at a drugstore or a Wal-Mart.

"My focus in the book was to look at how consumers make purchasing decisions in the supermarket," says Kahn. "If we understand how

they make decisions at every stage of the process, we can add value."

Faced with competition from both inside and outside, the industry is becoming highly segmented, Kahn adds. "You're seeing everything from upscale stores like (Maryland-based) Fresh Fields to warehouses like Sam's (a division of Wal-Mart). You're seeing sophisticated marketing strategy where it didn't exist before."

For example, Fresh Fields carries in-store educational information about the nutritional value of its food and does in-store sampling of new or special products, such as fine cheeses and exotic crackers, says Kahn. "It's educational in addition to increasing the likelihood of a sale." A similar practice occurs in upscale wine stores, where store owners suggest wines to accompany various food selections or provide wine-attribute vocabularies to help evaluate the better vintages. Supermarkets have also begun to build relationships with their customers through frequent shopper cards that award loyal customers with special promotions.

"Marketers need to figure out how people choose the stores they shop at," says Kahn. "Then, once the consumer is in the store, how does he or she choose a product category and select an actual brand? It turns out that shelf placement and merchandising can affect sales. For example, if an item is at the end of the aisle, people may be more likely to buy it. Pricing strategies, coupons, in-store price discounts and advertising in local newspapers can all influence the final purchase. And there are interesting cross-category promotional relationships. For example, retailers have found that when cake mixes are discounted, sales of frosting increases. When expensive salad dressings are moved to the produce/salad department, sales of those salad dressings increase."

Individual supermarkets focusing on premium quality and extensive selection, such as Piggly Wiggly in Tennessee or Ramey's Supermarket in Mississippi and Alabama, also have a presence on the Internet. Their Web pages feature new items, sponsor sweepstakes and offer recipes and entertaining tips to their customers. They may also offer promotional coupons.

Food shopping on the Internet is not that popular but there is evidence that it may become more common, Kahn says. One of the most successful Internet grocery shopping outlets is Chicago-based Peapod which has had an on-line grocery shopping and delivery service since 1989. In 1996, Peapod had more than 20,000 subscribers (more than 80 percent women and 89 percent college-educated) who mostly shop in the evenings and spend an average of 37 minutes

It turns out that shelf placement and merchandising can affect sales. If an item is at the end of the aisle, for example, people may be more likely to buy it.



on line. Shoppers can access more than 20,000 grocery and drugstore items and have them delivered to their homes. The service currently operates in Chicago, San Francisco, Columbus and Boston.

Peapod allows consumers to engage in virtual shopping. They can shop in traditional ways by traveling down “aisles” and stopping to explore specific product categories. But they can also shop in nontraditional ways, such as sorting items by price, by nutritional content, by brand name or by what they bought last time. Consumers who have shopped at Peapod say that they are less likely to purchase on impulse and that comparison shopping is easier.

“Customers are willing to pay a premium for this service, which makes it positive for the marketer, too,” Kahn says. In addition, the marketer is able to collect, by tracking computer mouse clicks, very accurate and detailed records of how customers organize purchases, which products they wanted more information on and price sensitivity. Information like this can help marketers set up their pricing structure, promotions and product assortments.

The Internet Option

The Internet, says Kahn, is fast and interactive. You can get immediate customer feedback, in large quantities, because every move someone makes on the Internet can be recorded — what sites they’ve visited, what they’ve ordered, how much time they’ve spent at a site or what they’re considering purchasing.

“Many experts seem to believe that the most likely way to make money on the Internet is through advertising, perhaps via a service like Pointcast, which offers its users customized news and weather,” says Kahn. “Cosmetic companies are also beginning to experiment with web pages by, for example, helping customers learn about the different products in their cosmetic line or customizing cosmetics for specific users. A consumer might be embarrassed to tell salespeople face-to-face about his or her physical flaws and blemishes. But the Internet is anonymous. If a marketer can get a consumer to interact with their web page in a way that really brings the consumer in, then the Internet could possibly increase sales, either on the web or at the store.”

The Internet can also be valuable in disseminating information to people who make purchases that require a lot of research, like a new car, Kahn adds. “It can supplement sales staff or provide a more efficient way to answer questions. It may be a way to lower costs, even if it doesn’t increase sales.”

How marketers handle all this information is related to Kahn’s research on variety and customization. For example, a consumer trying to fix up a house has a choice of thousands of different kinds of tiles or hundreds of different windows. “How are they supposed to make that decision?” Kahn asks. “One of the things I’m working on with Wharton colleague Cynthia Huffman is a model to help consumers learn their

preferences efficiently and painlessly. We want them to be able to appreciate variety instead of being overwhelmed by it. If the consumer doesn’t know what to do with all of this information or is confused by the variety, then a large selection does not provide much value.” *Michael Baltes ▼*



FAMILY BUSINESS *Continued from page 13*

Professional management, says Habbershon, means a number of different things. For example:

FORMAL BOARD OF DIRECTORS: Adding outside directors to a formal board brings new insights and perspectives and creates a professional atmosphere among family members. A board can also become a vehicle for creating strategic alliances or joint ventures.

“Strategic partners expect to have an active role in the company and that means board representation,” notes Habbershon. “Without a board, there is no way the partner can evidence involvement...”

“In addition, the board helps define a proper role for family shareholders; it becomes a buffer between them and the firm.”

OUTSIDE MANAGERS: “If you are going to perpetuate the business, you need specialists beyond family members who understand financing, marketing, accounting and other key functions,” notes William Alexander, a lecturer in family business at Wharton and the third generation member of a \$150 million family-owned engineering and construction business started by his grandfather in 1928. “That means formal job descriptions, personnel procedures and job evaluations.”

It also means honestly evaluating the managerial and professional strengths that family members bring, or don’t bring, to the firm. “The most difficult problem is getting family groups to see that in order for a company to be successful you must hire professional people,” says SID’s Bonetti. “If not, sooner or later you will have so many family members working in the company that something will go wrong.”

MERIT-BASED COMPENSATION: A merit-based pay system indicates that a family has clarified the relationship between family and business. It also highlights the need for stakeholder education, in which stakeholders — such as children of the CEO or third generation cousins involved in management — are educated as to why they all don’t deserve the same salary, or why non-monetary forms of compensation aren’t a good idea, or what the difference is between salaries and dividends and bonuses, says Habbershon.

“I’m in a regular compensation system and get paid what the other plant managers get paid,” notes Art Mann, WG’94, one of four plant managers in a \$65 million Lancaster, Pa., iron foundry and machine shop founded by his grandfather. “But I also get stock in the company and I should be getting

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CHARLES C. BUTT, W'59: MINDING THE STORE IN TEXAS

The most important place for a retailer to be is in the stores," says Charles Butt. "That's where you can talk to customers personally and find out what they like."

What Butt's customers clearly like is the H.E. Butt Grocery Co. itself, a string of 235 supermarkets with anticipated sales this year of \$6.5 billion

finicky customers. "It all depends on how well the management team is able to perform," Butt says. "Our strategy is to be excellent in food and drug and stick to our mission."

That strategy helped H.E.B. survive what is perhaps the ultimate test for a retailer — competition from Wal-Mart. The Arkansas-based discount chain has, over the past five years, opened up 41 different supermarkets in Texas that compete head to head with H.E.B.

Although not at the expense of H.E.B.'s reputation for innovation and high quality products, Butt would add. In 1993, H.E.B. opened up Central Market, a 63,000-square-foot grocery store in Austin, Tex., devoted to fresh and prepared foods — such as 489 varieties of cheese and 60 different produce items. "We have used Central Market as an idea generator, a kind of R&D operation," Butt says. "It has enhanced our company's image as the place to shop for fresh products in Texas."

The store was expensive to build (\$12 million) and lost money its first two years. "We achieve about half the return on assets in Central Market that we do in the rest of the business but its earnings level is advancing steadily."

Butt has been living and breathing the grocery business since childhood. At age eight, he was bagging groceries; at age 12 he was behind the check-out counter. As a teen-ager, he worked in the family business every Saturday and every summer until he graduated from Wharton and joined up full-time. "I think anyone working in a business established by a family member stops at some point and wonders if this is where he wants to be. But after just a few years I was hooked on building up the business."

Build it he did. The company's opening of a supermarket in a high income area of Monterrey, Mexico, this spring is just the latest step in an expansion that started when Butt took over from his father in 1971. At that time, the company had annual sales of \$250 million and 4,500 employees compared to 45,000 today. In 1996, Butt was on *Forbes*' list of the 400 richest people in America, with a net worth of \$600 million.

An important ingredient in the success of H.E. Butt Grocery Co. has been technological innovation. In 1992,

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BUTT

and a reputation for competitive prices, excellent service and high-quality food.

The combination of low prices and distinctive products is a difficult target to hit, acknowledges Butt, chairman and CEO of the San Antonio, Tex., company founded in 1905. And it's especially difficult in a business known for slim profit margins and

"Of course Wal-Mart's balance sheet is larger than many companies in the food industry combined, and it has achieved a low-price reputation, deservedly so, in most product categories," notes Butt. "Our response has been that we won't allow Wal-Mart to gain a price reputation over us in food. If necessary, we will make real sacrifices to be price competitive."

MARC BELTON, WG'83: A HEALTHY PERFORMANCE FROM SNACKS

A recent news article in the *Minneapolis Star Tribune* on General Mills' strong financial performance in fiscal 1996 had this to say about the \$6.1 billion company's operations:

"The importance of innovation is felt perhaps nowhere as much as the snack division." Marc Belton, president of Snacks Unlimited since 1994, couldn't agree more.

"New products are critical for us," notes Belton. "About 60 percent of our volume comes from items that weren't around five years ago. So if you have a large division with incredible churn, you have to be good at coming up with new ideas."

Apparently Belton is. His division, which accounts for almost \$1 billion of General Mills' sales, had a two percent increase in volume for 1996, following two flat years in 1994 and 1995. And 1996/97 is even more encouraging, with sales growth of over 7 percent during this fiscal year. The division's newest product, Golden Grahams, is already the third fastest turning item in the wholesome snacks category, giving rival Rice Krispie treats a run for its money. Strong existing performers in the snack division include Pop Secret microwave popcorn and Peel'n Build Fruit Roll-ups.

So how do you motivate people to come up with good ideas? "Your job as a leader is to leverage the capabilities of every person in your unit," Belton says.



BELTON

"Make sure you ask employees throughout the organization for their ideas. Provide the kind of freedom that allows people to fail. An error is not a mistake unless you refuse to correct it." *Continued on page 30*



SHMAVONIAN

NADYA SHMAVONIAN, WG'86: GRANT-GIVING AT THE EXECUTIVE LEVEL

The journey from the sanitation trenches of a Cambodian refugee camp to the executive offices of the Pew Charitable Trusts in Philadelphia ties together the interests of Nadya Shmavonian in an unusually effective way.

Shmavonian, executive vice president of the Trusts, oversees the organization's \$15 million administrative budget, \$182 million grants budget and 126-member staff. But she also retains a hands-on role in several grant making areas, primarily those that reflect her own interests in humanitarian relief, refugee populations and

displaced persons. "On the local level, for example, we are currently working to better document the implications of welfare reform on this region, especially from the point of view of health care deliverers and human services providers," she says. "A foundation like this has a very strong role to play in helping to bring together sometimes contentious groups in ways that will increase understanding of complex social changes."

Although Shmavonian was a history major at the University of Chicago, it was a senior-year course in medical ethics that ignited her interest in the inequities of health care delivery systems. A year after graduation, while working as a research assistant at Tem-

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SHOULD THE U.S. PRIVATIZE SOCIAL SECURITY?

As Americans grow older, leading longer and healthier lives, many are beginning to recognize that their economic future is under threat. Social security, that safety net of past generations, is fraying rapidly. The system will probably run out of money by 2025 — a deadline that creeps nearer each year. But despite this looming disaster, as recently as two years ago little serious debate existed in the U.S. about privatizing social security as a possible solution. Hardly anyone asked whether privatization could help defuse an economic time bomb that keeps ticking away and could potentially affect millions of retired people if it explodes.

Today, the situation has dramatically changed. In the U.S., a federal advisory panel has recommended investing some social security revenues in the stock market. Similar issues are being hotly debated all over the world. In Europe, for example, countries like Germany and France are looking for ways to avert major crises in their old-age pension systems.

In Latin America, countries from Uruguay to Mexico are grappling with these questions and examining the record of neighbors like Chile which have privatized social security. In addition, many developing countries are contemplating changes in their pension systems, often as part of a wider overhaul of their financial markets. Clearly, privatizing social security is moving to the top of many countries' agendas as they debate ways to provide for their aging populations.

An important voice in this debate belongs to Olivia S. Mitchell, International Foundation of Employee Benefit Plans Professor of Insurance and Risk

Management and executive director of Wharton's Pension Research Council. In a paper presented at a National Bureau of Economic Research conference — entitled "Administrative Costs in Public and Private Retirement Systems" — Mitchell argues that while privatizing social security would increase some administrative costs, it would also make the system more flexible and offer new services to participants. Among them: the ability to self-direct investments, the possibility of investing in high-return assets and more frequent reporting to participants. As a result, people might be happier with a partly privatized social security system than they are with today's publicly controlled one.

Rethinking Corporate Benefits

These findings are crucially relevant to businesses. Most large companies, including Fortune 500 corporations, have pension plans for their employees, but in the past these were



MITCHELL

often designed on the premise that social security would provide a big part of the workers' retirement benefits.

Today, companies are being forced to recognize that because of the impending social security crisis, the relative share of the public sector's benefits to retirement incomes will decline in the coming years. "This means corporations will have to rethink the benefits they are offering as part of their defined benefits and 401(k) plans, and they will have to restructure their end-of-work retirement packages," Mitchell says. In addition, companies will have to educate their employees about putting aside more money for their retirement. "Social security is not going to be as strong a leg of the retirement stool as we used to think," she notes.

If social security does get privatized in the future, what kind of changes can companies expect to see? According to Mitchell, the social security system has three main components: collecting the money which people



pay into the system; managing money while it is in the system; and distributing money to people after they retire. While countries like Chile have tried to privatize the collection mechanism — the country requires individual pension fund administrators to collect money from each worker — that is unlikely to happen in the U.S. It is much less expensive to piggyback on the existing tax collection system although questions are often raised about whether the Internal Revenue Service is as efficient as it might be. The money management and benefits distribution parts of the social security system, however, are potential candidates for privatization, Mitchell says.

Privatizing Investments

The money-management component in the U.S. is at present inexpensive to operate. This is because social security funds can only be invested in government paper. One way to privatize social security is to open up the possibility of investing in other kinds of instruments, such as stocks. This would probably increase administrative costs, but it would also permit higher returns.

"You can make the system anything from very inexpensive to quite expensive," Mitchell explains. "It depends on how much flexibility you give participants, whether they are allowed to switch money across accounts, whether they have an 800 number, and so on. Typically, the very flexible, actively managed accounts might cost up to 2 percent or even 3 percent of assets a year. However, there are other examples where the cost is maybe 10 basis points a year [0.1 percent] or even less."

Investing in stocks could potentially help pension plan participants earn higher returns than if their cash were invested only in Treasuries. It would also increase their investment risk, however. While people may not mind investing a part of their money in a company touting the hottest new technology, what if they are unwilling to risk their retirement nest eggs to bet on

such stocks?

According to Mitchell, this can be a complicated problem. "When you think about social security funds being invested in anything other than what they are currently invested in, which is a very mechanical investment decision, immediately questions arise about who is going to make decisions over what investments," she says. "That is part of the issue. The other part is, who bears the cost if the investments turn out to be bad after the fact?" Mitchell says that studies of state and local pension funds have shown that in some cases, political factors come into play in deciding how pension fund money gets invested.

Individual Accounts

One alternative to letting governments — which are prone to political pressure — make investment decisions is to let individuals manage their own accounts. "If you want to invest in a tobacco-free stock, by all means go for it," Mitchell says. "Someone else might choose only tobacco stocks, based on his own perceptions of risk and returns, and that would be his prerogative in his own individually managed account." When individuals bear the risks and potentially the rewards of their own investment decisions, they would be much less likely to be at the whim of whatever political issue becomes a hot one.

Another option might be for the government to offer three or four plans and for people to choose among them. "That is the model that the federal employees now have," Mitchell notes. "They have a simple index stock fund, a broad portfolio bond fund and a government securities fund. Each of those funds is very minimally managed and very low cost, but there are certain constraints. You can't call an 800 number and change it five times a day. People are not encouraged to try and time the market; they are encouraged to make an investment decision and stick with it." ▼

DEFINING A DEBATE: THREE OPTIONS TO PRIVATIZE SOCIAL SECURITY

On January 6 the 13-member Advisory Council on Social Security submitted a report recommending that the country consider investing social security funds in the stock market. Seven members of the federal advisory panel believe that if social security funds are invested in individual investment accounts, this would help ensure the fund's solvency and potentially boost retirement incomes. Critics, especially labor unions, however, are opposed to the introduction of individual accounts.

The panel outlined three options:

- **Maintain Benefits:** Under this proposal, benefits would be trimmed by 3 percent and they would be taxed more. Also payroll taxes would be raised in the future.
- **Individual Accounts:** This proposal would require workers to save an additional 1.6 percent of their wages in individual accounts to be invested in stock and bond funds.
- **Personal Security Accounts:** This proposal would require workers to invest a substantial fraction of their payroll taxes in stock and bond funds. A part of the social security tax would be used to finance a flat benefit at the current level of about \$410 a month.

Commenting on these proposals, Mitchell says that in reality there are just two plans. "The Maintain Benefits proposal keeps the philosophy of a defined benefit program, while the other two proposals are versions of a defined contribution program," she says.

Advocates of the Maintain Benefits proposal say that this option will preserve the anti-poverty, income redistribution aspects of social security. Mitchell notes, however, that the government will almost certainly have to raise taxes to pay for reforming Medicare.

As for the other two plans, Mitchell says that both have a flat benefit component and an individual account component. "How big these components are is a matter of political will and compromise," Mitchell says. "There's a bigger upside to these plans. If I were designing a system from scratch, I would probably go that way."

HONG KONG *Continued from page 18*

entered Asia. "I was lucky because the company was about to go through a big growth period. For me that meant more

responsibility early on and more exposure to the markets than I would have had otherwise," he notes.

The funds rush was precipitated by an influential Morgan Stanley analyst's tour through Asia in 1993 and his

subsequent "maximum bullish" recommendation. "The stock market went up 6,000 points to 13,000 in about five months," Hongchoy says. "A lot of that money was put into private enterprises in China and then into Hong Kong and the rest of Asia. It changed the whole investment climate in this region."

Most of the banks in Asia, especially U.S. ones, base employees in Hong Kong and Singapore and require them to travel from there to clients in other countries. "We call these people 'suitcase bankers,'" Hongchoy says. "It's hard for them to build up relationships and establish networks, whereas we have a local team in just about every country in Asia." The Flemings Group manages approximately \$76 billion, out of which the bank manages approximately \$21 billion.

Hongchoy was born and raised in Hong Kong. He graduated from the University of Canterbury in New Zealand, where he spent five years in accounting and banking. After graduating from Wharton he worked for Arthur Andersen in Hong Kong before moving to Jardine Fleming.

He and his wife Dannie have a year-old daughter named Natalie.

Hongchoy is optimistic about the July 1 return of Hong Kong to Chinese rule. "There are some disturbances but I think on the whole things will work out. Obviously different sovereign powers have different political philosophies but at the end of the day Hong Kong is really driven by economics...

"It's important to remember that China has a lot of money in Hong Kong. Why would they want to jeopardize their own wealth?

"Many managers I have talked to are concerned that thousands of journalists will come from all around the world on July 1 and try to find something wrong because that will justify their coming here. That means, of course, that something *will* go wrong which will then be blown way out of proportion ...

"I'm afraid that people in the West generally are not familiar with what is happening. When they complain that this is not going to be a western-style democracy, they don't understand the historical context."



SANJAY J. SEHGAL, WG'91

Partner, Schroder Capital Partners Ltd.

Hong Kong, says Sanjay Sehgal, is "very work-driven. Five minutes after you meet someone you exchange business cards. It's fast-paced, like Wall Street, rather than laid back, like Boston."

Sehgal, who worked in Boston for LEK Partnership from 1992 to 1994, is now a partner with Schroder Capital Partners, Ltd., where he and eight other professionals manage a \$225 million private equity fund. "Our philosophy is to invest in companies that are benefiting from the rising consumer expenditures in Asia in such areas as food, clothing, entertainment, health care and telecommunications. We take anywhere from a 10 percent to a 100 percent stake," he notes.

So far Schroder Capital Partners, Ltd. has made seven equity investments (with five more in the pipeline) in health care and textile companies, a cable TV channel and a fast food franchise.

Sehgal, who was born in Bombay, earned a bachelor's degree in engineering from the Indian Institute of Technology and a master's degree in electrical engineering from Columbia. He worked for GTE labs in Waltham, Mass., for two years before attending Wharton.

His wife, Lisa Popick Sehgal, W'83, WG'91, is responsible for their current assignment in Hong Kong. While working for Fidelity in Boston, she was offered the position of retail marketing director at Fidelity Investments in Hong Kong. "We wanted to gain international experience so it seemed like a good move," notes Sehgal, who by then had worked for LEK Partnership in London — with assignments in Stockholm and Manila — and Boston. He landed a job with Schroder in Hong Kong as a principal and within a year was promoted to partner. The Sehgal's have a five-month-old daughter.

Contrary to popular belief, "Hong Kong is really a service economy," Sehgal adds. "Less than 20 percent of its business is manufacturing. And right now, the economy is robust. Everyone's business seems to be doing well." **Robbie Shell ▼**



BUTT *Continued from page 24*

the company instituted a PC-based point-of-sale system and later combined it with on-the-sales-floor use of radio frequency devices. "Our category manager information system is store sales specific and adds greatly to better communication with our suppliers," Butt notes. The company has two web sites and is preparing for future implementation of home shopping.

Butt also points to H.E.B.'s community relations program, which includes donating five percent of pretax income to public causes and supplying approximately 15,000 pounds of food to food banks in their area, the "largest program for the hungry of any retailer in the country."

In addition, under the auspices of Education 2000, individual H.E.B. stores provide funds, volunteer services and other resources to about 1,500 individual schools. Close to one-third of those schools have received satellites from the company that give teachers access to academic-based television programs.

Butt is equally clear on his commitment to employees. H.E.B. is a market leader in compensation programs. "We pay more than our competition because we feel it brings us benefits in terms of quality people and focus on the customer," says Butt. "We work hard to be the employer of choice." ▼

SHMAVONIAN *Continued from page 25*

ple University Hospital in Philadelphia, she signed on as a volunteer with the International Rescue committee. Her assignment was a Cambodian refugee camp.

"When I found out that I would be working in sanitation, I almost got back on the plane and came home," Shmavonian says. "But it turned out to be one of the best possible windows into what is a real public health concern. We dug trenches, managed a cadre of Khmer workers, provided safe water and dealt with issues of human refuse. The camp had 100,000 refugees. It was like a small city. My nickname there was 'Sister Sludge.'"

The experience in the camp influenced her decision to concentrate in health care management at Wharton. "While I was there I met Rebecca Rimel (president of the Pew Trusts) who was auditing a class in health care management. Although I had never considered a career in philanthropy, she had a position available that she thought would interest me."

It did. Shmavonian became a program officer and then acting director in the Health and Human Services Program responsible for directing grants in the areas of international health, medical ethics, education of health professionals and substance abuse. The Trusts, established between 1948 and 1979 by heirs of Joseph N. Pew, founder of the Sun Oil Company, is the fifth largest philanthropy in the U.S. with assets of about \$4 billion.

Three of the grants Shmavonian was involved in during the late 1980s included:

- The launch of an International Health Policy Program, in partnership with the World Bank and the World Health Organization, to assist health policy researchers in developing countries throughout Africa and Asia.
- A "health care for the homeless" initiative that sponsored programs in 19 cities, including Philadelphia, aimed at delivering health care services to homeless people.
- A program to educate health professionals nationally, including those in the fields of nursing, dentistry, nutrition and veterinary medicine, on how to address changing trends in their professions.

In 1989, Shmavonian became the Trusts' director of administrative services, and in 1995 was named executive vice president.

She is well aware of the challenges of running a non-profit organization that is actively involved in grant-making on both the local and national level and that is known for aggressively and proactively promoting its agendas.

"For me, what I find so compelling about my current role is that I am responsible for ensuring that our people are well trained, qualified in what they do, supported in asking questions and open to learning from a broader array of external agencies," says Shmavonian, who lives in a Philadelphia suburb with her husband — a partner in a local law firm — and three children, ages 7, 5 and 3. "We have a wonderful vantage point for knowledge and information. Part of our challenge going forward is how we do better at using and sharing that information, developing new knowledge and disseminating what we have learned in ways that can make a difference." ▼

FOLLIES *Continued from page 7*

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of the rest

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TECHNOLOGICALLY SPEAKING

Continued from page 5

SPIKE 3, adds Whitehouse "will 'broadcast' information directly to students without requiring them to hunt for it by clicking around Wharton's extensive intranet."

Students at Wharton these days also have job search capabilities unheard of even a few years ago. Wharton's Career



ROSENBLUTH

Development & Placement Office has made the interview process, if not always enjoyable, at least extremely efficient. For the past four years, students have been able to log on to a system from home or from a campus computer lab to sign up electronically for job interviews. "It's a real-time system," says Andrew Adams, director of Wharton's Career Development & Placement Office. "When you sign up and hit 'submit' you have an interview slot at that time.

"But what's really exciting is our home page," available through SPIKE on

Wharton's intranet, Adams notes. "It includes information about the whole job search process. You can view information by industry or function; there is advice on such things as self-assessment, networking, cover letters, resume writing, evaluating and negotiating offers and tapping into entrepreneurial ventures. There are tons of research guides as well as hyperlinks to Lippincott Library for business databases ..."

In addition, a video teleconferencing capability in CD&P's offices gives companies from all over the world the ability to interview students interactively on screen.

So, with all this computing power available, what is the most popular tool in an MBA student's communication arsenal? Right now, says Julius Sarkozy, WG'97, (his real name), "the number one usage for everybody is e-mail, mainly as a way of keeping in touch with each other and checking information on clubs, student activities, speakers and so forth. The second most common usage is the world wide web where you can research a company by looking at financial reports, news stories, press releases and product information." The interview scheduling procedure at CD&P is also popular as are the library databases.

A big plus, of course, is the reduction in standing around and waiting. "We can update address information, look at course schedules and get our grades electronically," Sarkozy adds. "A lot of the administrative forms and paperwork are on line."

Tracy Rosenbluth, WG'97, recently sent a final draft of an accounting assignment, which included both a written portion as well as a spreadsheet, to her five-member study group. "We edit it on-line," she says. "People do that for just about every class." For a course-assigned case analysis of a particular company, she uses the Internet, and most likely the company's home page on the web.

Other resources on campus include a real-time Reuters datafeed, a Bloomberg system, an Instanet system and a NASDAQ terminal for up-to-the-minute business data.

Even greater feats of technology are coming soon. "Right now I can e-mail a spreadsheet to a group of people, but later on we will be able to share the same spreadsheet live on line and make adjustments," says Sarkozy. "It will become more collaborative. Instead of e-mails or phone calls back and forth we will be able to work on this simultaneously." ▼

BELTON *Continued from page 25*

For Belton, it's all part of a management philosophy based on "making people feel that what they do is important and that their efforts are valued. You must show employees respect and create relationships of trust, care and cooperation. You have to love people. I know it sounds soapy and campy and goofball, but it's real. We have people who want to come to work in this division and we have good business results."

His approach to management "comes out of my own Christian faith and upbringing," says Belton, who was born in West Hempstead, N.Y., and earned his undergraduate degree at Dartmouth before entering Wharton at age 22. "Everyone talks about empowerment, but if you are not serving people and developing a mission for your whole unit, you are not empowering them."

Belton's division includes fruit snacks, grain snacks, popcorn, beverages and Chex Mix (the result of General Mills' recent acquisition of the Chex cereal and snack lines of Ralcorp Holdings). In addition, he serves on the board of Snack Ventures Europe, a joint enterprise of General Mills and PepsiCo that is currently continental Europe's largest snack company.

Belton came to General Mills in 1983 as an assistant marketing manager working with Total, Yoplait and Betty Crocker Potatoes. His positions up the corporate ladder included marketing manager; general manager of grain snacks; vice president, general manager of Betty Crocker Snacks; and vice president, business unit director in the child/all family business unit. In December 1994 he was named president of the snack division.

"I wanted to work with one of the best companies in the industry," says Belton who is an avid skier and golfer, a loyal Philadelphia Eagles and New York Jets fan, and an enthusiastic consumer of Microwave Pop Secret popcorn. "When I graduated from Wharton, I had offers from the top consumer products companies. I chose General Mills. I had an instinctive sense that I could do well here." ▼

FAMILY BUSINESS *Continued from page 23*

life insurance for family planning purposes. How does all this fit in with my career and compensation track, with regards to me, other family members, and plant managers who aren't part of the family?"

BUY-SELL AGREEMENTS: In privately held companies, shareholder agreements are key to professionalizing ownership involvement, says Habbershon. "Family members often overlook the fact that minority shares are only worth the value that the buy-sell agreement confers on them. Once you clarify the value of the shares, it anticipates and fends off future conflict." Buy-sell agreements are also crucial parts of liquidity planning, even though, Habbershon adds, "they are one of the hardest things for families to agree on."

As companies get into their third generation, the situation becomes even more complex. "Whatever efficiencies there once were have often been diluted by the proliferation of family members involved," Habbershon notes. "Without professionalized pruning of what is often referred to as the 'cousins coalition,' the company becomes inbred. Pruning can mean buy-sell agreements that give an exit point to inactive family shareholders."

SHAREHOLDER EDUCATION: "All family members have diverse needs," notes Carrión, whose grandfather had eight children, who had 34 children (of which Carrión is one) who in turn have 140 children. "It's the classic dilemma of growth vs. income. Some family members — usually the ones working in the bank — want to reinvest in the business. Others would like more income... The first thing to do is determine what everyone's preference is and then create the proper legal and tax structures to optimize everyone's desires."

Shareholder groups must be educated as to their responsibilities and rights, adds Habbershon. "If the CEO wants to keep an inactive shareholder/cousin out of his hair, he doesn't achieve this by ignoring the cousin. He does it by having organized family meetings, explaining terms like preferred stock and dividends and bonuses, creating shareholder agreements that allow family members the ability to cash out if that's what they want, and so forth."

FORMAL SUCCESSION PLANNING: Bill Alexander, who offers a course at Wharton entitled Family Business Management and is also part of The Next Generation Workshop presented by FCCP, makes a point of teaching his students about empowerment — preparing the son or daughter (or other family members) to assume leadership in the business.

It's done, he says, when the son or daughter establishes relationships with people who are key to the business's prosperity, gets a thorough knowledge of how the business works, and develops negotiation skills to handle not only operational but also family issues. "People always want to think about succession, how to get [the CEO or president] out of there," says Alexander. "But the CEO is never going

to consider succession until his suppliers or whomever say they are impressed with the next generation and will continue to do business with the company. The older generation has to hear those signals before thinking about wanting to let go."

Empowerment is a "big issue," notes Andrew Bosshard, W'97, whose grandfather founded what is now a group of eight community banks based in LaCrosse, Wisc. "It's about how you set yourself up for becoming the next leader of the company, how you get your father's respect and also the respect of the employees and key managers so that they will follow your leadership. I am the oldest sibling in my family and I definitely want to be involved in the company. I saw my grandfather build it. I don't want to be the one responsible for letting it end."

The irony in any discussion of professionalization, however, is the backlash against the image of unfeeling, unattached managers leading a company in which they have no stake other than compensation.

Historically in America, says Michael Useem, "the attitude has been to get professional managers in and unprofessional family members out. And yet intuitively, I have the sense that one of the great sources of vibrancy, or energy, in companies is the fact that the family is there."

"In the U.S. there are efforts now in large firms to somehow reunify management and ownership by making top executives own lots of company stock, ensuring that their compensation is similar to what they would get if they actually owned the enterprise. American companies are coming full circle back to where family enterprise never left."

"Our vision," says Habbershon "is a global network of families where the top businesses from all over the world will come together, and report on research ... In emerging economies such as Latin America and Asia, where the success of family-controlled companies is an integral part of their future, creating a network of family corporations is more important than ever."

Robbie Shell ▼

RESEARCH *continued from page 12*

A third site is being explored for an Asian workshop.

✦ A series of Executive Summits is being planned as a precursor to the Family Corporation Best Practices Program. The first will be conducted in Brazil in June. Wharton in conjunction with alumni will invite the leading family business CEOs in Brazil to an interactive session on the challenges and opportunities of the new global marketplace. The goal is to generate best practices among these family firms and then to develop them into a worldwide best practices program. ▼