

summer 2008

Wharton
ALUMNI MAGAZINE

THE STATE OF BUSINESS IN AMERICA

Wharton Faculty Weigh in on
These Historic Economic Times



Also: Graduation and Reunion 2008



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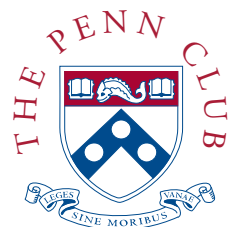
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— Gary Vura, W'83 Quarterback — Penn Football

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“THE AMERICAN ECONOMY IS GOING TO DO FINE,” BUFFETT TOLD WHARTON STUDENTS. “BUT IT WON’T DO FINE EVERY YEAR AND EVERY WEEK AND EVERY MONTH. I MEAN, IF YOU DON’T BELIEVE THAT, FORGET ABOUT BUYING STOCKS ANYWAY.”

Warren Buffett Hosts Wharton Students

Warren Buffett, who attended Wharton in the early 1950s, hosted 150 Wharton MBA and undergraduate students this spring for an intensive day of learning on everything from the Bear Stearns bailout to his prognosis for the economy, the upcoming presidential election, and whether the U.S. financial markets are losing their edge.

The trip, which unbeknownst to students was being covered by *Fortune*, was led by **Scott Weber**, a second-year MBA student, and sponsored by the Wharton Investment Management Club. The day-long visit began at one of Buffett’s companies, continued at Berkshire Hathaway’s downtown Omaha headquarters for hours of questions and answers, then went on to a fa-

vorite restaurant, where, *Fortune* reported, Buffett treated everyone to root beer floats and lunch. For a link to the complete *Fortune* story, see the *Magazine* website at www.wharton.upenn.edu/alum_mag.

Global Alumni Forums

The Global Alumni Forum in Lima, March 13–14, “was a total success,” according to **Jorge Kuryla**, WG’95, president of the Wharton Club of Peru. “More than 250 alumni, professors, panelists, and friends gathered to exchange ideas and best practices.” Among the speakers were world-famous author Mario Vargas Llosa, international journalist Andres Oppenheimer, and former prime minister of Peru and partner of The Rohatyn Group, Pedro-Pablo Kuczynsky.

Global Alumni Forum in Ho Chi Minh City

Multinational investments, entrepreneurship, and the real estate and online industries in Vietnam were among the topics tackled by alumni, government, and business officials at the Wharton Global Alumni Forum in Ho Chi Minh City, Vietnam, May 30–31. Wharton faculty Franklin Allen, Janice Bellace, George Day, Stephen Kobrin, and Marshall Meyer gave presentations and moderated panels, while Dean

Thomas S. Robertson welcomed alumni. At a farewell gala at the Reunification Palace, Ambassador Charlene Barshefsky, senior international partner at WilmerHale, discussed the U.S.’s response to globalization and the worldwide rise of Asia. **Sesto Vecchi**, W’58, managing partner at the international law firm Russin & Vecchi, and **Dam Bich Thuy**, WG’58, general manager of the global bank ANZ Vietnam, co-chaired the event.

COURTESY OF WHARTON EXTERNAL AFFAIRS



LIMA GLOBAL ALUMNI FORUM AT THE SESSION ON ECONOMIC INCLUSION AND THE ALLEVIATION OF POVERTY. FROM L TO R: PROFESSOR WITOLD (VIT) JERZY HENISZ, MERCEDES ARAOZ, FERNANDO CANALES CLARIOND, LEONARDO LETELIER, AND FRANCISCO SAGASTI, GR’72.

COURTESY OF WHARTON EXTERNAL AFFAIRS



HO CHI MINH CITY GLOBAL ALUMNI FORUM AT THE VINA CAPITAL FOUNDATION EXHIBIT.



New Online Alumni Community Launched

Wharton *Connect*, the new online alumni community, is now live. Alumni benefits of Wharton *Connect* include enhanced search and profile management capability, an integrated calendar of events, easier event registration, improved navigation, and a single sign-on for all Wharton websites. Please log on and check out the enhanced features of this system. To connect, and for additional information on the new community, visit www.whartonconnect.com.

Global Warming Pressure Heats Up for Companies

New carbon emission regulatory regimes are coming soon — and they will likely carry significant costs, said business and academic experts who spoke recently at the first annual Conference/Workshop on Business and the Environment at Wharton.

The event was organized by leaders from

CANDACE DI CARLO



PROFESSOR ERIC ORTS

Wharton’s Initiative for Global Environmental Leadership (IGEL), a new global center on business and the environment that brings together Wharton and Penn faculty with business, NGO, and government officials to discuss and research issues of business and the environment.

Wharton professor Eric Orts, the founding director of IGEL and conference head, said companies have many motivations for wanting to neutralize the effects of greenhouse gases on climate change. A common view is that companies always apply a “net present value analysis” or profit-oriented view in evaluating the

environmental effects of a new product or service. But this isn’t always the case, he said, noting that some companies take voluntary steps that might relate only indirectly, if at all, to a cost-benefit analysis.

What came through clearly at the conference, Orts said, is that the business community is serious about tackling global warming. “I think that only a few large businesses believe that climate change is an issue that they can ignore — or lobby against.”

For information about the IGEL, see its website at <http://environment.wharton.upenn.edu>. For a link to Knowledge@Wharton’s full story on the conference, see the *Magazine* website at www.wharton.upenn.edu/alum_mag.

Fashion Week Lures Top Retail Industry Talent

Kenneth Cole, famous for both his fashion brand and humanitarian efforts, spoke in Huntsman Hall as 2008 Fashion Week’s keynote speaker, discussing his history in the fashion industry and his recent charity work for AIDs research. The Wharton Retail Club is an organizer of Fashion Week.

Dear Alumni:

Due to an error at our printer’s mail house, some of the names and addresses on the spring issue of the *Wharton Alumni Magazine* were incorrect. We apologize for this error and have been assured by our printer that enhanced quality control procedures will prevent its reoccurrence.

Sincerely,

Nancy Moffitt
Nancy Bouldin
Interim Editors
Wharton Alumni Magazine



INSEAD DEAN J. FRANK BROWN (LEFT) AND WHARTON DEAN TOM ROBERTSON SIGN THE AGREEMENT TO CONTINUE THE SCHOOLS' STRATEGIC PARTNERSHIP FOR ANOTHER FOUR YEARS.

Wharton/INSEAD Renew Alliance

Dean Thomas Robertson and INSEAD Dean J. Frank Brown announced a four-year renewal of the Wharton/INSEAD Alliance at an April 30 joint alumni event in New York City. Launched in 2001, the alliance combines the resources of the world's leaders in management education to deliver top-quality business research and education across four dedicated campuses: Wharton's U.S. campuses in Philadelphia and San Francisco, and those of INSEAD in Fontainebleau, France, and Singapore.

Leadership Saatchi & Saatchi Style

Ideas are the currency of the future, Saatchi & Saatchi's Kevin Roberts told Wharton students during a recent Wharton Leadership Series lecture. Roberts, the CEO

Worldwide of Saatchi & Saatchi since 1997, has in the space of 11 years cemented the ad agency's reputation as one of the most successful and creative companies in the industry. His presentation as part of the Wharton Leadership Lecture series touched upon the skills needed to be a successful marketer, what consumers really want, the importance of failure, his own personal management style, and the need to have a dream. Roberts was among a slate of top-level executives who shared career and personal insights with Wharton

students this spring. Other Leadership Lecture speakers this spring included **Richard Fain**, WG'72, chairman and CEO of Royal Caribbean Cruises, and **Donald Humphreys**, WG'76, senior vice president and treasurer of ExxonMobil.

Students Awarded Health and Human Rights Leadership Award

Wharton MBA students **Emily Rizza**, **Katie Vahle**, and **Joyce Liao**, all WG'08, received the Doctors of the World (DOW) Health and Human Rights Leadership Award on behalf of the Wharton Healthcare International Volunteer Project (WHIVP) this May. The award recognizes the students' work in designing a voucher program for pregnant women in Kenya that will help reduce maternal mortality and morbidity

rates, as well as an HIV/AIDS- and TB-related project conducted a year earlier.

Vahle and Rizza called their experience in the West and North Pokot districts of Kenya the highlight of their time at Wharton. The students wedged their volunteer trip into the three-week break between summer internships and their return to Wharton last fall. The students' work through WHIVP, a student-alumni group, was in partnership with DOW, a non-profit volunteer medical services association.

The WHIVP-DOW partnership program, which DOW expects to implement this summer, aims to reduce the maternal mortality rate from some 410 per 100,000 births to 175 per 100,000 in the areas of Kenya covered, Liao says. The plan pivots on a voucher system, backed by private and public funding, and is devised to encourage more expectant mothers to use existing healthcare facilities in the area.

Johnson & Johnson/Wharton Fellows Program for Nurses Turns 25

The Johnson & Johnson/Wharton Fellows Program in Management for Nurse Executives recently enrolled its 1,000th participant and celebrated the nursing management program's 25th anniversary. Johnson & Johnson also announced plans to fund



MBA STUDENTS WITH DOCTORS OF THE WORLD STAFF.

a full scholarship for a nurse executive from Africa to attend the program.

The \$10,000 scholarship for a nurse from Africa honors the memory of Lois Ginsburg, the long-time administrative head of the program, and funds all program expenses. J&J also pays the tuition costs and some meal expenses for the 40 nurse executives who attend the annual three-week program, which focuses on management and finance knowledge for chief nursing officers.

At a recent two-and-a-half-day Advanced Management Education Conference, a biannual reunion event for nurse management program alumni, speakers included Doris Kearns Goodwin, the Pulitzer Prize-winning presidential historian and best-selling author, and Nancy Barry, long-time CEO of the Women's World Bank, a pioneering microfinance organization, and founder of Enterprise Solutions to Poverty.

"It allowed us to speak the language of business to each other and understand what we mean," said program graduate **Catherine Hughes**, vice president for Patient Care at Virtua Health in Berlin, NJ, of the program. The nurse executives "have a new level of clarity as executive leaders. They are better able to relate the complexities of finance to the quality of outcomes." For information on the Johnson & Johnson/Wharton Fellows Program in Management for Nurse Executives, see <http://executiveeducation.wharton.upenn.edu>.

TOMMY LEONARDI



PHILADELPHIA MAYOR MICHAEL NUTTER (CENTER) TALKS WITH DON KETTL, DIRECTOR OF THE FELS INSTITUTE OF GOVERNMENT, TOM COLLIGAN, VICE DEAN OF WHARTON EXECUTIVE EDUCATION, AND MANAGEMENT PROFESSOR MICHAEL USEEM, DIRECTOR OF WHARTON'S CENTER FOR LEADERSHIP AND CHANGE MANAGEMENT.

Mayor Nutter's Leadership Team Comes to Wharton Executive Education

Philadelphia Mayor **Michael Nutter**, W'79, recently brought 100 of his key administrators to a two-day leadership program at Wharton's Aresty Institute of Executive Education.

The Wharton program focused on building leadership strengths, and integrating the School's business perspective with legislative and policy insights from the Fels Institute. Academic co-director and Wharton professor Michael Useem helped design the program to support the mayor's vision for improving education, expanding jobs, improving health, enhancing ethics, reducing crime, and strengthening services.

The mayor visited on the

second day of the program to address his team. "We've set the bar high, and people want us to be successful," he told the city leaders. "The driving force behind what we do is to deliver higher-quality service. Your obligation to the public is to provide the leadership the city needs." Nutter's managing director, Camille Barnett, expressed similar high hopes for the participants. "Our two days at Wharton have given us a common experience and a common language. But most importantly, this program imbues us with courage and hope, the leadership values that are essential to accomplishing what lies ahead of us."

China Business Conference

While China's manufacturing sector booms and people sock away money in savings accounts, the country's financial markets remain in their infan-

cy, according to international finance experts who gathered at the recent 2008 Wharton China Business Conference, a student-run initiative.

That partly reflects the realities of economic development — the so-called "real economy" tends to develop in advance of capital markets. Once an economy takes off, as China's has over the last several years, creative financiers start to figure out ways to fund investments, distribute gains, and share risks. Yet the relative underdevelopment of China's capital markets also reflects the biases of its powerful central government, speakers stressed.

Chinese regulators are less experienced with financial markets, said Vincent Duhamel, managing director at Goldman Sachs Asia, a conference speaker. Ideally, regulators should only act as referees, allowing the market to innovate, "but they are not comfortable letting the market do its own work," he told conference attendees.

Even a widely perceived Chinese strength — the country's massive foreign currency reserves — reflects the underlying weakness of the financial markets, said Jennifer Amyx, a Penn political science professor. For a link to Knowledge@Wharton's complete story on the China Business Conference, see the *Magazine's* website at www.wharton.upenn.edu/alum_mag.



BPC WINNERS (FRONT) IRENE SUSANTIO, WG'08, AND BRIAN SMITH, WG'08, WITH VENTURE FINALS JUDGES (FROM LEFT): AYDIN SENKUT, WG'96, JOHN CLARKE, WG'82, DAVID FERGUSON, WG'85, DAVID PIAQUAD, WG'84

'Small Wonder' Wins BPC

Student team Solixia, whose "Hot Dot" cancer treatment platform is the size of a small protein fragment yet 20 times more powerful in diagnosing and treating cancer than currently used radiopharmaceuticals, won the \$20,000 grand prize of the 2008 Wharton Business Plan Competition. The prize was awarded at Wharton's annual Venture Finals April 30, where student finalists received a total of \$73,000 in combined cash prizes, access to capital, and in-kind legal/accounting services.

Solixia co-founders **Brian W. Smith** and **Irene Susantio**, both WG'08, have already received recognition for their efforts. Smith recently won a *Philadelphia Business Journal* "Philly 40 under 40" Award as a "proven performer"; Fox Chase Cancer Center has agreed to team up with Solixia for submission of an STTR (Small Business Technology

Transfer) proposal to the National Cancer Institute; and Solixia was also accepted into the Wharton Venture Initiation Program, Wharton's educational incubator.

This year's Venture Finals also included a People's Choice award, where an audience of hundreds listened to brief elevator pitches from all finalists. The audience voted for Innova Materials, which focuses on a process for spraying antimicrobial particles into plastic, such as water carrying pipes, to increase sanitary conditions. Innova, led by undergraduate student **Michael Young**, also won two other prizes: the \$10,000 Second Prize overall and the \$5,000 Frederick H. Gloeckner Award for the highest ranking Wharton undergraduate team. The \$5,000 Third Prize went to Proteza, makers of "SmartSock," a pain-alleviating prosthetic liner for below-knee amputees.

This year's Venture Finals, the culminating event of the year-long competition, at-

tracted nearly 300 venture capitalists, business leaders, faculty, and students. The Venture Finals judges who selected the winning teams represented a range of organizations and included:

John Clarke, WG'82, managing general partner, Cardinal Partners; **David L. Ferguson**, WG'85, partner, Weston Presidio; **David A. Piaquad**, WG'84, senior vice president, business development, Schering-Plough Corporation; and **Aydin Senkut**, WG'96, founder and president, Felicis Ventures.

Wharton Wins Sustainable Venture Capital Investment Competition

Vicki Yan, WG'08, and the Wharton team impressed the judges and won first place at the third annual Sustainable Venture Capital Investment Competition

(SVCIC) at the University of North Carolina's Kenan-Flagler Business School.

They beat teams from NYU, Duke, Columbia, UNC, and Northwestern. The five-member team included Yan and teammates **Xiao Chen**, WG'09, **Ashish Mehta**, WG'09, **Alice Zhang**, WG'08, and **Xiaoming Zuo**, WG'08.

The competition is a whirlwind of activity, forcing students to make thoughtful investment decisions in a 24-hour span. Teams play the role of venture capitalists, evaluating business ideas using a triple bottom line of financial profitability, environmental integrity, and social equity to determine whom to support. They interview the entrepreneurs, asking tough questions under the watchful eye of VC judges who assess team dynamics and insight into the financials as well as the rapport with entrepreneurs. Then, the real work begins — developing an investment framework, writing a term sheet, and creating a PowerPoint pre-



FROM LEFT TO RIGHT: ALICE ZHANG, WG'08, VICKI YAN, WG'08, XIAOMING ZUO, WG'08, ASHISH MEHTA, WG'09, AND XIAO CHEN, WG'09

sentation to share their vision for these companies.

In their final presentation, team members discussed why they were interested in the business plan they selected — an organic baby food company that has committed to making a difference not just in the lives of children whose parents buy the food, but also in the lives of malnourished children worldwide. “We felt that saving the lives of children was most important to us,” says Mehta.

— reported by
The Wharton Journal

Wharton Students Rack Up Competition Victories

In addition to the SVCIC competition, Wharton undergraduates and MBAs showed their mettle in a host of competitions across the nation this spring. Following is a round-up of some of the winners.

Undergrad Student Wins Paper Competition

Gordon Su, W’08, a student in the Jerome Fisher Program in Management & Technology, was one of the winners of the 2007 Carl Marks Student Paper Competition, which recognizes outstanding student achievement in the field of corporate renewal. Su won in the theoretical/conceptual category for his paper, “The Bankruptcy Implications of Second Lien Loans.”

VIP Member Julie Price Wins Entrepreneurial Fellowship

Venture Initiation Program member **Julie Price**, WG’08, was selected as one of three 2007 Women Investing Next (WIN) Fellows by WIN, a Philadelphia-based organization that supports women led and owned businesses. Price, an entrepreneur who was accepted to VIP for her venture, Fitness Fusion, an alternative fitness system, was honored at WIN’s annual dinner. As part of her fellowship, she will have the chance for mentoring, networking, and access to WIN events.

Undergrads Place Second in Marshall Case Competition

Undergraduate seniors **Puneet Singh**, **Daniel Francis**, **Daniel Shin**, and **Edan Yacobovsky** placed second this spring in the USC Marshall Case Competition. The students were coached by marketing professor Keith Niedermeier.

Wharton MUSE Team Wins AMA Case Competition

For the third year in a row, Wharton’s undergraduate team took top place in the 2008 American Marketing Association (AMA) Case Competition. The team members were: **Lara Aleman**, W’09, **Sherry Bai**, W’09, **Jason Chou**, E, W’10, **Talal Khan**, W’08, **Jonathan Kuo**, E’10, **Melissa Lamb**, W’09, **Adela Mou**, C, W’09, **Joanne Tong**, W’08, **Kevin Tucker**, W’10, **Jonathan Wu**, W’08, and **Diana Zhou**, W’09.

Continued on page 9...

When it comes to hiring top talent, we mean business.

Sapient is a recognized leader in business and IT consulting and the world’s largest independent interactive agency. Our New York office has experienced remarkable growth (40% in each of the past two years), and that means we’re looking for talented individuals to join us as we look to continue our success.

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Join Wharton Fellows in Dubai for

ISLAM and the West

Insights and Business Opportunities

Led by Wharton's renowned faculty and global industry experts, *Wharton Fellows*—a lifelong learning network of top business leaders from around the world—will meet **October 12–14, 2008,*** in Dubai to focus on understanding Islam and to discuss business opportunities in Muslim countries.

Join the *Wharton Fellows* network and learn what developers, architects, and community, government, and religious leaders envision for the world's fastest-growing city in the next decade. During this three-day Master Class, you'll visit regional and global organizations, meet their senior executives, and discuss business opportunities not only in Dubai, but throughout the Muslim world.

Gain a better understanding of and insights into:

- Islam and its complex relations with the West
- Conducting business with Muslim executives, companies, and countries
- The phenomenal growth strategies of Dubai
- Business opportunities and keys to success in the region

*Optional Abu Dhabi Day Trip: October 15 (*additional cost*)

In addition to tuition for each Master Class, an annual membership fee of \$1,200 is required.

WHARTON FELLOWS

To register, visit: www.whartonfellows.com

For more information, contact us at **1.800.255.3932** (U.S. and Canada), **+1.215.898.1776** (worldwide), or via e-mail at execed@wharton.upenn.edu.

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Continued from page 7...

Wharton MBA Team Wins First Prize at Financial Engineering Case Competition

Wharton students proved their business acumen and analytical skills in derivative security valuation and financial engineering by placing first in this year's Financial Engineering Case Competition (FECC), hosted by the Tepper School of Business at Carnegie Mellon University.

Wharton VCIC Team Wins "Entrepreneur's Choice Award"

Wharton MBA students won the prestigious "Entrepreneur's Choice Award" at the 2008 Venture Capital Investment Competition Finals, a first at the VCIC International level. The students were: **Mayank Mehta**, WG'09, **Nana Murugesan**, WG'09, **Karthik Raghupathy**, WG'09, **Anupam Rastogi**, WG'09, and **Shantanu Rastogi**, WG'09.

Rebuilding Together at 20

The Wharton chapter of Rebuilding Together, an initiative that sends MBA student volunteers into West Philadelphia to help renovate houses that have fallen into disrepair, is 20 years old this year. Recently, the Wharton Rebuilding Together team mobilized 250 volunteers to renovate over a dozen houses in the West Shore neighborhood from 45th and 48th streets to Woodland Avenue and Grays Ferry Avenue. ♦

Events Calendar

JULY 2008

July 20–25
Executive Education:
Executive Negotiation
Workshop
Location: Philadelphia
<http://executiveeducation.wharton.upenn.edu>

July 21–25
Executive Education:
Creating Value Through
Financial Management
Location: Philadelphia
<http://executiveeducation.wharton.upenn.edu>

July 24
5th Annual Wharton/Penn
Dinner Party, Wharton
Club of Southern California
Location: Santa Monica
www.whartonsocal.com

July 28–August 1
Executive Education:
Finance and Accounting for
the Non-Financial Manager
Location: Philadelphia
<http://executiveeducation.wharton.upenn.edu>

AUGUST 2008

August 9
American Ballet Theatre,
Wharton Club of Southern
California
Location: Orange County
Performing Arts Center
www.whartonsocal.com

August 10–15
Executive Education:
Private Wealth Management
Location: Philadelphia
<http://executiveeducation.wharton.upenn.edu>

August 19–23
Executive Education:
CEIBS/Wharton Joint
Programme
Location: Shanghai, China
<http://executiveeducation.wharton.upenn.edu>

SEPTEMBER 2008

September 15
Wharton Club of New York
Volunteer Orientation
Location: New York
www.whartonny.com

September 21–26
Executive Education:
High-Potential Leaders
Location: Philadelphia
<http://executiveeducation.wharton.upenn.edu>

September 22
Wharton Club of DC
Luncheon with
Annie Leibovitz, portrait
photographer
Location: Washington, DC
www.whartondc.com

OCTOBER 2008

October 2
2008 Joseph Wharton
Awards Dinner, Wharton
Club of New York
Location: New York
www.whartonny.com

October 12–15
Wharton Seminars for
Business Journalists
Location: Philadelphia
www.upenn.edu/journalists

For alumni events visit
<http://alumni.wharton.upenn.edu>
For Wharton calendars visit
www.wharton.upenn.edu/whartonfacts/news_and_events/calendar

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Susan Scerbo

Editorial Assistants

Galen Grady
Erica Tobin

Design

Warkulwiz Design Associates

Editorial Office

1030 SH/DH, 3620 Locust Walk
Philadelphia, PA 19104
215.898.7967 (phone)
215.898.1883 (fax)
magazine@wharton.upenn.edu
www.wharton.upenn.edu/alum_mag/index.html

Advertising Inquiries

215.573.8599
spigonaj@wharton.upenn.edu

ADMINISTRATION

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For Change of Address: The Wharton School
Office of Development and Alumni Affairs,
Alumni Address Update, 344 Vance Hall,
3733 Spruce Street, Philadelphia, PA 19104-6360
• Telephone: 215.898.8478 • Fax: 215.898.2695 •
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PHOTOS BY TOMMY LEONARDI



Welcome New Alumni



Under threatening skies on Sunday morning May 18, 500 former Wharton undergraduates — originally from 41 countries — joined the School's global alumni network at Wharton's 124th Commencement. Having marched into Franklin Field to the traditional "Pomp and Circumstance" — and to the cheers and cell-phone picture-taking of their friends and relatives — they listened to speeches that called on them to use their new degrees, and their zest, to change the world.

Both Dean Thomas Robertson and Vice Dean Georgette Chapman Phillips told graduates that they were giving their first graduation speeches in the jobs they came to last fall, but that they would keep those speeches mercifully short.

"My words will flow in and out of your brain," Phillips said, though she hoped the graduates would remember at least one thing from her speech. "Write this down if you need to: Don't let your education just go to your head. Let it also go to your heart."

Robertson advised the students to think beyond strict financial solutions and toward creative ones. He invoked Nobel Prize-winner Muhammad Yunis, who used microfinance to revive economic hope in his native Bangladesh. "Where everyone saw despair, he saw opportunity," said Robertson. Like Yunis, he said, he hoped that the new graduates would use their creativity to solve the problems before them because "we expect great things of you."

Student speaker **Stuart Stein**, W'08, also challenged his fellow graduates, saying that one of his favorite books, *Good to Great*, argues that "greatness starts at the intersection of talent and passion." Every day in his four years at Wharton, Stein said, he was amazed at the level of talent he saw around him, but added that "talent without passion is wasted... It is going to be up to us to start the next wave of social innovation. There is a world out there that needs fixing."

Later in the day, new Wharton MBAs heard from Utah Governor **Jon Huntsman Jr.**, C'87, who spoke on behalf of his father, alumnus **Jon M. Huntsman, Sr.**, W'59, HON'96, as well as two graduates, **William Jarvis II**, WG'08, from the full-time MBA program and **Michael Kesselman**, WG'08, from the executive MBA program.

Doctoral program graduates were addressed by Dean Robertson, Vice Dean Robert Inman, and Wharton Deputy Dean Michael Gibbons, while new Wharton West graduates of the executive MBA program heard from Art Bilger, the managing member of Shelter Capital Partners LLC, on May 11 at the San Francisco War Memorial and Performing Arts Center's Herbst Theater. ♦



THE STATE OF BUSINESS IN AMERICA

**Wharton faculty weigh in on
these historic economic times.**

BY MIRIAM HILL

Foreclosures are at record levels, threatening thousands of homeowners with eviction. More workers have joined the unemployment line. Grocery bills are rising, and Goldman Sachs is predicting that oil could hit \$200 a barrel in a few years. “Stagflation” has reentered the national vocabulary.

It’s starting to feel like the 1970s all over again. Or is it?

The 20,000 jobs the economy lost in April was not as bad as expected, and the unemployment rate of 5 percent remains low by historical standards. Retailers are suffering, but consumers are still filling their shopping carts: Costco Wholesale Corp. and Wal-Mart Stores reported better-than-expected April sales.

At Wharton, professors pore over business data to divine where the economy is headed. In late spring, we asked six of them to weigh in on housing, the Fed’s recent behavior, and whether it’s fair to call this downturn a recession, among other topics. Their varied opinions follow.



SUSAN M. WACHTER

Richard B. Worley Professor of Financial Management

When it comes to real estate, Wachter both sets and follows trends. She founded and directs the Wharton GIS Lab, which specializes in Geographic Information Systems, a technology that combines geographic, economic, and other data to study everything from land use to foreclosure rates in various neighborhoods.

Her GIS work led President Clinton to choose her to be his assistant secretary for policy development and research at the U.S. Department of Housing and Urban Development, a position she held for two years until President Bush took office in 2001.

Most people take the rebirth of urban America as a given now, but Wachter never stopped believing, even when the words urban and decay were frequently partnered. As policymaker, researcher, and professor, she pushed for reinvestment in urban areas. Now that the housing boom has turned into a bust in some areas, Wachter can often be found discussing these ups and downs on ABC News and in the *New York Times*.

Q. How big is the housing problem?

A. Estimates have been that it will reduce GDP by about 1 percent, but the key question is whether we're going to get out of the subprime crisis without a recession. We don't know. The next six months will be very telling.

Q. The housing market has been in decline for more than a year. Why does so much uncertainty remain?

A. In some ways, we are in very, very uncharted territory. In fact, we have to go back to the Great Depression to find a period of decline in housing prices as great as we have now.

Here are the two big questions: As prices decline, will homeowners and potential buyers react by going on a buyers' strike in the expectation that prices will fall further? If so, will this have a self-reinforcing impact? One thing we do know is that on the upside, rising prices are self-reinforcing, and that is what gives rise to bubbles.

Secondly, as prices decline in the normal housing market, demand increases and you get to a point where demand absorbs excess supply. But what we are in is a situation where as prices decline, supply increases. New housing starts are down, but our current situation generates supply increases through increases in foreclosures. No one really has good estimates of the impact of this.

Moreover, there's a possibility for the overall economic slowdown to feed into the housing decline and for housing decline to feed back into the overall economic decline.

As prices fall, if you're not forced to sell, you may simply wait it out. We've already had a 15 percent price decline, according to (Standard & Poor's) Case-Shiller National Home Price Index. Foreclosure sales have been an unusually large percentage of the last quarter's sales; there will be more sales generated from the usual market forces from springtime and this may lead to a moderating of the price decline. Whether owners will hold on and prices will moderate or whether we will continue to see the disproportionate impact of foreclosure sales depends on lender behavior as well as policy inducements to encourage loan work-outs.

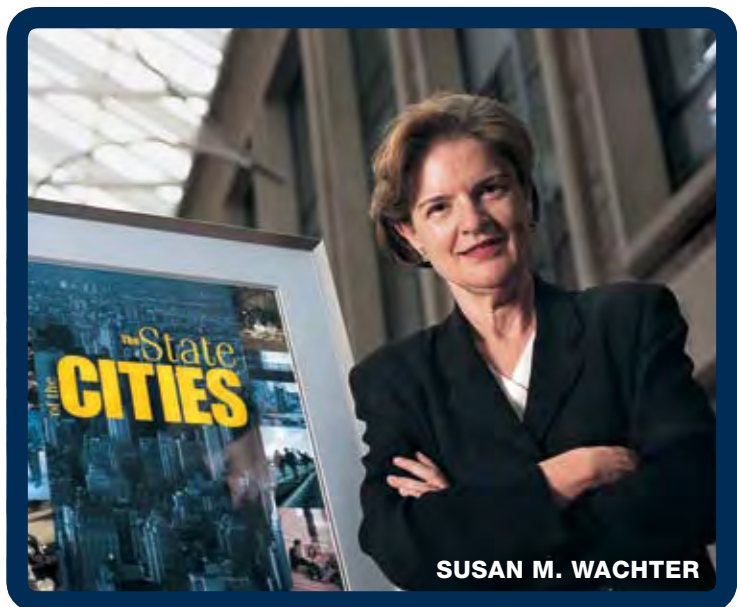
There are more than 10 million homes in the United States where the value, based on current mark to market, is less than what is owed. It's a stunning number, but its economic impact depends on how these homeowners respond, and whether they act on knowledge that their home value is beneath their mortgage amount.

We do know that typically homeowners do not monitor the value of their homes, nor do they typically get up and walk away. People are invested in their homes, invested in their neighborhoods. Nonetheless, there is the potential of a downward spiral, which is why the Federal Reserve eased credit — to minimize the danger of the resetting of so-called teaser rates. By getting short-term interest rates down substantially that particular bullet has been avoided.

Q. You mentioned earlier that we have to go back to the Great Depression to find comparable declines in the housing market. But how well does the current period compare? Haven't the housing market and the overall economy changed dramatically?

A. We're only using that as a way to say we're in uncharted territory. Fed Chairman Ben Bernanke is an expert on the Great Depression, which explains his very quick reaction to the credit crisis.

DAVID DEBALCO



SUSAN M. WACHTER

In some ways the markets do compare. Then, too, we had loans that could not be refinanced when they came due, so-called bullet loans. The major difference is that upwards of 25 percent of mortgages were in default. Today, we see defaults at 6 percent.

Also, this is a regionally based housing recession. What were the drivers of the subprime crisis? One was lower middle-income and working-class borrowers who had a hard time affording a house, including the Midwest where the job market is weak. So wherever credit was imperfect, where people had low credit scores, subprime expanded, sometimes with these toxic, aggressive loans.

And in coastal states, where housing was not affordable, subprime loans offered a way to get people into houses. Much will depend on the course of the regions as well as the national economy.

Q. So are there solutions to the housing crisis?

A. Bernanke has eased monetary policy and stabilized financial markets to some degree. Going forward, inflation is a real issue, so there are limits to what can be done. At some point inflation expectations start to drive up interest rates. There's not a lot of room here for getting it wrong.

There are targeted responses as well, such as those that were put into place after the Savings and Loan crisis and the Great Depression. In the latter case, the government stepped in to put a floor on the decline on housing prices. Congress is currently considering legislation that would work in this direction, but issues of who pays and consequences for future risk taking are also being weighed.

Q. Some experts say lenders should be working harder to negotiate with borrowers who are behind in their loans. These people say it's often cheaper to modify a loan than to go through foreclosure and sell a house at a loss.

A. A real problem is borrowers making the connection with the lender. This problem can grow if you don't get it early, so that first connection is crucial. If you can make the connection and modify the loan then often that is best for the borrower and the lender. But if in the end, foreclosure is going to happen, if the economics will not allow them to be in the house long-term, it doesn't do a favor to the borrower to prolong the process. There is also an issue of conflicting interests on the parts of the multiple holders of mortgage securities that needs to be resolved for fast action to be taken. Moreover, from a production perspective, this is a difficult time. Mortgage servicers are overwhelmed and simply lack staff to get borrowers to the table and negotiate solutions.

But, if this is a self-reinforcing process, what do you do? What will it do to cities? What will it do to neighborhoods? This is at the heart of the current policy discussions.

Q. The last time we experienced a downturn in the housing market was in the 1980s. Many experts have said that markets hardest hit during that period — Boston, California — recovered. Does that offer any comparisons to today?

A. Cyclic markets like Boston and California recovered. They were down 30 percent in nominal terms and they came back. So in this run-up, prices exceeded previous highs of the mid-1980s

substantially. These are very volatile markets because supply is constrained and once prices start to rise there's an expectational component that itself drives demand, which can quickly reverse.

The price dynamics are different in what I call the flat-liners — the markets where housing prices just keep pace with inflation — places like Texas where despite tremendous increases in demand, prices did not increase. Supply did. The problem is that much of the United States has become more volatile. Texas is the exception — supply constraints add to price volatility.

Markets will be weighed down by inventory of new production and foreclosed homes now on the market. Before recovery can begin, we need to stanch the increase in inventory. We are not there yet. This crisis is the inevitable result of financial markets flooding the housing sector with capital without regard to underwriting standards and then withdrawing funding after unsustainable price run-ups. Mortgage-market cyclicality is now a key to the problem and the part that we need to resolve longer term.

For more from Wachter on the subprime mess, see additional coverage in Knowledge@Wharton at <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1812>



FRANKLIN ALLEN

Nippon Life Professor of Finance and Co-Director of Wharton's Financial Institutions Center

Franklin Allen chases economic storms the way some people chase tornadoes. Financial crises are one of his research specialties, along with corporate finance. In the classroom, his ability to cope with calamity won him both the "Whatever It Takes" and the "Above and Beyond the Call of Duty" awards from Wharton. One bit of academic derring-do: When too many students signed up for one class, he simply added a second at 7:30 a.m. and promised breakfast to compensate for the early hour.

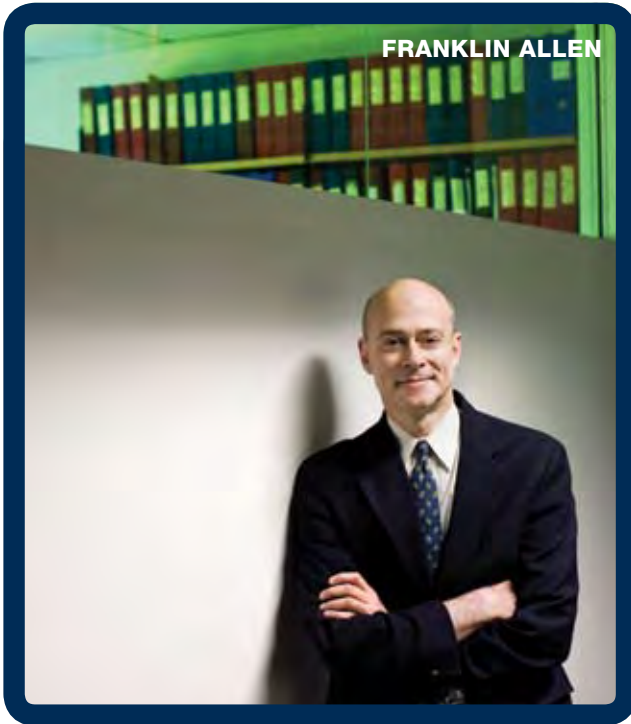
When he casts about for answers, he likes to look abroad. One of his other research specialties is comparing different countries' financial systems. In the following interview, he includes some lessons the United States might learn from Scandinavian central bankers.

Q. Your book, *Understanding Financial Crises*, considers past crises and crashes. Do you consider the current financial situation a crisis?

A. I think it is a crisis. It's a protracted one, so it has happened over some time, but yes, I think it is a crisis.

Q. How do you define a crisis?

A. It's when a situation in the financial markets gets very severe, when you have institutions failing. Bear Stearns is one



example. Northern Rock in the U.K. is another. We've also seen vast changes in volumes in the credit markets, those kinds of things.

Q. We've been coping with these problems for about a year. Are we out of the woods yet?

A. I don't think yet. I think it will be a lot like Japan. Property prices take a long time to adjust, and they're still falling. As long as they keep falling, we don't know what's going to happen. If property prices go a lot below where these mortgages are, we're going to have more defaults. That's what happened in Japan. They thought it was near an end, and it just kept going for 15 years.

Q. Is Japan completely over its problems?

A. No, not yet. They still have the after-effects of it. The big question here is how far property prices will fall. Some people like (Yale University economics professor) Bob Shiller argue that they'll fall 30 percent. Another big question is, Will there be feedback effects? If unemployment keeps going up, people won't be able to afford their mortgages. Now hopefully, that won't happen and we'll be okay. We're not going to go 15 years like Japan, but we might go two or three years.

“I think it will be a lot like Japan. Property prices take a long time to adjust, and they're still falling. As long as they keep falling, we don't know what's going to happen,” says Allen.

Q. Many people view Federal Reserve intervention in today's financial situation as unprecedented. What do you think of the Fed's action, and is it working?

A. We are in a high inflation situation. It may well be that we end up with stagflation, where you have a stagnant economy and inflation, and then they have to raise interest rates. It's a very difficult situation.

Did they do the right thing? I'm not sure cutting interest rates was the right thing, but where I would have criticized them was with Bear Stearns. I don't think they should have given the guarantee (of Bear Stearns's troubled assets) for free. I see why they didn't want to let the bank go bankrupt, but I don't think the guarantee was a good precedent to set going forward. I also think there is some truth to the argument that they should have just let them go bankrupt.

Q. You mentioned stagflation earlier. Most people associate that term with the 1970s, when rising oil prices fueled inflation and there was a lot of unemployment. Is today's situation like that one?

A. Conditions are very different today. I think the reason we have so much inflation today is because China and India need so many resources, which, together with food shortages, have pushed prices higher.

Q. Many banks that were once paragons of lending virtue — National City Corp., for example — have stumbled badly. What happened to credit standards, even at venerable institutions?

A. If you talked to people five years ago, and said there's a bubble in the housing market, people might have said, “Oh, you might have that in some regional markets, but it's not a widespread problem.” All these subprime loans were fine as long as housing prices kept going up, because then you could sell the house. The problem comes of course when prices start falling.

Economists have been talking about a bubble for years, but if you look at a lot of stories about housing, you'll see a lot of, “Here's why this time is different.” Of course, it never is.

In the United States, people were very surprised to see that house prices could fall. We've also had a lot of deregulation that allowed the financial system to make a lot of decisions. Now there are problems.

Q. How long do you think the housing market will remain in a slide? Who will be hurt? Are there any winners?

A. Yeah, the guy that made \$3.7 billion running a hedge fund, and there were a lot of other people that made a lot of money shorting these subprime mortgages. But a lot of people have lost, and maybe a lot more will lose going forward.

One of the points that hasn't been made in the press very much is the fact that the Fed is behind in terms of financial stability. After the crisis in Scandinavia, they started taking financial stability very seriously. They started publishing financial stability reviews. There were about 42 central banks that did. The Federal Reserve doesn't do that, or at least they don't bring it all together in one place. I think it is a good discipline to have a group of people who do that. I think it's something we need to start worrying about. We need to have a group of people that brings together information every six months or so. If they had done that, they might have caught the subprime mortgages, but they might not have.

The other big issue is whether central banks should worry about asset prices. Traditionally, Ben Bernanke and others say the Fed should just worry about consumer prices. And I would argue that we should worry in particular about house prices because they underlie so much of the economy. In Sweden, they consider housing prices when they set interest rates, and here they don't.



JEREMY SIEGEL

Russell E. Palmer Professor of Finance

The words "household name" and "business professor" don't often appear in the same sentence. Unless, of course, that name is Jeremy Siegel. His book, *Stocks for the Long Run*, has convinced squadrons of investors that stocks generate better returns than any other vehicle over periods of several years or more. Anyone who believes in buying and holding and rides out stock-market downturns rather than selling is a Siegel disciple.

The *Washington Post* called *Stocks for the Long Run* one of the 10 best investment books of all time. In 2005, Siegel tweaked his advice in the follow-up book *The Future for Investors*. Despite the doom and gloom of recent headlines, he remains an optimist. Here's why:

Q. Many experts, including some of your Wharton colleagues, believe we're already in a recession, or are definitely headed for one. Why do you remain relatively bullish?

A. First of all, there's the official recession called by the National Bureau of Economic Research, which we may not know for a year or more. And then there's the rule of thumb recession, which is defined as two quarters of negative GDP growth, and most experts by a margin of two to one say it's unlikely that we're going to have two negative quarters. Last quarter's growth was slightly positive. All this doesn't mean we're not having a slowdown.

Q. So what do you think those who say we're in a recession are getting wrong?

A. Obviously, they think it's going to get much worse.

Q. The big question mark in this economy is housing. People fear that declines in housing could have a self-reinforcing effect — people can't pay mortgages, which aggravates economic downturns and leads to layoffs that then feed into more debt problems. How do you see housing affecting the rest of the economy? Do you worry, as others do, that we just haven't experienced a housing downturn like this since the Great Depression?

A. This is a very serious decline in residential prices after a rise that was excessive. Many of the people who bought houses in the last few years are underwater. There will be foreclosures, but most lenders are still trying to work things out with the borrowers.

We're waiting for action from Washington. The number of people who are going to be thrown out of their homes is going to be much smaller than we fear. But don't forget, most homeowners who bought six or seven years ago are still in the black. In the Great Depression, everybody was affected. Today, we're really correcting a bubble.

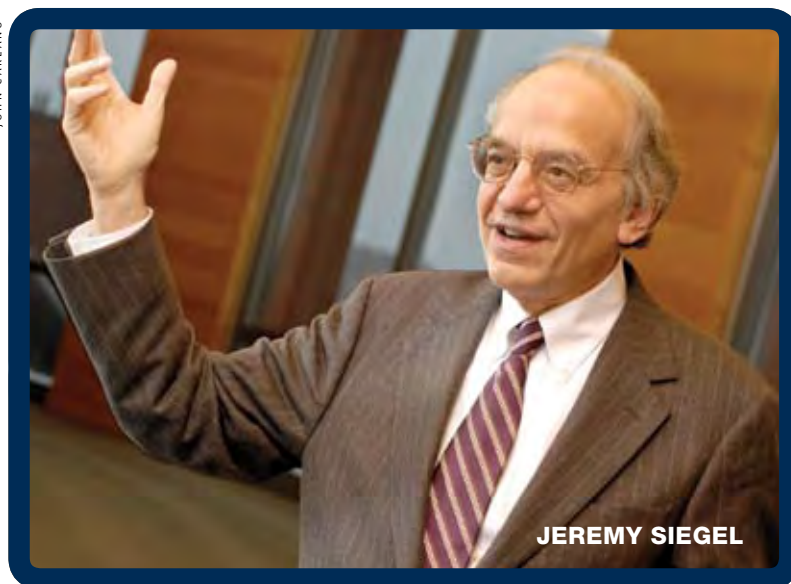
Q. The Great Depression looms over every economic cycle as if people believe there's a strong possibility that it could happen again. Do you think that's a legitimate fear?

A. No, because the Fed is standing behind the banks. In the Great Depression, we had runs on banks, and the banks failed. We have nothing like that happening now.

Q. So why do people raise the specter of the Depression so often?

A. Milton Friedman did path-breaking research documenting that the collapse and Great Depression were due to the Federal Reserve's failure to stand behind the banks. It wasn't only the slowdown that caused the Great Depression; it was also the Fed's response to it.

JOHN CARLANO



JEREMY SIEGEL

Love has a color and a name



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Q. What is your opinion of how the Fed has handled the Bear Stearns problem and the credit crisis overall?

A. I would have preferred that the Fed opened up the bidding process for Bear Stearns to all bidders and see what price they could have come up with. But that some sort of rescue package had to take place — with that, I concur.

Q. This is an election year. What effect, if any, do presidential elections have on the stock market? And should people change anything in their portfolios as a result?

A. Well, the truth of the matter is that over the last 50 years stock markets have done better under Democrats than Republicans, even though most big investors are probably Republicans.

I myself would prefer a Republican in office. I like a split between branches of government. I voted for the Libertarian candidate in 2004 because I did not like the way Bush was handling the war in Iraq. I viewed my vote as a protest.

I'm not really that concerned. Even if the Democrats win the White House, they cannot do anything they want. They need 60 votes to end a filibuster in the Senate, and they're not likely to get that.

Q. More broadly, does anything in the current economic situation, or that you see in the stock market, lead you to suggest portfolio changes?

A. I'm a big fan of international markets. We're seeing huge growth outside of the United States. You should have 40 percent of your stock portfolio in equities headquartered outside the United States.

For more from Siegel on the current economy, see Knowledge@Wharton <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1925> and <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1951>



RICHARD J. HERRING

Jacob Safra Professor of International Banking and Co-Director of the Wharton Financial Institutions Center

The Federal Reserve is fighting a war without the right weapons, Herring says. The war is the credit crunch. As a member of the Shadow Financial Regulatory Committee, a group of independent financial services experts, Herring studies and critiques the industry. These days, the committee is worried. Here, Herring explains why:

Q: How big is the housing problem and what do you think should be done to fix it, if anything?

A. The problem is that we are recovering from a speculative bubble that has left us with a large excess inventory of homes. We don't know how long it will take to work

TOMMY LEONARDI



through this inventory. Much depends on whether we have a long, deep recession and the kinds of government programs that are put in place.

It's very difficult to design public intervention that won't exacerbate the problem. It's hard to separate imprudent borrowers from borrowers who were defrauded, and there is understandable resistance to taxing people who behaved prudently to help people who behaved imprudently. Another feature of the problem that has received too little attention is that housing prices really had gotten too high relative to historical standards, so a large portion of the American population was simply priced out of the market.

I just got back from a meeting of the Shadow Financial Regulatory Committee. We issued a statement on the housing crisis proposing an alternative to consider before using federal money to help borrowers already in or facing foreclosure. This alternative proposal would allow these homeowners to rent their houses for several years with an option to buy at the current price. This would save lenders the costs of foreclosures, let homeowners remain in their homes, and force investors to take some losses. (This statement and others can be viewed on the website of the Wharton Financial Institutions Center at <http://fic.wharton.upenn.edu/fic>.)

As for how big the problem is, the International Monetary Fund is projecting total losses of \$1 trillion. Relative to GDP, that's larger than the losses sustained in the S&L crisis.

To some extent it is misleading to generalize about the U.S. housing market. It's really a series of independent markets loosely linked by migration flows. The U.S. has what Wharton Real Estate Department Chairperson Joe Gyourko calls "superstar cities" that can sustain price increases far out of scale with other parts of America. These cities, like New York or San Francisco, usually have well-defined geographic boundaries and often very tight zoning restrictions that prevent supply from catching up with demand. In other cities,

like Las Vegas, geographic constraints are much looser and zoning restrictions are relatively light. In such places prices will inevitably fall to the price of new construction.

Q. What do you think of how the Fed has handled the crisis, including the sale of Bear Stearns?

A. The Fed has been very creative about injecting liquidity into the system in various ways. Unfortunately, liquidity is only part of the problem. The collapse of the market for structured finance has decapitalized a number of banks that are central to the functioning of the financial system. Banks have suffered direct losses from holding downgraded securities, losses from honoring implicit guarantees backing up off-balance-sheet vehicles, losses on pipelines of assets that can no longer be securitized, and the loss of a major source of ongoing bank revenue. The capital challenge is immense. Banks need to replace lost capital, stockpile additional capital as a precaution against loss of access to funding, and add new capital to bring at least part of the massive off-balance-sheet banking system back onto the balance sheet. Moreover, there are serious concerns that the broader consumer business will deteriorate.

Q. When you say the broader consumer business is threatened, what do you mean?

A. We know that the problems that began in housing are spreading, in some cases because of pressures that are unrelated to housing, such as rising oil prices and commodity price increases. Traditionally, it's thought that consumers in a credit crunch will pay their mortgages first, then cars, and then credit cards. Now people are paying credit cards first because if you can't pay for gas, you can't get to work and if you can't keep your car you can't keep your job and so you'll lose your house anyway.

It makes sense, also because the foreclosure processes take a lot longer, and you can play for time that way.

Now, back to Bear Stearns. Bear Stearns has been in trouble since its hedge funds blew up in June of 2007. Its share price dropped steeply and credit default swaps indicated increasing anxiety over whether it was still solvent. Rather than rebuild its capital, Bear increased its leverage and reduced its liquidity position. Although the failure should not have been surprising, the speed with which it failed clearly took the authorities off guard. Bear's prime brokerage specialty, which had been the jewel in its crown, became a liability as hedge funds withdrew their assets and switched to other prime brokers. Some OTC derivatives counterparties sought to replace trades with Bear by new contracts with other dealers. Lenders would not engage in stock lending and tri-party repurchase transactions with Bear. Some banks refused to clear for Bear.

The evaporation of the repo market was perhaps most surprising. Repo is short for repurchase agreement, in which a borrower sells securities for cash to a lender and agrees to repurchase those securities at a later date for more cash. The whole idea behind the repo market was that it enabled a firm to borrow on the strength of its assets rather than on its own credit condition. But this has turned out not to be true for Bear. Bear was highly dependent on third-party term repos. In this case lenders must be sure that the counterparty can put up additional margin should it become necessary over the

term of the repo. In the end, the market lost confidence that Bear Stearns could do so.

The Fed crossed an important regulatory Rubicon without the right regulatory weapons. It lent \$30 billion to Bear through Bear's main clearing bank, JPMorgan Chase, and then set up a special purpose entity to hold \$30 billion in "investment grade" Bear assets financed by \$29 billion from the New York Fed and a \$1 billion subordinated note from JPMorgan Chase. All creditors and counterparties of Bear were protected. Apart from the potential cost to taxpayers, the action created unfortunate incentives that will inevitably encourage more risk taking in the future. Moreover, expectations of similar help from the Fed may complicate private-sector solutions should another investment bank get into difficulty.

The Fed feared the consequences of a Bear bankruptcy because they believed that the stays that are central to the bankruptcy process would create systemic spillovers for Bear's counterparties. They were especially worried about damage to other primary dealers that facilitate government borrowing.

The Fed lacked the resolution tools and supervisory authority that it (and the FDIC) would have with regard to a bank. These would have included prompt corrective action sanctions that might have encouraged Bear to find a private-sector solution before it faced bankruptcy and the authority to authorize a bridge bank that would have continued systemically important services and provided time for the regulatory authorities to find an optimal resolution for Bear Stearns. This episode revealed a huge gap in the U.S. safety net.

You could say that to the category of "too big to fail," we have now added a category of "too interconnected to fail."



PETER CAPPELLI

George W. Taylor Professor of Management and Director of Wharton's Center for Human Resources

Wall Street traders earning half a million a year. Wal-Mart workers bringing home, on average, \$19,100. Employees whose bosses have started demanding that they watch their weight in addition to their productivity. Cappelli has studied them all, offering his sharp observations on the state of American employment to the national media and to attendees at a recent leadership conference his center co-hosted.

Corporate America is paying attention. The leadership conference was listed among the top 10 most influential corporate conferences by corporate communications and marketing executives at Fortune 500 companies. Other conferences listed on the "Most Valued Podiums" study of 2008 include the World Economic Forum at Davos, Switzerland, and the Consumer Electronics Show.



“ ... No one has long-term job security, because so many variables can change that make current strategies and current competencies obsolete,” says Cappelli.

Q. It seems like a lot of people are worried about losing their jobs, or are looking for work. How do today’s unemployment rates compare to historical averages? To periods of recession?

A. Compared to previous recessions from the 1970s on, unemployment is pretty low right now. The 2001 recession was one of the mildest in history, and this one is shaping up to be mild as well.

Q. Some presidential candidates are promising to stop American jobs from going overseas. How many jobs have migrated to other countries, say, in the last decade? Is it a major source of job loss? If so, can policymakers do anything about it?

A. It’s impossible to say how many jobs have gone abroad. A lot of jobs have been created in other countries by U.S. companies because that is where their growing markets are. The total number of jobs that have been “offshored” — sent overseas simply because labor costs are lower there — seems quite modest. Estimates are in the hundreds of thousands, not millions. But the number of jobs that have gone abroad because U.S. employers have lost market share to foreign competitors is huge.

Q. You’ve written that some companies resort to job cuts in sort of a knee-jerk way, thinking only of short-term savings and not of strategy. Do you see any evidence that this is getting better or worse?

A. There is no evidence that it is getting better. What we have seen before is that one big player cuts jobs and then the pressure is on their competitors to cut as well, primarily pressure from industry analysts and the investment community. We’ll soon see if this happens again.

Q. You also have criticized Circuit City for dismissing workers and then letting them reapply for the same jobs at lower pay. Are any other companies doing things like this? What could Circuit City have done differently, given that it was under intense pressure to cut costs?

A. I haven’t seen anyone else do this. It’s hard to know all the other options that were available to them, but the fact that no one else is doing this certainly suggests it wasn’t the only option. They aren’t the only company under pressure to cut costs.

Q. What employees/managers/executives are perceived as indispensable today?

A. Lots of people can be indispensable in the short run, because most organizations now run so lean that there is no backup and no real plan for succession. Anyone doing a job that is reasonably specific to the organization is indispensable. But, no one has long-term job security, because so many variables can change that make current strategies and current competencies obsolete — a change in what competitors are doing, a new opportunity to outsource work, an alternative technology. Then the indispensable is no longer needed.

Q. What traits are valued, versus what was valued a decade or two decades ago?

A. The big one is the ability to market oneself, to stand out in a crowd of competitors, to network. These are useful because they help individuals change employers.

Q. Is there anything employees can do — acquire specific new skills, for example — to recession-proof themselves?

A. Nothing is fool-proof in this area, except possibly being related to the owners. Short of that, it helps to be playing an important role that is close to the “core” or central competency of the organization. Most everything else can be outsourced. If you’re doing something reasonably hard to replicate and it is directed at some products or missions that it will be hard for the company to abandon, then you’re probably safe.

For more from Cappelli, check out one of his books, which include: *Talent on Demand: Managing Talent in an Age of Uncertainty* and *Employment Relationships: New Models of White Collar Work*.



STEPHEN J. HOCH

Patty and Jay H. Baker Professor of Marketing and Director of the Jay H. Baker Retailing Initiative

You're not the only one shopping at Costco. Hoch shops there, too; only for him, such trips are part work and part good excuse to stock up on paper towels. He's a shopping shaman, a master of the mall.

In his research, he's helped explain, for example, why men and women should never go to the mall together if they want their marriages to work. That's a hyperbolic version of one of his recent conclusions — that women like to shop, to linger in the aisles, to browse, while men want to buy quickly and leave. Here, he explains why more consumers lately are avoiding the store in the first place.

Q. Your research focuses on retailers. How have they been doing lately?

A. Up until six months ago, or maximum a year ago, retail has been pretty darn strong. It came out really strong earlier in the 2000s, and some retailers obviously did better than others. The luxury segment, the higher-end segment seemed to be quite robust even when things started to cool off a little bit.

Retail is a growth game, so people expanded retail capacity. They opened a lot of stores. I think what's happening now is that retail has to hunker down and wait out the malaise that has hit the economy.

Gas prices have been high and food prices have been going up. Neither of those is in the core inflation measure, but people do have to spend money on them, so they spend less on other items.

As a result, we've seen a shift down in terms of quality. Just before Christmas, even high-end retailers that had seemed immune started to show strain. Neiman Marcus, Nordstrom, and other higher-end luxury stores had been benefiting, in part, from people jumping on planes to take advantage of the cheap dollar, but they just couldn't sustain it.

So consumer prices are not reflecting reality. People are saying, "You know what, I bought a lot of clothes over the last five years. I don't really need more right now."

Q. Because of uncertainty in the housing market, some experts say any downturn could be much worse than those in recent memory. Do you think this is a normal cyclical downturn or something worse?

A. It's a normal cycle.

Q. How do housing troubles tie into it?

A. I used to think of housing as an investment until I realized that it's just consumption in a different form. People are so leveraged that I think it causes liquidi-

ty issues on the margin for everybody. It takes a long time for housing to get out of control, but it also takes a lot longer for it to unwind.

There's a psychological factor, too. The value of someone's house and the fact that they're under water is a lot more salient to them than a decline in the value of their 401(k). They have to come home to it every day. You don't sleep in your 401(k).

Q. What is the outlook for retail in 2008 and 2009?

A. At first, I thought it might last for six months, but now it seems it might go on longer than that. All you have to do is walk outside and say, "Do you think there's enough retail?" to see the excess.

And part of this is a social thing. If everybody is talking about it, you think, "Well, gee, maybe on the margin, I ought to cut back."

Q. In some ways, this economy feels like the 1970s — oil prices are rising, and people are paying more for food. From past experience, what do we know about how people's habits change when staples take up a larger portion of the budget?

A. In terms of the consumer, we're seeing a respite. It's time to take a deep breath, and figure out, "Do I really need that extra thing, or can I make do?" But food is still incredibly cheap in the United States, compared to Europe. We're still seeing McDonald's and others offer 99-cent menus.

I remember in 1979, I had a 12¾ rate mortgage. This is not to say things are just rosy now, but I think there's obviously resilience to the economy now compared to then.

Even so, consumers aren't going to spend us out of this slow-down. When I saw lower-end retailers serving people who don't have any kind of liquidity constraint, I realized, hmm, we're there. That consumer malaise had hit us. Really rich people are shopping at Costco. Warehouse clubs have put up bigger numbers than I think people probably thought they'd see. ♦

Miriam Hill is the Philadelphia Inquirer's banking and personal finance reporter.

JOHN CARLANO



STEPHEN J. HOCH



PRACTICING WHAT HE PREACHES

Wharton's Karl Ulrich, creator of innovations from the TerraPass to a high-tech scooter for commuting, on ideas, design, and execution.

By Natalie Pompilio

Wharton Professor Karl Ulrich teaches innovation, which doesn't seem like something that can be taught — until you see some of the inventions his product design students offer at their end-of-term design fair. It's then you realize he must be doing something right.

On an afternoon in early May, Jon M. Huntsman Hall was buzzing as teams of Ulrich's students hawked their products and would-be consumers assessed the items' desirability. There were Jungle Hooks, a system of S-shaped links meant for hanging items while preserving precious dormitory space; Ironus Prime, the ironing board that folds into a pillow case; and Sticky Sudoku, Post-It Note sized puzzles for the sneaky student who wants to play number games without getting caught.

Amanda Dyson, E'09, demonstrated The Cordanizer, a series of cups that helps tidy the mess made by multiple electrical wires. (It later won the "market share" portion of the fair.) Ulrich's product design course is difficult to get into, she said, and she's glad she made the cut.

"This is probably my favorite class I've had at Penn. After taking this class, I know this is what I want to do," Dyson said. "(Ulrich) taught us how to look for needs. You trust him because he's obviously succeeded and he knows what he's talking about."

Ulrich's title at Wharton is CIBC Professor and Chair of the Operations and Information Management Department. His research focuses on innovation, design, and product development, and he's partnered with companies like Merck, Dell, and Hewlett-Packard. He's also faculty director of the Weiss Tech House, a campus organization that supports students in the development of new technologies and sponsors the annual PennVention competition.

But the reason he can teach something that seems un-teachable is because he's the real deal: an inventor, an entrepreneur, an in-demand consultant for companies working in the fields of medicine, food, transportation, and technology. He's the driving force behind products as diverse as chewy fruit snacks and a state-of-the-art scooter.

He knows innovation and product design because he lives it: His Narberth home is a former 19th century stone church converted into living space perfect for Ulrich, his wife, Penn English professor Nancy Bentley, and sons Jamie, 14, and Nathan, 10. He makes his nearly 10-mile ride to Wharton on a Swift bike, a folding bike he's helped refine, that's equipped with a Crossrack, a bike storage system that's also his latest product. He has about 20 patents to his name — and he's only 47.

So just how does he teach "innovation"?

"I mostly teach with projects," he says. "On the one hand, you have to teach by doing. On the other, there's some theory to be taught but it's too dry to do it in the abstract."

At the start of his product design class, every student came up with a product opportunity. Those were then narrowed down via something Ulrich calls, "tournament-style decision making."

"It's 'American Idol' meets 'Survivor,'" he says. "You determinedly filter the ideas until only the best survive."

Being creative isn't a requirement for success, he says. He puts an emphasis on hard work, sometimes quoting Edison, "Genius is one percent inspiration and 99 percent perspiration."

"A good idea is better than a bad idea, but execution matters," he says. "You are looking for both good ideas and a team that will take it forward."

Taking it forward is the hard part. Even among very entrepreneurially minded Wharton students, only about five percent actually

attempt to take their products out of the classroom and into the real world, Ulrich says.

Undergraduates usually take Ulrich's course during their junior or senior year. For some, like systems engineering major Thomas Macrina, it's their first chance to be "hands-on." The subject matter — and the professor — are gripping, he said: Of two other three-hour classes he had last semester, Macrina says he "walked out after five minutes." Not Ulrich's. "Honestly, he'll keep my interest, three hours straight.

"You need innovation. Creativity is giving yourself a different perspective on everything you do, be it how you get up in the morning, how you eat your cereal, or how you solve the housing crisis," Macrina said. "He gives you full range, within a box, and you realize what you're capable of."

It's also an eye-opener, he said. After a class on how products are made, he walked around the rest of the day looking at everyday items and thinking, "That door is sawed out. That knob was molded."

Ulrich notes that at Penn and Wharton, the culture is often focused towards finance. "If we're really going to understand how technology develops, we need more than economics," he says. "The product design course opens up new possibilities for students."

"THE TRIUMPH OF REFINEMENT OVER A BRILLIANT IDEA..."

Ulrich jokes that he's an engineer who is teaching at a business school. He holds bachelor's, master's, and doctoral degrees in mechanical engineering from MIT. When it was time for him to step out into the working world, he interviewed at some top engineering schools and subsequently got some top offers.

But a friend suggested he interview at Harvard Business School and he did, giving a presentation on "Computation and Pre-Parametric Design," his doctoral thesis, something that even he says has little to do with business. Harvard wanted him to come aboard. That provoked the interest of MIT's Sloan School of Management, which was starting a program that married its business and engineering schools. MIT interviewed Ulrich and also offered him a job in 1988.

Despite his wife's frank assessment that "Come on. You know nothing about business," he decided to give teaching at a business school a try. He chose MIT, he said, because he thought that if he joined the staff at Harvard, there would be no return; he'd be a business professor for life, like it or not. He need not have worried, he says now.

"I look back, it's been 20 years, and I think, 'I guess I really am a business professor,'" Ulrich says.

Ulrich grew up in New Hampshire, one of five children. His mother, then a stay-at-home mom, later went back to school and became a professor of history. His father, a chemical engineer who taught at the University of New Hampshire, enjoyed

"A good idea is better than a bad idea, but execution matters. You are looking for both good ideas and a team that will take it forward."

home improvement projects.

"We always lived in a house that was unfinished," Ulrich says. "I learned to solder copper plumbing when I was 12 years old. All of that made me very unafraid of how something works. I was not afraid to learn."

Ulrich built the standard kid stuff — go-carts, tree houses, zip guns. He also created a huge slingshot out of surgical tubing tied to two trees, which

he used to launch things into the woods near his home. (One advantage of being one of five children is his mother was often busy.)

One early lesson? That everything, from the ice cube tray to the ultrasonic scalpel, is simply an engineered device. "Once you have that epiphany," Ulrich says, "nothing is complicated anymore."

As a sophomore at MIT, Ulrich took part in the "270 Contest," a mechanical engineering competition that he compares to "the homecoming football game. It's a very big deal." Given a bunch of parts, each competitor had to build something that, when put on a seesaw with a rival's creation, would cause the seesaw to be tilted down at the end of 30 seconds. Ulrich built a tractor that won nine contests in a row, taking the title.

"I built it early and then refined it. The triumph of refinement over a brilliant idea," he says. "I remember thinking, 'I'm pretty good at this. I can make this work.'"

BRINGING HIS IDEAS TO MARKET

In 1999, after more than a decade of teaching — five years at MIT and six at Wharton — Ulrich decided he wanted to try something different.

"I got to the point where I said, 'I teach innovation and entrepreneurship and I've never started a company. I wanted the experience,'" he says.

So partnering with the industrial design consultancy Lunar Design, Ulrich generated 200 business concepts and using the tournament method, worked to narrow it down to one they would produce. (Their ideas were all over the map. One was a digital picture frame, a cutting-edge concept in 1999.) They finally decided their best bet was a high-performance scooter for adults. After much designing — "If the deck is even a centimeter too high, you feel it," Ulrich says — the result was the Xootr, which was launched in September 1999 and has now sold close to 100,000 units, even enjoying a recent resurgence due to increased gasoline prices.

Personal transportation is a design field that appeals to Ulrich. That's why, when he saw a clever bicycle design at a folding bike conference a few years later, he asked the inventor to go into business with Xootr, with Xootr producing and refining the bike, and giving the inventor royalties. Several thousand Swift bikes have since been sold, at a price of about \$700, largely directly to consumers via the Xootr website.

"It was weird for me, making someone else's product, but I'd do it again," Ulrich says.

Ulrich rides his Swift bike to work. But when he travels to Vermont, where he's building a cabin, he drives his Ford F150 to haul his gear. All that gas guzzling got him thinking. The result, with the help of his MBA students, was TerraPass.

"I burn a lot of fuel, but I'm willing to pay for my sins," he says. "I'm very much a need-driven innovator."

TerraPass sells so-called "carbon offsets." It works like this: Customers determine how much carbon dioxide their activities — like driving and flying — generate, then pay TerraPass money to counterbalance the environmental damage they've caused. TerraPass, a for-profit company, invests in things like wind power, landfill gas reclamation, and biomass energy production.

The *New York Times* dubbed TerraPass one of 2005's most noteworthy ideas. Today, the company is not alone in its field — Ulrich guesses there are at least 50 competitors — but it has excelled by packaging its product and marketing it. "I look around and I think we've had an impact," Ulrich says.

At home, Ulrich spends much of his time in his lower-level workshop, separated from the family's rec room by glass patio-style doors that allow him to see his sons playing "Guitar Hero" or watching television. He has a desk with books and computers along one wall and a workshop — complete with tools — along the other, the space between the two only a roll away if you're sitting on his rolling desk chair.

"I like the idea of being directly connected to the stuff," he says. "Some days I'll pretty much move effortlessly from one to another."

On one wall, Ulrich has a collection of ice cream scoops, from

the early days of the pointy scoop to the trigger-style server in different styles. He enjoys studying the evolution of a product, he says. He also enjoys product design, as evidenced by a line of 15 different Coca-Cola cans on a nearby shelf, left over from an analysis he did for a new book he's writing about design.

Food is another creative area for Ulrich. As a graduate student, he designed an industrial clam shucking machine that was later developed commercially. He's also one of the inventors of Betty Crocker's Fruit Gushers, chewy, fruit-flavored bits that have a sweet liquid filling.

Ulrich has worked on the production of everything from sausages to breakfast goods. (Ever wonder how they make that cinnamon bun shaped cereal? He knows.) He has created French fries that get crispy in the microwave, no fancy packaging required. (He says it has something to do with the cut of the potatoes, but won't reveal more in case the idea takes off.)

"With most food products, it's not hard to conceive a product itself. The hard part is how to make it," Ulrich says.

Indeed, in 1990, Ulrich joined a team developing a self-serve ice cream machine that would offer different flavors. The resulting product, sold under the name MooBella, is finally finished. "Twenty years later, it's ready for the market," he says.

One percent inspiration, 99 percent perspiration. Ulrich practices what he teaches. ♦

Natalie Pompilio is a former Philadelphia Inquirer reporter. She is a frequent contributor to the Wharton Alumni Magazine.

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PHOTOS BY TOMMY LEONARDI



Reunion 2008

Festive Reunion Weekend Mixes Business with Pleasure

More than 1,300 alumni came for events that kicked off on Friday, May 16 with professional education workshops led by Wharton professors and alumni and ended on Sunday, May 18 with an All-Alumni Brunch and the traditional alumni processional during graduation to welcome new degree-holders to the alumni fold.

Wharton professors including Michael Useem, Richard Shell, Jeremy Siegel, and Monica McGrath led talks on the latest topics affecting business, while Dean Thomas S. Robertson reported on his vision for the School's future at a Wharton Town Meeting in the Dhirubhai Ambani Auditorium of Jon M. Huntsman Hall.

At "The Entrepreneurship Perspective — Lessons from Wharton Alumni," one of three Friday afternoon professional education workshops, Wharton alumni **Jay Minkoff**, WG'83, president and CEO of marketing firm First Flavor of Bala Cynwyd, PA; and **Selwyn Isakow**, WG'78, founder and CEO of Bloomfield Hills, MI-based Oxford Investment Group, discussed the motivations, challenges, and rewards of owning a business.

"Your business will never play out like it does in your business plan," Minkoff told attendees. "You have to have flexibility in your structure — your money, your timeframe, your markets. You need to plan for bad things happening — stuff will cost

more than you thought, key people will leave, and markets will evaporate."

Friday evening, alumni mixed business with pleasure at the MBA pub for the Class of 2003, a Class of 1998 kickoff reception on the 8th floor of Jon M. Huntsman Hall, and an All-Alumni Reunion Class Mixer at Rae Restaurant at University City's Cira Centre, the first major high-rise office building in Philadelphia to be constructed outside of Center City.

The skies cleared on Saturday in time for alumni to reconnect with friends in the Lehman Brothers Quad for the traditional family picnic — an event many chose to introduce new family members to the Wharton community. **Jared Mintz**, WG'93, reported that he and his wife were busy "showing our twin nine-month-old daughters around their future campus." The seasonable afternoon gave reunion attendees and their families the chance to enjoy a schedule of family and cultural activities that offered something for everyone, from a family trip to the Academy of Natural Sciences to a trolley tour, and the 30th annual alumni run/walk. "At reunion I was inspired to continue learning and connecting," said **Juliana Bloembergen Dalton**, WG'83.

Later in the day, Lauder alumni gathered at a reception at the Lauder Lounge, and the MBA reunion classes took over the ballrooms of the Loews Philadelphia and Sofitel hotels.

Next year's Reunion promises a lively mix of professional programming, networking opportunities, and social engagement. Mark your calendars for May 15-17, 2009.

Reunion 2008

Working to Refocus Japanese Higher Education

YOTARO KOBAYASHI, WG'58

“If you don't have a good liberal arts education,” says Yotaro Kobayashi, “adding professional training on top of that will only produce robot-like minds — very mechanical and very effective at doing narrow-minded things, but not at seeing or understanding broadly defined issues.”

After a lifetime of business success, Kobayashi, who recently returned to Wharton for his 50th reunion, has education foremost on his mind — specifically, how he believes Japanese higher education has fallen behind.

“Education as a whole is my central point of interest,” says the former chairman and CEO of Fuji Xerox Co. “Here in the U.S., I am envious that most of the first-rate universities, including Penn, give a first-rate undergraduate liberal arts education.”

Two years ago, Kobayashi, a Tokyo native, stepped down as chairman at Fuji Xerox and now serves as chief corporate advisor for the company. Fuji Xerox, a joint venture between Xerox Ltd. and Fuji Photo Film Co., Ltd., has nearly \$10 billion in revenues and more than 40,295 employees.

Kobayashi has been integral to the company's success. He joined the Fuji Photo Film Company the year he graduated from Wharton, and five years later was assigned to the parent company, where over time he ascended to join the board of directors (1968) and become execu-

tive vice president (1976), president and CEO (1978), and chairman of the board (1992).

He's now most concerned about educating the next generation of leaders.

“In higher education at the college level [in Japan], in particular after 1945, humanities education has been deemphasized, with more emphasis on management, economics, and focusing on the how-to rather than the what and the how,” he says. “Until the end of the '70s, that was extremely successful, because we knew what the problems were. But starting in the mid-'80s, it was not just the known problems that we were facing. We had to define what the problems were for Japan, for Asia, for the world.”

Kobayashi's leadership beyond business includes positions on the board of the Aspen Institute, the advisory board of the Council on Foreign Relations, and the board of his Japanese alma mater, Keio University, and being chair of the Pacific Asia branch of the Trilateral Commission, as well as myriad other organizations. He's also a member of Wharton's Executive Board for Asia and a former Penn trustee.

It's with this very up-close view of formal education that Kobayashi believes liberal arts instruction in Japan needs to be restructured.

“I was telling my classmates at lunch today about my learning at Wharton,” he says. “I had forgotten all the specific teachings of the different classes, but two things have continued to stand out: One is the Wharton steps of defining problems — you really have to define your problems correctly at the first stage.”

And the other?

“The importance of communications — particularly coming from Japan,” he says. “The essence of the lesson was that communication is really to let the other party understand you better.”

— Jeffrey Barg



RYAN DONNELL





JAUNICH



Slow and Steady Wins the Race

ROBERT JAUNICH II, WG'63

Bob Jaunich has patience, and lots of it. It even comes out in the way he speaks — measured and deliberate — and it's what drives his investment philosophy.

"We're looking at companies in a much more granular fashion than others might," says Jaunich, founding partner of the San Francisco- and Boston-based Calera Capital private investment partnership. The group is known for remaining invested in companies for six, seven, even eight years, which Jaunich says, is "very atypical for private-equity firms."

Jaunich founded the 35-employee company in 1991, and Calera has invested \$2 billion in industries including financial services, business services, food and consumer, healthcare, building products, and industrial manufacturing.

"Through the years I've tried to identify companies that look like they're real companies and have good revenue histories, good profit histories, good cash flows, good management, and good culture, but for one reason or another are seeking private equity," he says. "Our resonance with the people we talk to is that we come at all these situations with an operating perspective, not a purely financial perspective."

That operating perspective is one Jaunich knows well. The first 23 years of his career, from his Wharton graduation until he left corporate work in 1987, he spent working in operations. Those more than two decades included six years at Procter & Gamble, as well as serving as executive vice president of Memorex Corporation, president of Sara Lee Corporation, president of Osborne Computer Corporation, and executive vice president and member of the chief executive office of Jacobs Suchard AG, a Swiss-based world leader in chocolate, sugar confectionery, and coffee.

When he started Calera Capital in 1991, Jaunich says, "that combination of operating experience plus investing experience was a fairly rare combination for private equity."

Jaunich seeks out companies in which Calera can make a majority investment. But that financial commitment — typically in companies with enterprise values up to \$1 billion — is reflective of the long-term relationship Jaunich sees in each situation.

One example is Calera's investment in Kerr Group plastics, a deal in which Jaunich teamed up with old friend and Wharton classmate **Richard D. Hofmann**, WG'64, the former president of Continental Can Co.

After acquiring the outstanding shares of the NYSE-listed Kerr in August 1997, they acquired Sun Coast Industries, Inc., a manufacturer of specialty plastic closures, the following spring. "And then we finally bought all the packaging from McCormick, the spice people, and so we ended up with a very nice-sized company," he says. "Over several years of building this, we exited by selling it to a strategic player," Berry Plastics Corporation in June 2005 — almost seven years after first investing.

Jaunich brings his operations experience to the nonprofit world as well. He serves as president and trustee of the National Recreation Foundation, which promotes healthy lifestyles for at-risk youth; serves on the board of trustees of the Palo Alto Medical Foundation; and is heavily involved in the Boys & Girls Clubs of the Peninsula, serving on the president's advisory council in East Palo Alto, Menlo Park, and Redwood City, CA.

"I've always enjoyed challenge, and in all these organizations, there's a huge challenge."

— Jeffrey Barg

Reunion 2008

Paying Attention to the Personal Side of Business

ROBERT J. HURST, WG'68

For Robert Hurst, the line between professional roles, charitable work, and social life is a blurry one: "It's all one and the same," he says. "It's all about relationships."

Hurst, now a partner of the private equity firm Crestview Partners, believes strongly that relationships are built anywhere.

Indeed, two former colleagues brought Hurst to Crestview in 2005. Founding partners Barry Volpert and Tom Murphy had both been partners at Goldman Sachs, where Hurst spent 30 years. And relationships built Crestview's first fund, which, fully invested, was just less than \$1.5 billion.

"Of the 10 direct investments we made in portfolio one, not a single one came about because of a classic auction," says Hurst. "Every one came because of relationships."

Crestview, which operates in the mid-sized market, is now in the midst of launching a second fund, which Hurst says "will probably be around \$2.5 billion — maybe more."

Hurst's relationship building has found equal significance in the arts and nonprofit worlds. For the last five years he's served as president of the board of the Whitney Museum of American Art, and he's a member of the Board of Overseers of Wharton.

Before joining Crestview, Hurst spent 30 years at Goldman Sachs, where he retired as vice chairman in 2004. Over the years he held a variety of leadership positions, including heading investment banking from 1990 to 1999.

He got his start early, beginning Wharton's MBA program at age 20 after receiving his undergraduate degree from Clark University. Following a five-year stint at Merrill Lynch, Hurst moved to what was a much smaller Goldman Sachs, then a company of about 1,000 employees.

His attention to the personal side of business also started early. When Hurst became a partner in 1980, he was given a list of 200 mid-Atlantic companies that were either new to Goldman Sachs, or had had a negative business experience with the firm.

"I did it the old-fashioned way," he says, "calling, being thoughtful, suggesting good ideas. But it was always based on not wasting someone's time and trying to put myself in the shoes of the person I was calling." That kind of gumshoe leg-work paid off. "Within a relatively short period of time we had a major market share in the mid-Atlantic area that I was asked to cover."

In addition to his role with the Whitney, Hurst is chairman emeritus of the Jewish Museum in New York, a trustee of the Aspen Institute, a member of the Council on Foreign Relations, and the founding CEO of the 9/11 United Services Group, the coordinating arm for 13 social services agencies involved in relief activities, including the Red Cross.

Again, says Hurst, it's the personal connections that have emerged that make any work he has engaged in, be it running a major private equity operation or donating his time to Wharton, the Whitney or the Jewish Museum, most satisfying. "It's really all about helping," he says.

— Jeffrey Barg



DANIEL GOODRICH

HURST



Reunion 2008

Stocking Every Refrigerator in Chile

CLAUDIO ENGEL, WG'83

There are about a million things you can do to call your operation a “family business.” Claudio Engel can check off pretty much all of them.

The obvious ones are easy: business started by family members and passed down through the generations, naming companies after family members, kids working in the mail room while they're growing up.

But in a country like Chile — and for a businessman like Engel, whose training at the Universidad de Chile was as a civil engineer — “family” carries more than the standard definition. It's about knowing the personal lives of your employees, and feeling invested in the life of the country.

“Our country has 16.5 million people, and our whole economy is equivalent to something like Boston's or Philadelphia's,” Engel says on the phone from his office in Santiago, Chile. “We're in every home. Every refrigerator has our products. Most of the food in the refrigerator has our raw materials.”

The privately owned F.H. Engel group of companies, for which Claudio Engel works as executive vice president and CEO, reaches into myriad facets of Chilean life and beyond. The Engel family first emigrated to Chile from Hamburg, Germany, to sell canaries. Today, F.H. Engel has spread its wings around four companies: one dedicated to representing multinationals in the Chilean market, one that supplies finished goods to supermarkets, a leading company in temperature control logistics, and a retail discount store called Erbi.

Even the company names are all in the family: The first two are named for Claudio's father, Frank Herbert Engel; the third is called Luniben, for Claudio's three sons, Lucas, Nicolas, and Benjamin; and Erbi was the nickname that arose from Chileans who couldn't pronounce the name “Herbert.” (Engel jokes that he still needs to create a firm to name after his daughter, Francisca.)

Over the years, Engel, a member of the first Wharton Fellows class in 1991, has continued his strong ties to the School. He has served on the Wharton Latin America Board since its inception, and when the Wharton Global Alumni Forum came to Santiago, Chile, for the first time in 2005, Engel worked as chairman of the organizing committee.

In 1985, two years after graduating from Wharton, Engel got roped into the family business the way you'd expect: through his father.

“I was working as market support manager for Latin America at a company called Raychem in Menlo Park, California,” he says.

“My father called me one day and said, ‘It's time to get down here. You're going to make less money, but it's going to be yours.’”

That family business mentality continues today.

“When you run a family business and you have 300 people, you consider that you have 1,200 people,” Engel says. “Each person has a family, and you have a lot of responsibility.”

“I have three employees celebrating 30 years in the company this year, two who have been here 25 years, four or five at 20 years,” he says. “That's a lot. You don't see that much anymore.”

For the Engel family, the notion of family business extends beyond the company itself. In March 2004, the family opened the Engel Foundation, where 10 psychologists and three psychiatrists give group psychotherapy to low-income people. Engel's wife, a psychologist, serves as director.

“My parents always wanted to thank Chile for what it did for them, because they were running from the war, and they were both very successful,” he says.

What's more, the foundation got off the ground in time for Engel's father, who passed away in late 2005, to see his dream realized. “For Latin America, there's so much to do,” Engel says. “We consider ourselves part of that growth. My reward is to see that the results are good.”

— Jeffrey Barg



TOMMY LEONARDI





PICKRUM



Building a Powerhouse

LISA PICKRUM, WG'98

Lisa Pickrum is bigger than Oprah. Well, maybe not in terms of fame, global influence, TV screen time, or tendency to rub elbows with world leaders. But when *Black Enterprise* magazine compiled its list of the top 50 women in business in 2006, Pickrum and Oprah were on the same page. And Pickrum's photo dwarfed that of the international TV mogul.

"People were sending me e-mails saying, 'I can't believe your picture was bigger than Oprah's!'" Pickrum laughs.

And the showbiz connection isn't such a stretch. As executive vice president and chief operating officer of RLJ Companies, started by Black Entertainment Television (BET) founder and billionaire Robert L. Johnson, Pickrum has a hand in holdings from real estate to professional sports, gaming, film production, and financial services.

"She's one of the right-hand executives Bob Johnson counts on to move his empire forward," wrote *Black Enterprise* of Pickrum in its "Hot List" cover story last December. The magazine also cited her key roles in forging "a number of lucrative partnerships," including the creation of a private equity fund with The Carlyle Group and a joint venture with Deutsche Bank Asset Management.

Indeed, Pickrum's involvement in Johnson's holdings varies widely. With a younger company such as RLJ's Los Angeles film company Our Stories Films, she's more hands-on.

She emphasizes, though, that her job is often simply giving an RLJ company executive what he or she needs to best lead, though she recently finished an assignment as interim CEO of RolloverSystems, a company that sells technology and services to retirement plan administrators.

The rest of her time is spent structuring new joint ventures and acquisitions, a practice informed as much by her legal background as her business acumen. After graduating from Vassar College, Pickrum first went to Stanford Law and then practiced for two years before coming to Wharton.

Though Pickrum took a break from professional life after the birth of her second child, Johnson lured her back almost five years ago with the promise of a balanced work and home life.

Now that RLJ's portfolio has grown to 10 companies, Pickrum is working to build stable, mature businesses in each.

"Our company is very much identified with Bob Johnson," she says. "We need all of these businesses to have their own identity so if there's a day that Bob decides he wants to bow out — which by the way would never happen — we would all be able to run 100 percent. Whenever you have a business conglomerate that's so identified with a person, you have to think about that." ♦

— Jeffrey Barg

SFOs IN ACTION

How the Richest Families Manage Their Wealth

For many of the world's richest families, SFOs — Single Family Offices — play an essential role in their investment strategy. SFOs manage the family financial portfolio and often provide other services, such as handling children's college applications, hiring domestic staff, or managing the family fleet of jets. About 1,000 SFOs are in operation around the world catering to families with a least \$100 million in assets. More than half the SFOs are managing family wealth of more than \$1 billion.

Up until now, little has been known about these powerful entities. New Wharton research, however, shows that they play an important role in managing major investment portfolios, guiding significant philanthropic endeavors, and maintaining a core set of values across generations of extremely wealthy families.

Wharton management professor and Robert B. Goergen Professor of Entrepreneurship Raphael (Raffi) Amit says the survey's most important contribution is a better understanding of why families set up SFOs. For the most part, he says, it is to manage investment portfolios, but to do so in a way that is customized to the families' objectives. "First, and what surprised me most, is that family offices turn out to be private investment offices," says Amit. "The soft responsibilities, like coordinating the education of the next generation, are not as important as the financial wealth management issues."

Stacy M. Dutton, former president and chief investment officer of the

Manhattan-based Park Agency, the successor company to the SFO Joseph P. Kennedy Enterprises, says family offices are trending toward more emphasis on managing money than managing the family compound.

"There is a divergence between new family offices being established today — with their greater focus on investments — and more established family offices which continue to provide more traditional services to the founding families," says Dutton, who this year became managing partner of Brandywine Global Investment Management in Philadelphia.

The Wharton research is based on a study conducted by Amit, academic director of the Wharton Global Family Alliance (GFA), Heinrich Liechtenstein and Julia Prats from the IESE Business School in Spain, and Todd Millay and Laird P. Pendleton of CCC Alliance. GFA is a collaboration of faculty at Wharton, IESE, SDA Bocconi in Italy, Singapore Management University, and family businesses that support

the center. The SFO study, titled "Single Family Offices: Private Wealth Management in the Family Context," is based on a survey with 138 responses and 40 in-person interviews.

Amit says a family needs at least \$100 million in assets to make it worthwhile to establish an SFO, which typically costs about \$3 million a year to operate. Individuals and other groups of families often form similar entities known as multi-family offices (MFOs) which, according to Amit, number in the thousands.

Trans-generational Wealth

Family investment offices trace their lineage back to the Roman major

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*Cathleen Chawla, WG'01,
and Rakesh Chawla, WG'01*



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domus (head of the house) and the Medieval major-domo (chief steward). Today's SFO began to emerge in the mid-19th century with the creation of private banks and trust companies for families that made fortunes in the Industrial Revolution. According to the survey, SFOs these days are also operated for entrepreneurial families.

Among GFA survey participants, 58% remain involved in operating businesses and 77% indicated that they are majority stakeholders in holding companies they founded. The level of involvement in the family business, however, varies widely by geography. Only 40% of American families in the sample are involved in the family business, compared to 70% of the Europeans and 89% of those from other parts of the world.

The average SFO in the Wharton sample serves 13 households within the same family group, covering 40 family members and two to three generations. The median SFO serves four households and eight family members, according to the survey. The most important objective for the SFO, according to 57% of the survey respondents, is trans-generational wealth management. The second, selected by 39% of the re-

Family Investments (JFI), manages the investment portfolio of the Jacobson family, which founded a major industrial tools and supplies distribution company, MSC Industrial Supply Co., of Long Island. He also runs a similar company, Nine Thirty Capital, that manages investment portfolios for another group of families.

JFI and Nine Thirty Capital are solely focused on investments, and Rabin says more SFOs seem to be moving in that direction. Family-run investment firms can protect against conflicts of interest and assure that the interests of the family come first, he says. An outside investment advisor "may have other interests. It might be a fee-generating business or a large institution that is interested in selling its own products. [The family] may worry, 'Do they have my best interests at heart?' If the family builds its own investment company, the family is the only client. There's no conflict. The family is doing whatever is best for itself."

The report shows SFOs do not typically manage family funds directly, Amit adds. Instead, they set the strategy and work alongside banks and other investment managers to safeguard and grow the family portfolio. "SFOs

comprehensive basis to make optimal decisions," she says.

On average, the study found that European SFOs are inclined to outsource fewer activities related to wealth management, especially investment-related activities. In Europe, 63% of SFOs perform asset allocation in-house vs. 47% of SFOs in the Americas. In European SFOs, 70% of financial administration is done in-house while 41% is done in-house in the Americas. Many SFOs also offer so-called concierge services, such as managing homes, boats and planes, hiring staff, managing payments, and guiding philanthropy. The SFO also helps keep families together and moving toward common objectives, says Amit, adding that some offices provide psychologists.

Governance Practices to Ensure Accountability

SFOs reflect the families that fund them through their governance structures. According to the report, family offices need explicit governance practices that hold the professionals accountable, such as pre-determined benchmarks, regular evaluations based on set criteria, and clear reporting of outcomes. "Accountability plus objectivity contribute to building trust, a key underlying reason to have a family office," the report says. Members of the extended family often participate in family office governance in some way, either informally or through established governance committees, the research found.

Dutton says the most important trends in governance are mission statements and operating agreements. "These trends center on family members proactively making genuine governance commitments based on a shared vision of why the family office exists. What does the family want from its family office, and what financial and time commitments is it willing and able to make to ensure the office operates effectively?"

Nearly half of the survey respondents — 43% — chose a family member to head its SFO, while 51% chose a professional from outside. Based on a more

"Accountability plus objectivity contribute to building trust, a key underlying reason to have a family office," the report says.

spondents, is to consolidate accounting, tax, and estate planning services.

From interviews, the GFA research found that other common reasons for having an SFO include freedom of career choice for family members; cost effective money management; stable, controlled, and scalable asset management; development of trustworthy and loyal employees; and cheaper document administration.

Stuart J. Rabin, co-founder, president, and chief executive of Jacobson

complement banks because much of what has to be done is outsourced to the banks. The banks are partners as opposed to competitors."

According to Dutton, partnering with private banks is a positive trend among SFOs. The most important benefit is better access to information technology. "It is problematic for stand-alone family offices to continuously invest in the IT infrastructure needed to generate the investment, tax, and budget reports on a sufficiently timely and

detailed analysis, the research shows that richer families were more likely to hire outsiders to handle their money. While 55% of the millionaire SFOs had family members at the head of the family office, only 27% of the billionaire SFOs were run by family members.

During interviews, the GFA research team learned that some families chose professionals from the family business to be the head of the SFO since they were familiar with both the family business and the family. At the same time, other families specifically avoided hiring from the family business because they wanted to separate the family money from the business. "Governance is very important," says Amit. "Interestingly enough, when we compared the Americas to Europe and the rest of the world, U.S. offices have the weakest governance."

The study also revealed information about the operation of SFOs. In the Americas, the average size is 8.7 employees compared to 13.2 in Europe and 11.8 elsewhere in the world. The researchers contend that the larger size of European offices is due to the maturity of family wealth in Europe, where there are more generations and family members to handle.

The survey also states that investment professionals are willing to work at SFOs for less pay than they might earn elsewhere in return for a more relaxed and flexible work environment, Amit notes.

Discretion Needed

According to Rabin, discretion is critical for SFO employees managing the fortunes of families whose wealth might put them in the public eye. For example, his company has no web site and does not advertise. "But it really depends on the nature of the business and the family," he notes, adding that some high profile public families don't care as much about discretion, but most do. Dutton agrees that discretion is a major part of the job description at any SFO. "It must always be top of mind when working at a family office. "Normally, this is quite straightforward. It becomes challenging mainly when certain specific assets, such as a privately held operating business or real estate, are held jointly by disparate family members."

The GFA study concludes with recommendations for families operating SFOs.

First, having a purpose seems to enhance the performance of an SFO. "Well-functioning SFOs tend to be linked to families with a strong sense of purpose where it comes to their fortune. This is particularly true when the family invests, not only its assets, but also its enthusiasm in the pursuit of something beyond mere wealth preservation. This applies to a broad range

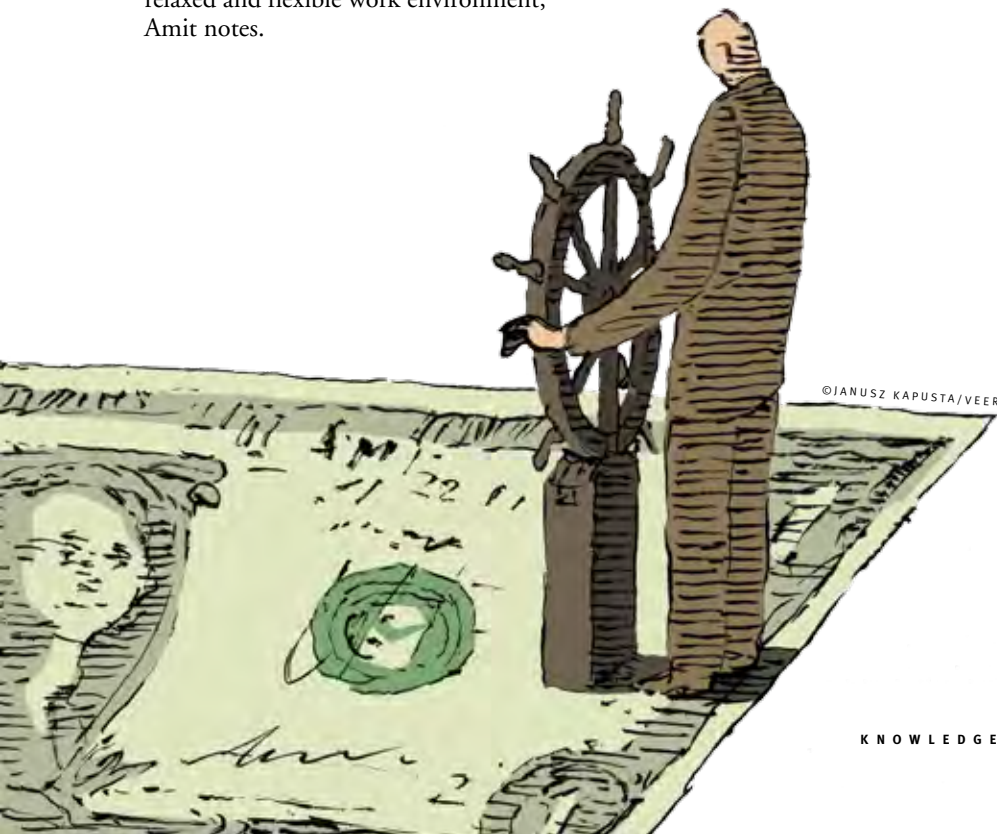
of objectives, including involvement in entrepreneurial activities and business, worthy causes, philanthropic pursuits, research foundations, patronage of the arts, or taking on public responsibilities," the report notes.

Second, the study recommends that families strive for excellence in all aspects of their office. Nepotism has no place in the family office, but the report found that some families compromise the professionalism of their SFOs as a result of family politics or penny-pinching. Separating functions appears to improve performance, the study found. "The highly paid hedge fund expert should not be distracted by dealing with the car fleet, let alone collecting the dry-cleaning," the report states.

A model that appears to work well is to set up separate companies for the different specialized areas of asset management and concierge services, plus a foundation for philanthropic activity.

Finally, the report calls on families to simplify their corporate structures. One SFO in the survey was dealing with 200 non-active holding companies. Few SFOs had less than 80. "This can create problems for family members wanting to supervise, let alone direct, SFO decision-making properly," the report says. "Many simply do not have the time, interest, or expertise needed to find the devil in a huge amount of company detail."

Amit says the new research is just a first step in gaining a better understanding of how family wealth is managed. GFA plans to continue its studies and hopes to examine the financial performance of families with SFOs against the investment performance of private banks or other investment professionals. "The vast majority of businesses around the world are indeed family businesses, and there are a number of distinguishing aspects that make family firms unique, raising issues that we as academics must look at, such as succession and governance," says Amit. "The link between the family and the family business deserves more interest." ♦



Outrunning Competitors and Sustaining Exceptional Growth

New titles on moving with speed and keeping the momentum going

Fast Strategy: How Strategic Agility Will Help You Stay Ahead of the Game

Yves Doz and Mikko Kosonen

Strategic agility, Yves Doz and Mikko Kosonen write, is not only vital to companies in the midst of rapid change, but also to companies in mature industries. Developing superior strategic agility can leave competitors behind, create new markets, rejuvenate business models, and renew competitive practice.

“In this new fast strategy game, strategic planning — and the comfort of ‘scenarios’ on which to anchor plans — no longer works,” the authors write. “In fact, planning scenarios are downright misleading. Insight needs to replace foresight... The world around us keeps emerging, and our perception of it keeps reshaping itself as we play. Some of our pieces will fit the puzzle, others won’t. If you are fast in fitting pieces, the overall structure of the puzzle will evolve your way.”



Fast Strategy explains the urgent need for strategic agility. It outlines the key dimensions of strategic agility and presents the case for a most unlikely example: GE. The authors explain how to build and foster strategic agility and how to regain or rebuild this ability, as well as summarizing and comparing different paths to take.

Mikko Kosonen worked at Nokia for 23 years. In his double role as the head of strategy and CIO for almost a decade, he was at the center of Nokia’s strategic renewal effort. Since August 2007 he has been the executive vice president for Finland’s Innovation Fund, a fund and think tank. Yves Doz is the Timken Chaired Professor of Global Technology and Innovation at INSEAD and visiting professor at the Helsinki School of Economics. He was dean of executive education at INSEAD and associate dean for research and development. He also teaches at various universities worldwide and in corporate executive development programs.

The Momentum Effect: How to Ignite Exceptional Growth

J.C. Larréché

The Momentum Effect helps managers discover the secrets behind the rare companies that have successfully sustained exceptional growth. It provides a start-to-finish framework for implementing winning momentum strategies and keeping the momentum going while competitors are fading.

Jean-Claude Larréché demonstrates the powerful role of momentum in creating value and argues that momentum is more important than inno-

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vation, marketing excellence, or even customer focus. He introduces eight tightly linked “building blocks” of momentum strategy and explains how to build the unique leadership competencies needed to implement and sustain a winning momentum strategy. Ideas are reinforced through dozens of case studies that detail surprising new insights into familiar companies like IBM and Toyota, as well as recognized leaders like Rentokil and First Direct.

Author Jean-Claude Larréché is Alfred H. Heineken Chaired Professor of Marketing at INSEAD. His current research focuses on the business capabilities that influence a company’s mar-



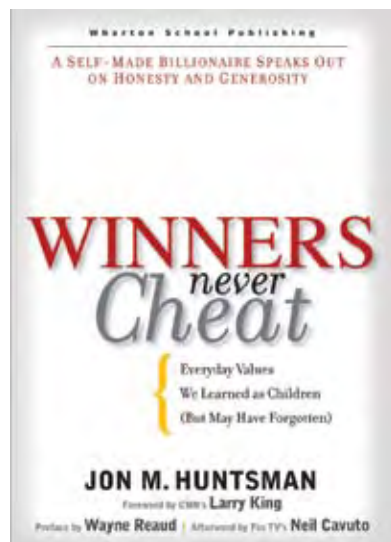
ket effectiveness. He is co-author of *Marketing Strategy: A Decision-Focused Approach* and *Marketing Management: A Strategic Decision-Making Approach*. With Christopher Lovelock, he was honored with *BusinessWeek's* European Case of the Year award.

Winners Never Cheat

Jon M. Huntsman, W'59, HON'96

Self-made billionaire Jon M. Huntsman's book, *Winners Never Cheat*, is a passionate, inspirational manifesto for returning to the days when a person's word was his bond, a handshake was sacred, and swarms of lawyers weren't needed to make a deal.

Former Citigroup CEO Charles Prince described the book as a "refreshing and candid discussion on basic values that can guide you from the sandbox to the board room." Read a content summary, an author biography, and book reviews on the book's website at



www.winnersnevercheat.com. The site also contains a link to the first five minutes of CNN News commentator and radio personality Glenn Beck's interview with Huntsman.

"There's an old expression that we all know, it goes as follows: 'Life isn't fair, but that doesn't mean that we shouldn't be fair,' Huntsman said in his interview with Beck. "And as we go through life I think we have to take accountability of ourselves and see who are we, what are our real values and what do we believe in."

Jon M. Huntsman is chairman and CEO of Huntsman Corporation. He founded the firm in 1970 and has led it to its current position as the world's largest privately held chemical company, with more than \$12 billion in annual revenues. The company produces tens of billions of pounds of products for global businesses ranging from plastics to automotive, footwear, construction, healthcare, and packaging. It recently divided into four companies: Huntsman Chemical Corp., Huntsman Packaging, Huntsman Specialty Chemicals Corp., and Huntsman Corporation. The Huntsman businesses also fund the Huntsman Cancer Institute, a leader in cancer prevention, diagnosis, and treatment. ♦

Wharton Alumni Working in Public and Non-Profit Sectors

THE JOHN M. BENDHEIM Loan Forgiveness Fund for Public Service

Wharton alumni working in public and non-profit sectors may apply for this unique funding opportunity

The John M. Bendheim Loan Forgiveness Fund for Public Service is designed to encourage Wharton MBA graduates to pursue careers in the public and non-profit sectors. Awards are based on commitment to the public and/or non-profit sectors, long-term career goals and financial need. This unique fund was created in 2005 by John M. Bendheim, W'40, and his son Thomas L. Bendheim, WG/Lauder'90, and the Leon Lowenstein Foundation.

This program is available to any eligible student beginning with the Class of 2003. Applications must be submitted to Wharton's Financial Aid Office by November 1, 2008. Applications received after this date will not be considered.

Applications must include the following:

- Completed Application
- Essay (1,000-word maximum)*
- Current resume
- Letter from employer describing its mission and activities
- Most recent tax return of applicant and spouse, if applicable
- Verification of outstanding loan debt from lenders or services

Completed applications may be sent to:

MBA Admissions Office
420 Jon M. Huntsman Hall
3730 Walnut Street
Philadelphia, PA 19104

*Applicants applying for renewed funding must submit a new essay.

For more information, please visit the website at:

www.wharton.upenn.edu/mba/admissions/finance/loanforgive.cfm



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Alumni Association Update

Building and Maintaining Connections — for New and Established Alumni

TOMMY LEONARDI



TAMA L. SMITH, WG'90

DEAR ALUMNI,

At Commencement this May, Wharton welcomed more than 1,500 new members to the School's global alumni community. On behalf of the Alumni Association, it is a great pleasure to

congratulate these graduates of the undergraduate, MBA, executive, master's, and doctoral programs on achieving alumni status. Upon graduation, our relationship with the School does not end; it merely enters a new phase — offering us tremendous benefits and opportunities. Whether you are a newly minted graduate or have just celebrated a milestone reunion, the Wharton Alumni Association is here to help you stay connected and experience the School's numerous resources for alumni, including:

- Wharton **Connect**: a comprehensive online alumni community
- More than 80 regional and affinity clubs throughout the world
- Three Global Alumni Forum events each year in Latin America, Asia, and Europe/Middle East/Africa
- Reunions, professional development opportunities, and other special events around the globe

Connect to all of these Wharton alumni resources, and more, at:

<http://alumni.wharton.upenn.edu>

As Wharton graduates, we are among the world's most uniquely qualified individuals. While much is expected of us, the rewards are immeasurable. For those who remain engaged, the School and its worldwide alumni community can be instrumental in shaping careers, global perspectives, and personal and professional relationships. Wharton will always be your intellectual home, so I hope that you will stay involved — participate in your reunion, return to campus, or attend a global Wharton event. Your active involvement is what helps to keep the Wharton brand strong.

Until,

Tama L. Smith, WG'90

**Board Chairwoman, Wharton
Alumni Association**

President, Tama Smith & Associates, Inc.

E-mail: tsmith@tsassociates.com

Club News in Brief

In Arizona: A Roundtable with Phoenix Mayor Gordon

As part of the Wharton Arizona Business Leaders Series, the Penn & Wharton Club of Arizona recently hosted a lunch meeting in the conference room of Mayor Phil Gordon of Phoenix. In



PHOENIX MAYOR GORDON SPEAKS TO ARIZONA ALUMNI.

a casual atmosphere, with club members seated around his conference table, Mayor Gordon spoke with Penn and Wharton alumni about the business of running a major metropolitan city (now just a little larger than Philadelphia).

Dallas/Fort Worth Club Meets "The MoneyMan"

On April 22, Dallas/Fort Worth alumni club members met with Daniel "The MoneyMan" Frishberg, founder and CEO of BizRadio, a privately held, two-station network that covers two of the 10 largest media markets in the country — Greater Houston and Dallas/Fort Worth. With a lively business/entertainment mix, BizRadio's guests have ranged from Dan Ackroyd and Steve

Forbes, Jr., to Henry Kissinger and William Shatner. Frishberg shared his insights on the financial markets, as well as the interesting story of how BizRadio came into existence.

Michigan Tees Up an Insiders' View of the PGA Championship

The Penn & Wharton Club of Michigan recently partnered with the ACG, Association for Corporate Growth, in an event devoted to the upcoming PGA Championship. One of the four major annual golf tournaments, the PGA Championship will be held at Oakland Hills Country Club. Each of the five top officials of the event presented a behind the scenes look at staging a major national golf tournament.



J. GREGORY TOWNSEND, WG'85, GLORIA RABINOWITZ, WG'78, AND DAVID TRONE, WG'85

Philadelphia Club Enjoys a Tasteful Evening in Wilmington

This past April, nearly 100 Wharton alumni and guests gathered at Harry's Bar and Grill on Naaman's Road in Wilmington, a stone's throw away from one of two Total Wine & More Stores in Delaware. Alumni were in for a treat. Not only did guests enjoy the free-flowing wine and savory appetizers that livened up the hour of socializing and networking, but they also were entertained by the story of the birth and growth of one of the most successful privately owned wine retailers in the country. **David Trone**, WG'85, and his brother, **Robert Trone**, W'81, L'91, have been in business for over two decades. With fervent passion and boundless energy, David Trone wove a story that demonstrated the challenges and rewards of building a business in the spirits and wine industry in America. After answering some thought-provoking questions, the bottles were passed around and a thoroughly educational wine-tasting topped off the evening.

San Diego SRO Event Targets Investment and Economic Outlook

On February 28th, the Wharton Club of San Diego hosted a standing-room-only Investment and Economic Outlook panel discussion in the San Diego Offices of Baker and McKenzie, LLP. The event was moderated by Michael Richardson, president of Sherpa Alliance in San Diego, and featured Doug Stone, senior vice president

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F: 815-301-2786
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B: 315-859-4623
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E-mail: vbarrie@hamilton.edu

WHARTON EXTERNAL AFFAIRS

Jillian McGowan
Director, Alumni Affairs & Annual Giving
Wharton External Affairs
344 Vance Hall
3733 Spruce Street
Philadelphia, PA 19104
B: 215-898-0219
E-mail: mcgowanj@wharton.upenn.edu

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and director with Nicholas Applegate in San Diego, and David Fogel, PhD, CEO of Natural Selection Financial in San Diego.

Participants solicited the panelists' thoughts on how they'd be affected by changes in the stock, bond, real estate, and commodities markets in 2008; what the panelists thought the Fed would do this year; how much exposure they should have to international stocks, particularly if the U.S. economy and the dollar continue to weak-

en; whether or not there's going to be a recession in the U.S. (or are we already in one?); thoughts about a global economic slowdown; and what role, if any, alternative investments should play in a portfolio.

The event was so popular that the San Diego Club committed to making the Investment and Economic Outlook an annual event. ♦

Leadership Spotlight

DONALD D. HUMPHREYS, WG'76

Don Humphreys, senior vice president and treasurer of ExxonMobil, returned to Wharton this spring as a part of the School's Leadership Lecture series. In his talk to students, he spoke of three pillars of leadership in the energy industry: effective partnerships, technological innovation, and long-term investment.

Today's energy industry leaders are enmeshed in far more than fuel production: Energy figures into issues of climate change, energy security, and international economic development, said Humphreys. "I often say it is almost like working for the State Department at very senior levels, because of the various government interfaces we must maintain and our long history in many countries."

Malaysia, for instance, a country Humphreys and his family lived in for four years as part of his long career at ExxonMobil, has a 115-year relationship with ExxonMobil. That kind of long-term, carefully maintained partnership is built on consistently ethical, open dealings and mutual awareness, he stressed.

Humphreys has deep roots in the energy industry. His father was in the oil business, on the finance side, in Tulsa, OK, then known as the oil capital of the world. Humphreys started his career as a plant engineer for a year after graduating from Oklahoma State University in industrial engineering and management. He then entered the Army, where his commanding officer, a Penn alumnus, encouraged him to attend Wharton after his service.

"The practical work experience Wharton offered was immensely valuable," Humphreys told students. An independent study assignment, he recalled, was a logistics modeling project for an international shipping company — work that gave him experience in finance and technology.

In 32 years with Exxon and ExxonMobil, Humphreys has had 16 different assignments and moved 10 times. He says he loves the variety of his work, which includes overseeing fuels and lubricants marketing, global services (IT, procurement, real estate), controllers, treasurers, and tax, human resources, and aviation operations.

Looking ahead, Humphreys cites access to hydrocarbon (i.e., oil and natural gas) resources as the key near-term challenge for his industry. Politics can be a barrier, which



CATHEY AND DONALD HUMPHREYS

is why strong partnerships are vital, but there are technological challenges as well, since many of the world's remaining reserves are difficult to access.

Humphreys says that for the time being ExxonMobil is more focused on continuing to work with hydrocarbons (including creative new conservation solutions such as clean coal and carbon sequestration, lithium ion batteries for hybrid automobiles, and onboard hydrogen separators), but that the company sees a larger role for renewables long term. ExxonMobil is exploring hydrogen, solar energy, bio-fuels, and other technological studies through a large investment in the 10-year Global Climate and Energy Project (GCEP) at Stanford University.

Long-term leadership in a cyclical business such as the energy industry requires disciplined financial investment, Humphreys says. But he believes that developing future energy industry leaders is another important way to invest.

This is one reason Humphreys and his wife, Cathey, who helped put him through Wharton by working in North Philadelphia for a job-training organization, have endowed numerous scholarships and fellowships, both at Wharton and at Oklahoma State. "It's our very firm belief that investing in education is the best — capital B — investment you can make, whether you make it for yourself or you make it for your children or you help somebody else with their education." ♦

— SCOTT SHRAKE