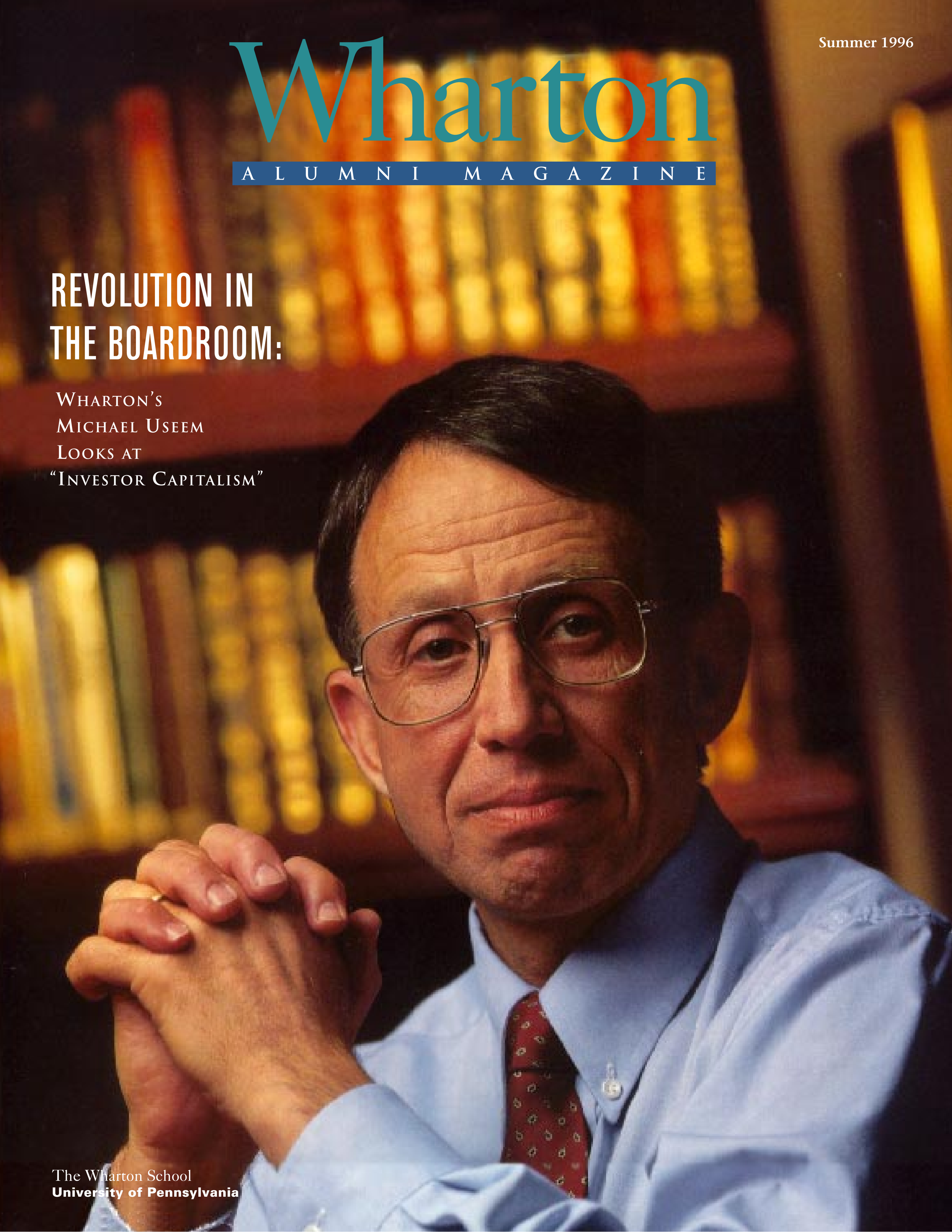
Summer 1996

Wharton

ALUMNI MAGAZINE



REVOLUTION IN THE BOARDROOM:

WHARTON'S MICHAEL USEEM LOOKS AT "INVESTOR CAPITALISM"

The Wharton School
University of Pennsylvania

JOIN THE GLOBAL ALUMNI NETWORK

IN PHILADELPHIA

Wharton Alumni Weekend

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

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

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

1996 Wharton Alumni Weekend

IN PARIS

The 2nd Wharton European Forum

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

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

Thursday, June 19 and Friday, June 20, 1997

Details and registration information to follow

IN SHANGHAI

The 4th Asian Regional Alumni Meeting

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

Friday, May 30 and Saturday, May 31, 1997

Details and registration information to follow

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

Wharton
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Features

Departments

Cover Article

Institutional investors today hold 57 percent of the stock of the 1,000 largest U.S. corporations. A new book chronicles increasingly aggressive attempts by money managers to influence how these companies are run.

Photograph by Robert Burke 6

Editorial Staff

EDITOR
Robbie W. Shell

STAFF WRITERS
Tom McMahon
Mike Baltes

EDITORIAL ASSISTANT
Dorothy Gillam

DESIGN
Warkulwiz Design Associates

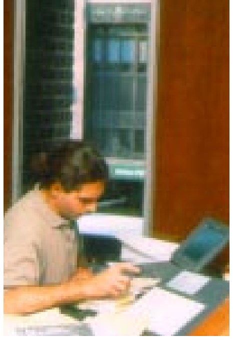
EDITORIAL OFFICE
344 Vance Hall, 3733 Spruce St.
Phila, PA 19104 (215) 898-7967
alumni.affairs@wharton.upenn.edu

Administration

THOMAS P. GERRITY
Dean and Reliance Professor of Management and Private Enterprise

ROBERT E. MITTELSTAEDT
Vice-dean and Director
Wharton Executive Education

MARTI HARRINGTON, WG'76
Director of Alumni Affairs



Remember Lippincott Library? It's Changed.

After nine months of construction and seven years of fund raising and planning, Wharton's Lippincott Library this spring unveiled its brand new state-of-the-art facility.

The renovated Lippincott, which is now considered by some the most advanced business library in the U.S., houses a wealth of electronic and traditional resources in a single 20,000 square-foot facility.

At the heart of the space is the $2 million Safra Research Center, a gift of the Safra Family and Republic National Bank. Within the newly renovated Center are 32 Pentium-class workstations connected to 100 databases, 44 stations in carrels and study rooms with electric and network connections for laptop computers, eight laser printers and three dedicated CD-ROM stations. Each workstation is a gateway to the Penn Library Information Network, the World Wide Web and other Internet resources.

The library also contains extensive reference collections in print, including 220,000 volumes and about 10,000 reference books.

The Safra Center is intended to be student-friendly as well as research-friendly. Chairs are padded and carpets line the floors; soft lighting is designed to work well with computer screens; and carrels, tables and shelves are made of cherry wood. Two large seminar rooms, equipped with the most advanced computer projection equipment and computer workstations, and four group study rooms complete the Center's additions.

The Lippincott Library is the first in a series of projects to transform the larger Van Pelt/Dietrich facility, where Lippincott and Penn's social science library are housed. A $7.5 million renovation of Van Pelt/Dietrich's first floor is already underway and should be completed in two years.

"Since the renovations, usage of Lippincott has increased tremendously," says Michael Halperin, Lippincott director. "We're delighted with the space in terms of its ability to make electronic resources available to students in a way we weren't able to do before."

Lauder Institute Gets $10 Million Gift

Leonard Lauder, president and CEO of Estee Lauder Co., has given an additional $10 million to the Joseph H. Lauder Institute of Management and International Studies.

The Lauder Institute, a 24-month dual degree program that includes a Wharton MBA and an MA in International Studies from Penn's School of Arts and Sciences, was established in 1983 with a $10 million gift from Leonard and Ronald Lauder. The Institute honors their late father, Joseph H. Lauder, founder of the New York-based Estee Lauder Companies.

The Lauder Institute has been a pioneer in recognizing the importance of integrating management, language and international studies. "There truly is a global economy," Leonard Lauder stated when he made the initial gift. "And we had better be trained to handle the problems and opportunities which such international trade has created. One good area to start is in our universities, the training area for tomorrow's managers."

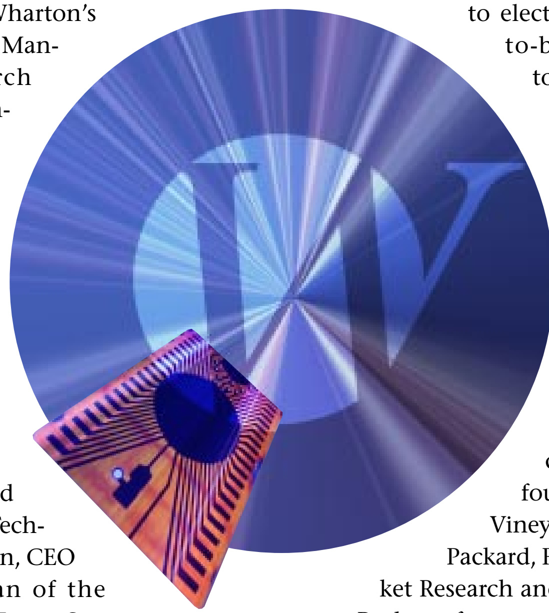
Today, more than 500 Lauder graduates are spread out in 63 countries in industries ranging from finance and consulting to consumer goods and multimedia management.

The new gift will take international management education to the next level by further developing international studies, foreign language and cross-cultural aspects of the curriculum.

Computers Take Center Stage

Computers and the brave new world of electronic commerce were the subject of two different conferences held on campus in May.

"The Impact of Computers and Information on Management," sponsored by Wharton's SEI Center for Advanced Studies in Management and nine other research centers, drew together a distinguished list of panelists and speakers, including:



James Unruh, chairman and CEO of Unisys Corp.; Paul Allaire, chairman and CEO of Xerox; John Seely Brown, vice president and chief scientist at Xerox Palo Alto Research Center; John Sculley, chairman and CEO of Sculley Associates, Inc.; Alfred West, chairman and CEO of The SEI Corp.; Howard Frank, director of the Information Technology Office, ARPA; Mark Goldstein, CEO of NetAngels.com and chairman of the Interactive Services Association; Henry Sweetbaum, chairman and CEO of Wickes, Plc., and PeiYuan Chia, senior executive and vice chairman of Citibank, N.A.

Discussion focused on the impact of computers on executives' lives, business and society.

"Beyond the Hope and the Hype: Creating a New Market Reality" looked at a variety of issues related to electronic commerce, including business-to-business markets, advertising, customer/company interaction, the demographics of Internet users, and the impact of electronic commerce — which is expected to reach $45.8 billion by the year 2000 — on public policy issues.

Panelists included Jim Manzi, chairman of Industry.Net and former chairman of Lotus Development Corp.; Christine A. Varney, commissioner of the U.S. Federal Trade Commission; John Evans, chairman of Middlegate; Peter Granoff, founder and master sommelier of Virtual Vineyards, and representatives from Hewlett-Packard, Forrester Research, Inc., AT&T, ASI Market Research and Strategic Interactive.

Both conferences were reported "live" on the world wide web, with summaries and photos posted continuously on conference pages linked to Wharton's home page (http://wharton.upenn.edu).

Grade A Teaching

Organizers of both Spring Salute in April and Commencement in May took the opportunity to honor recipients of the 1996 awards for teaching excellence in Wharton's undergraduate and graduate divisions.

This year's David W. Hauck Award for Outstanding Teaching in the undergraduate division went to Abba M. Krieger, professor of statistics and operations research, operations and information management, and marketing; and Philip M. Nichols, Ronald Koenig Term Assistant Professor of Legal Studies. The $15,000 award recognizes professors' ability to lead, stimulate and challenge students, their knowledge of the latest research in the field and their commitment to educational leadership.

Eberly

Undergraduate Division Excellence in Teaching Awards, given to honor outstanding teaching and exceptional commitment based on undergraduate student nominations and teaching evaluations, went to:

Suleyman Basak, assistant professor of finance; Gordon M. Bodnar, assistant professor of finance; Jamshed K.S. Ghandhi, associate professor of finance; William F. Hamilton, Ralph Landau Professor of Management and Technology; Robert W. Holthausen, Nomura Securities Co. Professor of Accounting and Finance; Larry W. Hunter, Paul Yeakel Term Assistant Professor of Management; Abba M. Krieger; William S. Laufer, associate professor of legal studies; Philip M. Nichols, and Jeremy J. Siegel, professor of finance.

The Marc and Sheri Rapaport Undergraduate Core Teaching Award, given for excellence in a core course in the undergraduate division, went to Janice Eberly, James G. Campbell, Jr. Memorial Term Assistant Professor of Finance.

On the graduate level, the Helen Kardon Moss Anvil Award, recognizing exceptional teaching effort and ability both inside and outside the classroom, went to Howard Kaufold, adjunct associate professor

Continued on page 4

Allen

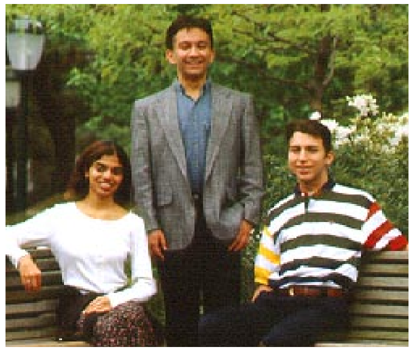
Undergrads Hit a Winning Streak

Three strikes and you're out. Or, in this case, three victories and you're out.

The game here is the 15th McIntire International Case Competition held every winter in Charlottesville, Va. The victory was a first-place finish in the competition — for the third year in a row — by a team from Wharton. Under competition rules, any team that wins three consecutive times is not invited back the next year.

The Wharton contingent — which included captain Artem Mikhlin, W'97, Michael Gerstner, W'97, Tejal Mody, W'96, and Brett Pogany, W'97 — competed against teams from the University of Virginia's McIntire School of Commerce, the University of Waikato in New Zealand, the University of Minnesota's Carlson School of Management, the University of Manchester (England) School of Management and Hampton University School of Business.

Each team had several days to prepare a business plan based on information developed especially for the competition by professors from McIntire. "The case was about a real-life navigation equipment company in Charlottesville, Va., called Sperry Marine, Inc. which makes electronic navigation and guidance systems for commercial and military customers," says Mikhlin. "John Lehman, former Secretary of the Navy, had decided to form a venture capital group to buy niche players in the defense industry. Our challenge was to come up with an answer as to whether he should buy Sperry, and if so, for how much?"



Navigating First Place: Mody (left), Mikhlin and Gerstner

PHOTOGRAPHS / ANTHONY B. WOOD

Each team was given a 70-page document on the company, including data on its financials, products, industry standing, strengths and weaknesses, and so forth. The teams then announced their findings in a five-page paper followed by an oral presentation.

"We looked at the numbers, the management and the synergies that were available," says Mikhlin. "We valued the company at $60 million although we knew it might go for more. Our rationale was that it was a subsidiary of another company which had a lot of debt and was desperate to sell off some of its assets, including Sperry.

"Part of our plan was for Lehman to buy the company, straighten it out, build it up, and then flip it quickly."

Which is close to what actually happened. Lehman bought Sperry for $78 million and two years later sold it to Litton Industries for more than twice his initial investment.

Mikhlin, who will graduate in 1997 from the Jerome Fisher Program in Management & Technology, is looking at careers in management consulting or finance. This summer he is working in the financial derivatives department at Enron in Houston. "I'm interested in finance, but after taking part in this case competition, I think consulting might be more fun. At this point, I'm undecided."

The European Club of Wharton Announces "The New Europe: Challenges and Opportunities"

October 25, 1996 at the Pennsylvania Convention Center

Topics include:

The European Monetary Unit

The development of emerging markets in Central and Eastern Europe

The European role in world trade and worldwide investments

For further information, call:
The Lauder Institute at (215) 898-1215 (before Aug. 31)
Stephane Chatonsky at (215) 545-4753 (after Aug. 31)
or e-mail at stepha22@wharton.upenn.edu

Teaching *Continued from 3*

of finance and director of Wharton's Executive MBA program, and Jeremy J. Siegel.

Graduate Division Excellence in Teaching Awards, presented to the eight professors with the highest ratings from MBA student course evaluation forms, went to:

Franklin Allen, Nippon Life Professor of Finance and Economics, who, as recipient of the highest ratings among the eight, also won the Class of 1984 Teaching Award; Michael R. Gibbons, I.W. Burnham II Professor of Investment Banking; Howard Kaufold; William L. Kissick, Professor of Health Care Systems; David J. Reibstein, William Stewart Woodside Professor of Marketing; Jeremy J. Siegel; William C. Tyson, associate professor of legal studies, accounting, management and real estate; and Karl Ulrich, associate professor of operations and information management.

Campus NEWS

■ Commencement ceremonies drew two prominent industry leaders to campus this spring to speak at graduate and undergraduate events.

Brian Roberts, W'81, president of Comcast Corp., a leading cable television/telecommunications company, spoke at this year's Ivy Day celebration on May 18. Edgar Bronfman, Jr., president and CEO of The Seagram Co. Ltd., delivered the MBA commencement address on May 21.

Roberts is a board member of the Turner Broadcasting System, QVC and Viewer's Choice. He is also chairperson of the National Cable Television Association and vice-chairperson of the Walter Kaitz Foundation, which trains minorities for employment in the cable television industry.

Ivy Day honors four male and four female seniors who are chosen by their classmates for overall excellence and campus involvement.

Bronfman is a member of the boards of The New York Public Library, NYU Medical Center, the Teamwork Foundation, WNET/Thirteen, the Solomon R. Guggenheim Foundation and Wharton.

■ Wharton's faculty has approved a new undergraduate joint degree program with Penn's School of Nursing which will offer a BS in Economics and a BS in nursing in four years.

Students who apply to the program must meet admissions requirements of both Wharton and the School of Nursing. Approval of this initiative means that Wharton now has a specially designed undergraduate joint degree program with each of Penn's undergraduate schools.

■ Wharton's ties to the Asian business community received a boost this spring with a $1.6 million gift to endow the Liem Sioe Liong/First Pacific Company Professorship.

The gift came from Anthony Salim, president and CEO of the Salim Group, one of the largest Indonesian conglomerates, and its associated Hong Kong-based First Pacific Co., whose managing director is Manuel V. Pangilinan, WG'68. The professorship is named after Salim's father, Liem Sioe Liong, and the First Pacific Company.

The Salim Group is one of the largest business groups in Indonesia and Southeast Asia. It employs more than 200,000 people in 11 business divisions, including agribusiness, financial services, chemicals and trading and distribution.

■ Applications to Wharton's undergraduate program were 20 percent higher than last year, and MBA applications, which totaled 6,354 in 1995, came in at a record 7,329.

The MBA admissions staff conducted interviews in 12 countries this year, including, for the first time, Argentina. The average GMAT score rose nine points, and the average age of applicants increased more than one-half year.

Meanwhile applications to the executive MBA program (WEMBA) also boomed, up 23 percent over last year.

In executive education, a record 12,000 executives are participating in open enrollment programs.

SAVE THE DATE!

Wharton Women in Business and The Committee of 200 are pleased to invite you to the 17th Annual Women in Business Conference

Innovation and Impact:
Turning Ideas into Action

Friday, November 1, 1996
at the University of
Pennsylvania Museum
33rd and Spruce Streets
Philadelphia, PA

Topics will include entrepreneurship, career management and industry trends

For more information, call Teri Condon, Conference Chair at (215) 563-9008 or theres13@wharton.upenn.edu

HANDS-ON HELP: Meet Gertrude Davis, a retired nurse who is raising five great grandchildren in her West Philadelphia rowhouse. Davis was one of 33 Philadelphia homeowners helped by the 1996 "Christmas in April" program which every year renovates the houses of low-income, elderly and disabled families in Philadelphia. Approximately 700 Wharton students, Dean Thomas P. Gerrity and other volunteers from the Penn community and surrounding neighborhood turned out on April 20 to scrape, paint, tear down, repair and remodel.

UPPER LEFT: PHILADELPHIA MAYOR ED RENDELL AND GERTRUDE DAVIS; LOWER RIGHT: GERRITY AND DAUGHTER CAITLIN (AT LEFT OF PHOTO)

Public Companies and the Shareholder Revolt

Wharton's Michael Useem Looks at "Investor Capitalism"






It may not be clear at first glance just how well sociologist Michael Useem, one of the Wharton Management Department's newest acquisitions, fits into the School's agenda.

Yet Useem — who combines a master's degree in physics and a PhD in sociology (both from Harvard) with a genius for communicating clearly and a keen interest in how large corporations are organized and managed — has already earned a reputation for excellence in teaching, research and administration.

He developed a new leadership course for Wharton's Executive MBA program, for example, and has helped shape the MBA Core "Foundations of Leadership" course. His classes on organizational design, business ethics, leadership and management have earned him numerous teaching awards. And he has been cited extensively by both scholars and journalists for his groundbreaking research on corporate governance, leadership and restructuring.

One barely has to scratch the surface of Useem's busy schedule to see how broadly his academic expertise applies to the real world of business. In February, Useem attended the World Economic Forum in Davos, Switzerland, where he organized a session on "Investor Capitalism and Governance of Global Firms" and hosted a dinner on "Investor Strategies, Governing Boards and Corporate Leadership" for business and political leaders from around the globe.

In April, he spoke at the Mexican Stock Exchange's annual Securities Market Convention about his new book, *Investor Capitalism: How Money Managers Are Changing the Face of Corporate America* (Basic Books/HarperCollins), which chronicles the huge increase in the power of large institutional investors — primarily pension plans, bank trusts, mutual funds, insurance contracts and non-profit endowments — to influence the way companies are managed.

That same week, Useem's views on institutional ownership were cited in a *Fortune* magazine article titled "Who Owns the 500? You Do."

He argued for more research on the powers of institutional investors at forums sponsored by the University of Michigan, University of Illinois and Cornell University this spring. This summer and into the fall he is applying his research on leadership and governance to Wharton's Executive Development Program, special programs for South African managers and officials, and other executive courses in Bangkok, Bombay, San Salvador, Shanghai and Taipei.

Useem first came to Penn six years ago with a joint appointment in sociology and management. He officially transferred his primary appointment from Penn's School of Arts & Sciences to Wharton last fall.

In addition to *Investor Capitalism,* Useem has written four other books on different aspects of corporate life, including *Executive Defense: Shareholder Power and Corporate Reorganization* (1993), *Turbulence in the American Workplace* (co-authored, 1991), *Liberal Education and the Corporation* (1989) and *The Inner Circle: Large Corporations and the Rise of Business Political Activity in the US and UK* (1984).

Indeed, it was during his research on corporate restructuring that the idea for *Investor Capitalism* first presented itself. "In interviews with senior managers throughout the country, I kept hearing about 'the demons of Wall Street,' those money managers and analysts who incessantly emphasize short-term profits and shareholder value," Useem says. "Clearly there was a force out there I hadn't appreciated before."

During this same period, Useem was approached by the Institutional Investor Project — a research initiative organized by the Columbia University Center for Law and Economic Studies and funded by corporations, institutional owners, unions and the New York Stock Exchange — to study the organizational side of institutional investing, what Useem calls "the human element." The project provided him with access to top executives in 20 large U.S. corporations and 58 institutional investors.

Useem's sociological research perspective gives *Investor Capitalism* a unique place among the usual financial and legal studies of corporate governance. He is as interested in the social networks that the new financial world has created as he is in the problems of managing the large firm.

He analyzes, for example, the shadowy relationships that exist between institutional investors and managers and the "gray area" of information trading that results; the subtle social pressures that underlie executive compensation issues; and the dilemmas faced by boards of directors in seeking to understand investor priorities and in emphasizing shareholder value without circumventing or interfering with company management.

"I have been able to observe the networks and culture that define the upper reaches of company organizations," Useem says. And what he has found is that "relations between money managers and company managers which had once been impersonal and fleeting are now more personal and enduring. New social ties are being added to traditional market ties, which means that capital markets should no longer be viewed as purely economic phenomena."

From Managerial to Investor Capitalism

As Useem sees it, America's boardrooms have recently undergone a "quiet revolution" away from managerial capitalism, under which professional executives were firmly in control of many large, publicly-traded companies, to investor capitalism, where institutional investors demand accountability from executives.

For example, institutional investors played a catalytic role in breaking up ITT and AT&T. They pressured Sears Roebuck to sell off divisions unrelated to the company's core

PHOTOGRAPHS / ROBERT BURKE

retailing business. And they had an influence on the mergers of Capital Cities/ABC and The Walt Disney Co., Turner Broadcasting System and Time Warner Inc., CBS and Westinghouse Electric Corp. and Chase Manhattan Corp. and Chemical Banking Corp.

From the tobacco to the automobile industries, pension and mutual fund managers have sought to replace the most senior officers of large corporations when their stock prices lagged behind the market. "Today's kingmakers," sums up Useem, "are the institutional investors."

In 1955, institutional owners held a mere 11 percent of the stock of U.S. companies. Today it is more than half. In addition, institutions now hold more than 57 percent of the 1,000 largest corporations, well over $2 trillion in value. The five largest institutional holders — led by Fidelity Investments — control 11 percent of the stock of the 25 largest corporations.

The California Public Employees' Retirement System, known as Calpers, has $85 billion under management. TIAA-CREF, the Teachers Insurance and Annuity Association-College Retirement Equities Fund, oversees $155 billion. Merrill Lynch presides over $167 billion, Bankers Trust over $187 billion and Mellon Bank over $203 billion. Fidelity, the unequivocal heavyweight, sits on top of more than $435 billion, with better than $56 billion in just one of its funds, Magellan.

For these institutional investors, the last five to 15 years have brought new challenges. In the 1970s and early '80s, the common practice for disgruntled investors was to sell their holdings in underperforming companies. These days, it's not so easy. "Somewhere back in the mid '80s, money managers and investment analysts began to appreciate that the sell option was more problematic," says Useem. "Given the size of the funds and the fact that so much of their money was invested in so many American blue chip companies, there was no place to hide from bad management. Either a manager couldn't easily get the money out of a poorly managed firm, or there was no better place to put it."

Money managers' flexibility was further hindered by the rise of index funds, which lock investors into a set portfolio and therefore preclude selling as a major investment strategy. Big investors realized that the only way to improve stock performance was to improve managerial performance.

"So institutional investors began to experiment with changing management through LBOs and M&As, and then finally said, 'We have to get in there with both hands and think about strategy and how these companies operate, in a much more aggressive way,'" Useem adds.

At their best, he says, institutional investors provide a "wake-up call" to executives asleep at the switch when rapidly changing markets threaten to undermine out-moded corporate strategies.

At their worst, institutional investors cause such dysfunction within a company that senior managers become more concerned either with their own survival, or with short-term shareholder value to the exclusion of long-term objectives and the needs of the corporation's other legitimate constituencies.

"As these institutional investors have come to the fore, other stakeholders that traditionally had some voice in company management — such as employees and the community — are forced to the sidelines," says Useem.

> "I KEPT HEARING ABOUT 'THE DEMONS OF WALL STREET,' THOSE MONEY MANAGERS AND ANALYSTS WHO INCESSANTLY EMPHASIZE SHORT-TERM PROFITS AND SHAREHOLDER VALUE."

"It's ironic that pension funds pressure managers to lay off employees as a way to increase shareholder value, because by doing so they ultimately deny employees the opportunity to earn pensions," Useem notes. Similarly, employees who invest in mutual funds are among those who find themselves out of work when Fidelity and other giants push for huge cuts in expenses, including, most obviously, personnel.

Useem, however, is also quick to commend institutional investors' success in restoring accountability at the top of the firm. "Managers managing themselves was a poor model," he notes.

So what is an appropriate way to frame this debate? "I find the concept of mutual gain to be valuable here," says Useem. "Everyone wants more effective leadership and management inside the firm, although different sides are looking for different outcomes. Investors want more money while employees want more job security and better quality of work life. The challenge is to act in ways that will benefit both constituents.

"If you look at the better managed firms right now, like Motorola, G.E. or Xerox, and you leave aside the question of how they got to this point, you find that, in fact, both sides have been well served. Stockholders are seeing good returns, and employees have more authority to get their jobs done."

Executive Compensation: Not a Problem

Side by side with recent press stories spotlighting the human costs of corporate downsizing has been a barrage of criticism — from the media, labor and Congress — over the size of CEO compensation, a subject Useem addresses at length in *Investor Capitalism*.

One might expect institutional investors to join this chorus because executive pay is part of the expense side of the corporate ledger.

Not so, Useem says. "Institutional investors express little concern over the level of pay. Seven figure incomes don't bother them. Successful portfolio managers and stock analysts themselves often draw pay packages that match the best of the company executives."

What investors do despise, Useem points out, are high compensation levels displaying little relationship to company performance as measured by company dividends and stock appreciation.

Useem summarizes: "Investors oppose fixed compensation, favor variable compensation, and don't care about the amount, as long as it varies with shareholder value. Managers of many companies have, as a result, placed more income at risk, put more managers on contingent compensation and linked more of the contingency to expanding shareholder wealth."

If one reads enough press reports, however, it would appear that executive compensation continually increases even in companies which have performed poorly. That's true, says Useem, for the following reasons. "If executives are operating in uncharted territory, in a tougher more global environment, then the feeling inside the firm is they ought to get paid more if they do well, and paid less if they do poorly.

"Investors push very hard for contingent compensation also, meaning that executives only get paid if they do well. That translates into stock options. But executives can also then see a lot of money from options simply if the stock market does well. It *has* done well. So a lot of these CEOs have reaped huge rewards, ironically in part through no work of their own.

"Yet the flip side of this system — if you do poorly, then you don't get paid more — rarely seems to come into play. That's because of how stock options work. If you get an option based on today's stock price, say it's $50, and you don't perform well and the stock goes down, once it's down to $49 the option is worth the same as when it's down to $25 — which is to say nothing. So if you do a really awful job, there is no proportional down side to it. But investors are onto this problem too, and companies as a result have set up several arcane devices to get around it, like premium stock options (used, for example, by AT&T, The Walt Disney Co., Rockwell International and Time Warner), indexed stock options and restricted stock. The problem is few companies have adopted them so far."

Social Networks and Insider Information

Even as managers and institutional investors lock horns over such issues as downsizing, stock price and incentive compensation, relations between the two sides are not always antagonistic, Useem points out. And therein lies the potential "dark side" of institutional investing.

Useem is particularly intrigued by the role of analysts in the sharing of information about companies. Experienced analysts, he points out in a section of *Investor Capitalism,* are valued not just because of their knowledge of a specific company and its industry, but also for information they have about the competition. Yet to get that information, managers must offer information of their own.

"As CEO or CFO of a pharmaceutical company, for example, I would like to hear what industry analysts know, but that comes at a price," says Useem. "The analysts want to hear what I know as well. So I begin to give them, not inside information, but information in the 'gray area.' And then the analyst — whose job it is to develop good sources, contacts and information pipelines — reciprocates by giving me relatively sensitive information that he or she picked up during the last visit to my competitor.

"This inadvertent misuse of information may be a product of the lives these people lead. But I think the potential for a subtle form of corrosion is there in the cozy relationships that involve knowledge which either should be in the public domain or should not be disclosed."

Companies say they treat all analysts equally, Useem notes, but in reality, that isn't always the case. Analysts who come on too aggressively or who refuse to correct predictions may get less time and less information from company managers than analysts who are more respectful and responsive.

At the same time, managers and investors have created avenues for "off the record" information, including unstated but well understood rules which require that the source of the information never be disclosed and the data never published.

In the process, Useem notes, both sides resort to a kind of "code" that can be used to change an analyst's overly pessimistic, or overly optimistic, forecast. An overly optimistic forecast, for example, might inspire an investor relations manager to talk to the analyst about the "tough economy out there," and expect, with some confidence, that the message has been delivered.

"It's a good idea for institutional investors and senior executives/managers to communicate and develop an understanding of each other, but you need to remember that each side still has its own very powerful agenda," says Useem.

Although information trading is consistently denied, for the record, Useem clearly believes the problem is out there and is escalating.

"Just as investors are pressing boards and top managers to be more accountable to stockholders, so also do money managers have to be accountable to the holders of the assets (whether that is a retiree or a mutual fund investor), to the SEC and ultimately to the capital markets at large. Nobody should have an inside edge. The legal system is structured to protect the idea of a level playing field.

"I predict that the SEC will begin to take a look at this whole area in the not-too-distant future," Useem says.

Toward a New Corporate Board

Investor power, Useem predicts, will probably continue to increase for one to two more years, and then top out, not because institutional investors will hold any fewer shares, but because boards of directors are being restructured to more effectively bring together the voices of management and investors.

"My own preference," Useem adds, "is that I would like to see a more stabilized dialogue between investors, directors and executives, and then more institutionalized means for other groups — like employees and the community — to be at the table as well."

Useem views boards of directors as "arbiters," a role he predicts will increase in the next five years as the focus of the debate shifts away from proxy battles and struggles over ownership and control to a discussion of what makes a "good board."

Citing one study of 67 semiconductor manufacturers from 1978 to 1989, Useem notes that performance downturns at firms with a powerful chief executive resulted in the dismissal of the CEO's top managers rather than the CEO; poor performance at firms with a powerful board and active investors led instead — and more appropriately, in Useem's view — to the CEO's dismissal.

Already, there has been evidence that boards are becoming more independent of management. A report last year that surveyed more than 1,000 independent and inside directors of the nation's top public companies noted that three-quarters of those interviewed said their boards set clear objectives for evaluating the performance of the chief executive, and two-thirds said they had formal processes for evaluating their chief executives on an annual basis.

"A good board," says Useem, "will be one that is similar to or smaller than today's typical 12-member board (nine outsiders and three insiders), that has some investor voice but is not dominated by outside owners, and that has members who are not beholden to management for their personal livelihood, i.e. not consultants, former CEOs or representatives of outside law firms.

"Research suggests that smaller boards are more effective because they are more likely to establish incentive executive compensation plans, work as teams and assume responsibility for outcomes. There is more pressure on everyone to pull their own weight and to be less ceremonial."

> "As CEO or CFO of a pharmaceutical company, for example, I would like to hear what industry analysts know, but that comes at a price. The analysts want to hear what I know as well."

Institutional investors can play a positive role in this transition. Useem notes that it is not unusual today to see big investors going after poorly-performing companies and arguing for a much stronger board, Useem says. "That usually translates into more pressure to get independent-minded directors who can think like big shareholders."

Another area of interest to Useem is institutional investors' campaign for increased executive accountability abroad.

Up until the 1990s, American investors generally avoided international investments. Approximately 94 percent of their holdings in 1989 were in financial assets in the U.S. (Japanese investors had 98 percent of their holdings in Japanese securities, and Britain had 82 percent of its holdings in the UK.)

Even though rapidly-growing U.S. international and global mutual funds now hold some $200 billion, and even though some American pension plans like Calpers are expanding international investments to as much as 20 percent of their assets, the ability to influence management of foreign companies hasn't kept pace, says Useem. "In Asia there were several celebrated — and unsuccessful — attempts to influence company policies. But I think the next decade will be different. Most rapidly expanding mutual funds are now international. Even Japanese investors are finally looking outside Japanese companies, primarily into Asia. The management of Japanese assets are on the verge of being opened up to international money managers. There is movement everywhere and it's always in the direction of more openness in terms of cross border money management and investment.

"Intensifying pressures for company restructuring, independent boards and improved performance are sure to be felt in the years ahead. In some Latin American and Asian countries, U.S. mutual funds have become major players and have taken over much of the financing role traditionally played by commercial banks and government institutions. They are unrelenting in their demands for consistent performance, as Mexico learned to its dismay in December 1994 when it unexpectedly devalued its currency and investors fled in droves."

Leadership, Inside and Out

According to Useem, tomorrow's boardrooms will need a new breed of corporate leader. And Useem thinks Wharton should be at the forefront of educating students to thrive in this new environment.

He is a strong believer in the wisdom of teaching leadership to students. "Leadership skills can be cultivated through the discipline of the classroom. Companies have also been developing their own leadership development programs and demanding more leadership and teamwork skills from the students they are hiring." Useem has pushed efforts to bring the best from these programs into Wharton's own leadership courses.

"One way to think about effective leadership," says Useem, echoing a theme from *Investor Capitalism,* "is that it has to work well on the inside but equally importantly, it has to work well with outside groups, including board members, government officials and investors."

The rise of investor capitalism has generated a host of fresh questions, he adds. How can investors, directors and managers best work together? When should each resist or change in response to pressures from the other? What is the impact of joint oversight on corporate performance? Will the short-term demons of Wall Street sabotage long-term company strategies? Can the stressed executive ranks deliver the results demanded?

"While an earlier era allowed executives considerable latitude in setting their own priorities, the era of investor capitalism does not," Useem notes. "Company executives had long been able to ignore their shareholders; they do so now at their own peril. Money managers and the powers they wield are changing the face of corporate America, and with that has come a demand for company leadership that is as capable of working with analysts and investors as with their troops and customers." *R.W.S.*

The Center for Leadership & Change Management, designed to stimulate basic research and practical application in the areas of organizational leadership, strategy and change, was approved by the School earlier this month. Michael Useem is the new Center's director.

"Organizations worldwide are confronting more turbulent markets, more demanding shareholders and more discerning customers, and many are restructuring to meet such challenges," notes Useem. "Their success in making the changes required depends much on the quality of their leadership — not only at the top of the organization but also among all managers responsible for operating results.

"Yet we still know too little about the qualities and practice of effective organizational leadership. The new center will be dedicated to building our basic and practical understanding of leadership and change."

Potential research topics for the Center include, among others:

- **How should the leadership of change management be customized to reflect the market, organization and culture of the firm?**
- **What are the critical steps for preparing managers at all levels to take leadership roles in reshaping corporate strategy and guiding company change?**
- **How do we best measure and appraise leadership performance and the results of change management?**
- **What criteria do money managers and investor analysts use to appraise company leadership and change, and how do their criteria contrast with those used by company directors and senior managers?**
- **To what extent should company directors and executives respond to shareholder pressures for fresh strategies, divisional break-ups or employment downsizings?**
- **What are the distinct qualities required for effective leadership and change management in the U.S., Japan, Germany, Brazil and elsewhere?**

The Center's research agenda will evolve through frequent discussion with major scholars, company executives and management consultants. "Our emphasis," says Useem, "will be on identifying leading-edge questions, producing quality research in timely fashion and communicating results to both academic and practitioner audiences."

1996 Reunions

They came, conversed, marched, danced, listened and even got engaged during Wharton Alumni Weekend in May.

Close to 500 graduates and guests from the classes of 1966, 1971, 1976, 1981, 1986 and 1991 returned to campus for executive education, alumni/faculty exchanges, cocktail receptions, dinners, a picnic, a parade and a brunch. An unusually large number of children joined the festivities.

Participants in the alumni/faculty exchanges discussed "Investing in the '90s," "Cybermarkets in our Future,"

Jacob Wallenberg

W'80, WG'81 **Chief Operating Officer, Enskilda, and Executive Vice President, Skandinaviska Enskilda Banken**

As deregulation, consolidation, mergers and bankruptcies continue to roil the European banking community, the challenges for industry leaders like Jacob Wallenberg can only intensify.

Wallenberg is chief operating officer of Enskilda, the investment banking division of Stockholm-based Skandinaviska Enskilda Banken (SEB), one of the four largest Nordic banks. Enskilda has 2,000 employees, operates in 15 countries, and specializes in M&A, corporate finance, equity trading, foreign exchange, fixed income and cash management for large companies, among other areas.

Wallenberg is also a member of one of Europe's leading industrial dynasties: The Wallenberg family, headed by Peter Wallenberg, Jacob's father, controls an array of Swedish blue-chip companies, including Asea, Electrolux, Ericsson, Astra, Stora, Saab-Scania and SKF, and exerts what is typically described as "unprecedented dominance" over the rest of the country's economy. Family holdings account for approximately 40 percent of the value of the Stockholm Stock Exchange.

A recent article in *The New York Times* reports that the holding company for the Wallenberg empire, Investor A.B., had a market value of $6.4 billion at the end of last year and is pushing to extend its reach into a far more global arena — beyond its traditional power base of Swedish industrial companies and into such international fast-growth areas as telecommunications, media, pharmaceuticals and biotechnology.

"The challenges brought on by deregulation and the resulting consolidation, similar to what you have seen in the U.S., is changing how we do business," says Wallenberg. "It means we are looking at all kinds of structural opportunities in the Nordic region and pan-internationally."

Current economic conditions are also triggering "an enormous amount of cross-border business, with Nordic companies acquiring international companies and a tremendous focus on the Far East," notes Wallenberg. "All our clients are making efforts to develop business in that part of the world, whether it's establishing joint ventures in India and China or starting their own businesses in Singapore and Japan. Each country offers different opportunities."

An area that Wallenberg and others are watching closely is the proposal for a European Monetary Union, under which all European Union countries would adopt a single currency. "SEB is one of the world's 15 largest foreign exchange banks, and as such we are very concerned with the potential of the European Monetary Union to take away some of our business," Wallenberg adds. "On the other hand, the monetary union will create

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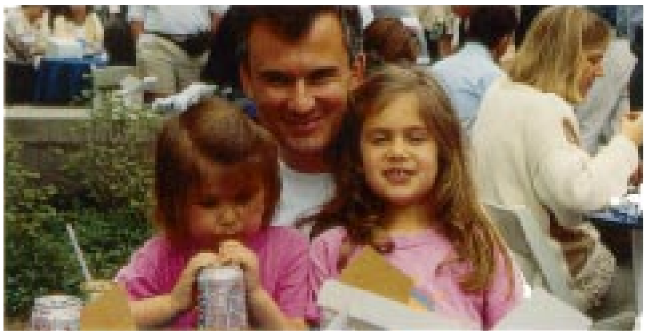
PHOTOGRAPHS / ANTHONY B. WOOD

"The Changing Face of Banking" and "The Entrepreneur in Asia."

On pages 12-17, we highlight some of the events of the weekend and profile six reunion year graduates.



James B. McElwee **WG'76**

General Partner, Weston Presidio Capital

His favorite kind of company, says Jim McElwee, a partner in the venture capital firm of Weston Presidio Capital, is "a family-owned or closely held firm that has no other institutional investors, has grown to between $10 and $50 million on its own and is ready to go to the next level."

Companies like Morris Airlines, a low-cost, short-haul family run airline that was bought by Southwest Airlines in 1993; The Coffee Connection, a Boston-based retail coffee chain bought in 1994 by Starbucks Corp.; Petzazz, a pet supply chain acquired by Petsmart; The Lion, a brewing company that recently went public; The Frontier Group, which develops nursing homes; Restoration Hardware, a rapidly-growing home furnishings retailer, and NeTpower, Inc., a computer systems company focused on high performance graphics — to name just a few of the diverse investments made by Weston Presidio since its founding in 1992.

The San Francisco-based venture capital company has over $300 million under management, an office in Weston, Mass., and limited partners that range from college endowments to large pension funds to other venture capital funds. "We look at approximately 1,000 companies, work really hard on about 30 and then out of those we fund five or six," McElwee says. "It's a lot like finding a needle in a haystack."

Luck helps, McElwee would add. He tells the story of how during a business trip to Las Vegas, a partner in the firm decided to drop by The Sweet Factory, a mall-based candy retailer that was one of Weston Presidio's earliest investments. The candy shop's mall neighbor happened to be Just For Feet, Inc., an athletic footwear store owned by a South African entrepreneur based in Birmingham, Ala. "My partner saw right away what an impressive operation it was," McElwee says. "As it turned out, the owner was visiting the store that day. He and my partner struck up a conversation, and two months later, we invested $2 million in the chain. Six months after that the store went public, and since that time it has been one of the best performing stocks on the NASDAQ exchange. Our price per share was about $2. It's now trading at $52."

After graduating from Claremont Men's College and Wharton, McElwee joined Andersen Consulting where he worked with a variety of clients in the healthcare, retailing and technology industries. He moved to Security Pacific venture capital group in 1979 as senior vice president of Security Pacific Capital Corporation and managing director of its Menlo Park office. The group's total portfolio of investments in private companies was about $10 million when McElwee started. When he left it was more than $300 million. "I worked on transactions involving 60 different companies," says McElwee. "It was great experience."

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Paula Cholmondeley

WG'71

President,
Miraflex (TM) Fiber Products,
Corporate Vice President, Owens Corning

It's called Pink Plus R25 with Miraflex (TM) fiber — an attic insulation product developed this year by a new division at Owens Corning called Miraflex (TM) Fiber Products Business.

Paula Cholmondeley is the 100-person division's new president, and she's clearly excited about her job, her colleagues and the future. "I love the new-product, new-technology, new-development side of this business. It's a lot of creativity, innovation and teamwork. You get to pick what you want the future to look like and then work to make that a reality."

Cholmondeley brings to the job a wealth of experience dealing with new challenges, ranging from turning around a Manhattan ad agency to spending a year in Washington as a White House Fellow.

Along the way she has earned a wealth of recognition as well. She was featured in "100 Strategists to Watch" in the 1994 *Journal of Business Strategy*. In 1991 she was named "Outstanding Member in Industry" by the National Association of Black Accountants. She is a member of the Council of Division Leaders and Council on Foreign Relations of The Conference Board, a director of Armco, Inc., vice chairman of the board for Gifts in Kind America, treasurer of The Executive Leadership Council and a member of the board of trustees for the Center of Science and Industry in Toledo.

After earning a BA in accounting from Howard University and an MS in accounting from Wharton, Cholmondeley spent two-and-one-half years at Arthur Andersen in New York City in their small business and consumer products divisions. She moved on to a job as CFO at Zebra Associates, a black-owned ad agency in Manhattan that was, at the time, in financial trouble. "I got things back on an even track and then realized it was time for another challenge," Cholmondeley says.

Using contacts developed at Andersen, she joined International Paper, an Andersen client, for six years, the last two of which she was manager of budgets and controls for the folding carton and label division. In 1980, she moved to Westinghouse Elevator Co., first as vice president for strategic planning, then as manager of international marketing and Latin American operations, and finally, as regional manager for the capital cities area. During the middle of her six years at Westinghouse Elevator she spent one year in Washington, D.C. as a White House Fellow and special assistant to the U.S. Trade Representative. Her specific responsibility was trade relations with Singapore, Indonesia, Philippines, Thailand and Malaysia (ASEAN).

In 1986 she spent approximately one year as CFO and senior vice president — finance for Blue Cross of Greater Philadelphia.

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Reunion classes from 1966 through 1986 celebrated Saturday night at the Union League in downtown Philadelphia. The Class of '91 convened at 30th Street Station where more than 200 graduates and friends ate, danced and toasted two alumni who had announced their engagement earlier in the day.

Sam Gorman

W'66, WG'67

Partner, Ernst & Young

When Sam Gorman graduated from Wharton 30 years ago, business schools weren't yet emphasizing the need for a global curriculum and international business experience.

Yet Gorman, over the course of three decades with the accounting firm of Ernst & Young LLP, has experienced his own form of "global immersion." In the late 1970s and early 1980s, while a senior manager and then partner in Ernst & Young's Manhattan office, Gorman spent time in Korea, Indonesia and England on client projects. These days, as a partner in Ernst & Young's Houston office, his work takes him frequently to Western Europe and Mexico and occasionally into the South Pacific.

Gorman's international background was one of the reasons that Ernst & Young asked him to relocate to Houston in 1985. The needs of the Houston office's biggest client — Cooper Industries, a multinational manufacturing company with operations all over the world — meshed well with Gorman's expertise.

At the time, Gorman viewed the move to Houston with some trepidation. "I considered myself a diehard New Yorker even though I had grown up in Providence, R.I.," he says. "I couldn't imagine living anywhere else."

Fortunately, Houston turned out to be a pleasant surprise. "It's a very diverse city with a lot more culture and internationalism than I had anticipated. And because it is the energy capital of the country, many of the corporations headquartered here have multinational operations."

Gorman has spent almost his entire career working with Fortune 500 manufacturing companies. During his nearly 16 years in Ernst & Young's New York office, his clients included Western Electric, for whom he eventually became the lead coordinating partner, RCA and Collins & Aikman, a textile company headquartered in Manhattan. Today, in addition to Cooper Industries, Gorman is responsible for Continental Airlines and several other companies, both public and private.

In the early 1980s, Gorman focused on mergers and acquisitions as part of due diligence teams evaluating acquisition targets. He was also a member of what was then Ernst & Young's Policy Statements Committee, working closely with the firm's national office on various technical matters. In the Houston office, he directed the 100-person audit department from 1985 to 1988 before deciding to dedicate more of his time to client work.

"As the person responsible for all the professional services provided to Cooper Industries and Continental Airlines, I find there are always new issues to deal with, whether it's internally related, like a new public financing or an acquisition, or externally related, like analyzing the impact of new SEC requirements

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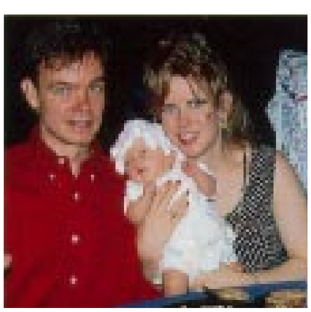

John Paul Basile

W'86

Regional Marketing Director, Ringling Bros. and Barnum & Bailey

John Paul Basile is one of those lawyers who practiced for a couple of years and then decided he wanted something completely different.

So he joined the circus, in a manner of speaking. In 1991, with a law degree from American University and two years of practicing real estate law under his belt, Basile traveled around the country for four months and then took postgraduate courses in special events marketing at NYU.

That's where he heard about Ringling Bros. He is now one of the company's 36 regional marketing directors responsible for promoting the circus as well as Walt Disney's World on Ice in 10 East Coast markets, including his home base of Philadelphia.

"I have been totally sucked up in the world of the circus," says Basile, who counts among his closest friends several members of Clown Alley, the company's 18-member clown troop. "It gets into your blood whether you are a performer or a marketing director. It's a way of life, not a job. I work 24 hours a day."

And travel a lot, he might add, spending approximately 60 percent of his time on the road in circus towns like Memphis, Mobile, Syracuse and Rochester. His goal is to "maximize an ad budget and make sure that everybody knows about the show and wants to go see it."

Specifically that means establishing relationships with sponsors like McDonald's and Acme, coordinating ad campaigns with local ad agencies, setting up promotions, discounts and sweepstakes, and "generally getting the word out in newspapers and magazines, and on TV, radio, transit buses and milk cartons ... whatever it takes," he says. "We always have a lot of local performers, which helps with the publicity. One of our headliners this year has a dog frisbee act and is from Haddonfield, N.J. That's a great local news story."

Ringling Brothers, founded in 1870, and Walt Disney's World On Ice is owned by Kenneth Feld, who also owns several Broadway productions and produces television shows. The company runs different circuses simultaneously throughout the U.S., and is creating new shows for South America and Asia.

"Each show has its own qualities," says Basile, "but the biggest component is the group of performers. In South America they may try and focus a bit more on some of the Latin-oriented acts, but it's important to remember that the whole premise we are built on is being the greatest show on earth and offering people something they haven't ever seen before. You want to have acts from all over the world with people from different cultures, races and communities."

Ringling Bros. also tours seven units of Disney on Ice across the world — *Pocahontas* and *Toy Story* will debut this fall — and

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Dean Thomas P. Gerrity (right) outlined the School's strategic goals during a meeting that included welcoming remarks from Penn president Judith Rodin (lower right).

The group photo below highlights the Wharton Annual Fund's reunion class gift volunteers and Benjamin Franklin Society donors who were honored during a Saturday evening cocktail reception.

Anne E. M. Kalin

WG'91

Co-founder and Vice-president, Lynka

The way Anne Kalin sees it, the textile printing company she and husband John Lynch, WG'89, own in Krakow, Poland, is perfectly situated for growth.

"To the East of us are millions of people starved for consumer goods. To the West of us is an entire European community interested in high-quality, less-expensive goods. We plan to expand in both directions, but probably East first, into Ukraine and Russia."

Lynka has grown in the past five years from six people, one small office and a $40,000 investment into a multimillion dollar business that employs 60 people in three different locations.

The promotional printing side of the company creates and/or stamps company logos and messages on tee-shirts, caps, bags and sweatshirts. Clients include IBM, McDonald's and Coca-Cola, among other giants. "We recently did the entire fleet of drivers and pilots for DHL in Poland," says Lynch.

The license/tourism, or retail, division has licensing arrangements with six universities and several entertainment companies. Lynka pays The Walt Disney Co., for example, a licensing royalty fee for the right to print Disney characters on clothing which they then sell to more than 100 retail chains and wholesalers throughout Poland. Discussions are currently underway for an agreement with Warner Brothers as well.

Lynka also sells tee-shirts with the names of Polish cities, landmarks and other motifs to hotels and tourist resorts. The company imports some supplies and equipment, including printing machines, inks and screenprinting solutions and chemicals, from the U.S.

Lynka's excellent distribution network, Kalin adds, has already drawn the attention of companies in need of reliable distribution of their own products. Lynka recently was hired to be a distributor of Russell Athletic's Jerzees brand in Poland.

Of the 60 people employed at Lynka, four are Americans (including Kalin and Lynch) and the rest Poles. Their average age is 23. "It works well for us to hire energetic young people, even if they have no business background, and then train them ourselves, in everything from how to use a computer to how to sell, do a presentation and handle a negotiation," says Lynch.

Kalin focuses on the operations side of the business, including production and distribution, while Lynch handles marketing, sales and administration. "I like making things and John loves selling them, so it's a perfect relationship," says Kalin.

She and Lynch first came to Poland as one of 40 MBA students in a training program called the MBA Enterprise Corps. The students, selected from the top business schools in the U.S., were sent to Eastern Europe to "teach people about capitalism ... Within a year, we had fallen in love with Krakow and decided to stay and start a company," says Kalin, who earned her under-

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EYES ON INDIA & LATIN AMERICA

In two separate conferences this spring, Wharton students, business leaders and government officials discussed the major economic and political forces shaping today's business environment in India and Latin America.

Surindha Talwatte, a student organizer of the India conference in March, and Alejandro Bulgheroni, a student organizer of the Latin America conference in April, invite others to share in the economic progress of their respective regions.

IT'S THE RIGHT TIME TO DO BUSINESS IN INDIA

By Surindha Talwatte, WG'97

For centuries India has been the destination of philosophers, explorers, buccaneers and adventurers. The prizes they sought ranged from jewels and spices to philosophy and spiritual enlightenment. After a relative lull in India's most recent history, the influx of foreign visitors has begun to swell once again. This time they are in search of corporate profits. General Electric, General Motors, Texas Instruments, Motorola, Coca-Cola, Pepsi, Philip Morris, Daimler Benz and AT&T have together committed to India more than $5 billion of investment capital in the last few years. Additionally, India's stock market has seen unprecedented levels of foreign institutional investment. More than $1 billion has come in during the last three months alone following Morgan Stanley's rating of Indian opportunities as investment grade.

Foreign institutional investment (FII), while welcome, can be withdrawn rapidly, so how solid is this Indian resur

LATIN AMERICA: PARTNERING FOR THE FUTURE

By Alejandro A. Bulgheroni, WG'96

The theme of last April's Latin American conference — "Partnerships for the Twenty-first Century" — sums up the view of many of the conference organizers: That this region of the world will grow and prosper only through forming partnerships across countries and across firms.

Over the last few years, many Latin American countries have tried to reform their economies by pursuing policies of deregulation, tariff reduction, privatization of state-owned corporations and reductions in government spending. Although some countries are further along than others, the speed with which change has been occurring is truly astounding. New ways of doing business are evident in everything from the retailing environment to the telecommunications industry. However, to harness the full potential of Latin America's opportunities, certain additional steps must be taken.

gence? One clue comes from looking at the investor profile. There are the traditional large-scale emerging market investment funds, although the current crop is now greater in number and spending more money than in the past. There are more foreign direct investment (FDI) and joint venture relationships than before. And finally, there are the growing ranks of erstwhile émigrés and wealthy non-residents. These increases in FDI, joint ventures and individuals seeking to commit resources over the medium- to long-term provide the best proof that this time, the Indian economic giant is truly awakening.

Many foreign and joint venture companies are doing well, including Hindustan Lever, General Motors, Ford, Nynex, Raytheon and investment banks such as Morgan Stanley, Jardine Fleming, Merrill Lynch and Goldman Sachs (and some not so well; witness Enron's recent difficulties). For the uninitiated India presents dazzling complexity. This nation of more than 900 million people speaks 20 separate languages in several hundred dialects and follows 25 major religions. Basic differences are compounded by ethnicity, caste and regional variables. India is a market with enormous potential , but it is clearly not an easy one.

Many of the issues shaping India today were discussed at the inaugural conference of the Wharton-India Economic Forum (WIEF), whose theme was "India, Opportunity of the 21st Century." The conference brought together business leaders from India, the U.S. and beyond to share their insights with 120 corporate delegates and more than 200 students and faculty. Guest speakers included Victor Menezes, CFO of Citicorp and Citibank; Anil Ambani, managing director of Reliance Industries; N. Vaghul, chairman of Industrial Credit and Investment Corporation of India ICICI; S.M. Datta, chairman of Hindustan Lever; Deepak Parekh, chairman of Housing Development Finance Corp.; Robert Staley, chairman of Emerson Electric Asia Pacific, and Roger Davis, managing director of Jardine Fleming India. More information on this ground-breaking event is available on the WIEF Web site at http://dolphin.upenn.edu/~whindia/

The consensus of the conference was that inflation will remain between 9 percent and 10 percent in the coming year, with GDP growth settling just below 6 percent. The conference distilled the myriad issues facing India into two main areas: the need for infrastructure and the need for growth capital.

In order to visualize the magnitude of the need for change, let us go back a few years and look at the world from the perspective of a firm operating in a closed economy with accelerating inflation, as was the case in most Latin American countries. The single most important element in a firm's success was how it played the financial markets. The way in which managers handled the firm's funds could easily mean a 50 percent gain or loss. Reducing costs or even increasing sales by 10 percent was not worth management's time or energy. Reengineering? It wasn't important. Customer service? Why bother: Customers have no choice but to buy our products and they better do it fast before their money loses value.

Now, let us fast forward to the present. In Argentina, for example, the past few months have seen a slight deflation in prices. This means that merchants are discounting to increase sales and customers are shopping around for the best bargains in the market. Concepts such as optimizing costs and gaining market share have become essential parts of doing business. Firms are starting to compete for clients.

From their unique perspectives, each of the speakers invited to the Latin American Conference shed greater light on what growth and progress in the region will entail. "The difficulties in Latin America are the opportunities for you," stated Jorge Paulo Lemann, chairman of Banco Garantia of Brazil, who opened the conference by sharing with his audience the key elements of accomplishment in Brazil. He presented a video in which he alternated examples of his management style at Banco Garantia with clips from the last World Cup soccer event. The video keyed in on both the goals scored by the Brazilian team and the emotion that followed. By "doing things well," the message went, the "partnership way" will lead to a successful future.

For Jorge Paulo Lemann, doing things well means establishing a meritocracy with continuous flows of information and communication, unbiased performance evaluations and compensation systems which allow employees to share in the firm's profits. Nothing out of the ordinary, one might think. But that, of course, is the point. The fact that Lemann has applied these "ordinary" management concepts places him a step ahead of most others in Latin America. He has literally torn down walls and applied his formula — with huge success — in several industries, such as banking, beer brewing and distribution, and mass retailing, to cite a few.

Laying the Groundwork for Growth

Currently the competitiveness of Indian industry is handicapped by bloated supply chains, inflated work-in-process inventories, extended lead times and reduced responsiveness. These effects are due to infrastructure problems ranging from irregular power supply and unreliable telecommunications networks to inadequate roads. Infrastructure development will provide huge investment opportunities and help improve the competitiveness of Indian firms by establishing a more reliable operating environment. Estimates predict infrastructure investment of some $500 billion over the next ten years. Increased liberalization, greater private sector participation, and the adoption of market-driven pricing will increase competition and service levels, and maximize fund raising efforts.

The government has created the plans for a system of national highways to connect all major cities. Private investment is being encouraged by allowing the operation of these roads as toll highways. Daewoo, Hyundai and a number of European contractors have already expressed interest in the project. The first phase of construction will be fully underway by 1998. Project completion is scheduled for 2005.

In a country once dominated by maharajas, perhaps the most significant social trend is the growth of the middle class.

With the foreign limit on ownership of joint venture companies raised to 51 percent, telecommunications companies from around the world have been struggling over the landline and mobile sectors of the Indian market. Reliance Nynex, HFCL Shinawatra of Thailand and HFCL Bizeq have secured many of the landline rights. Other winners include Tata, Hughes and the Ispat steel group. On the mobile front, AT&T and the Aditya Birla Group and US West and BPL are already operating cellular networks in Bombay, New Delhi, Calcutta and Madras.

The power sector has been liberalized, with each state given the responsibility to attract investors. While encouraging the use of renewable resources where appropriate, the

Arely Castellon, another conference participant and general manager of the Americas of Global One, a worldwide joint venture between Sprint, Deutsche Telekom and France Telecom, spoke from the perspective of European and U.S. companies looking at Latin American markets. Castellon views the region's difficulties — such as low teledensity levels, weak infrastructure and small share of global telecommunications — as great opportunities for Global One to generate revenues and grow. As competition comes to the telecommunications industry, countries such as Chile, the Dominican Republic, Argentina, Colombia, Mexico, Peru, Venezuela, Brazil and others will provide immense opportunities for capturing market share. For Castellon, particular knowledge of the market and profound cultural awareness are essential controlling factors that determine success in each individual country.

As the conference progressed, speakers also addressed Latin America's current economic environment. The financial crisis triggered by the devaluation of the Mexican Peso more than a year ago is proving difficult to overcome. However, as governments follow through on tough political decisions to counteract this crisis, they gain credibility. Argentina, for example, responded by raising taxes and maintaining its economic direction. Mexico responded by drastically cutting its government expenditures. A decade or two ago similar circumstances would have been devastating; today they are only challenging.

The Importance of Privatization

Throughout Latin America, countries have achieved varying degrees of progress in reforming their economies, with differing levels of success. Luis Carlos Mendonça de Barros, president of BNDES, the Brazilian Development Bank, spoke about how Brazil's privatization process — which is in its early stages — is vital to lasting reforms. In Argentina, many of the industries have been deregulated and privatized very fast and change now needs to be solidified. Peru has shown impressive progress. Chile started its reform process long before any other country in the region, overcame early difficulties and consolidated its reforms. As a result, it has been rewarded with sustained growth over the last decade.

Toward the close of the conference another facet of this vibrant and explosive region was discussed. Latin America has been, and will be, a laboratory for the development and implementation of new ideas. The fast pace of change and the nature of the challenges faced are strong drivers for government is pushing for the development of gas, coal and oil fired power stations as the power generating mainstay and is continuing research into nuclear energy. Regular, efficient power supply will go a long way to improving the operating environment for businesses in India. The major companies working in this sector include Tata, The Bombay Suburban Electric Supply Company, Calcutta Electric Supply, General Electric, Siemens, ABB and Enron.

While there is much work already underway, new projects in the telecommunications, roads and power sectors, together with the development of railways, ports, airports and water supply, will provide large-scale investment opportunities for years to come.

A Capital Investment

India needs tens of billions of dollars of capital investment per annum to sustain her present rate of economic growth. Currently the capital markets and local financial institutions can generate much of this requirement, but as growth continues the annual shortfall will increase. The government must create the economic climate and incentives necessary to increase foreign investment.

In the meantime, how should an investor assess the risks of doing business in India?

For those making a comparison with other developing economies, it is important to note that India has remained a democracy since it gained independence in 1947, has a well developed legal system and a truly free press. Despite occasional problems, India's diverse population has a history of cultural tolerance and acceptance. The problems of religious and ethnic violence, nationalism and age-old border disputes at first sight bear some resemblance to the tragic situations in eastern Europe and the former Soviet Union. In fact they are far less bitter and far more likely to be ameliorated by improved economic prospects for all.

Increasing internationalization, the weakening of the caste system and the increasing role of women in society are all pulling India forward. In a country once dominated by Maharajas, perhaps the most significant social trend is the growth of the middle class. This aspiring group is ambitious, hard working and business oriented. It is providing India with a growing market for consumer goods and a core of entrepreneurs that will only strengthen her economy. The Bombay night now throbs to the beat of clubs such as the

Continued on page 26

arriving at creative solutions. José Piñera, current chairman of the International Center for Global Pension Reform at the CATO Institute in Washington, D.C. and former Minister of Social Welfare of Chile, described the design and progress of the pension system reform which he implemented. Today, the average Chilean worker's largest asset is the net balance of his/her pension savings account. The system gives workers the freedom to choose when they wish to retire, and, equally importantly, has created an industry of institutional investors who have provided depth to the Chilean capital markets. The Chilean capital markets have, in turn, financed the acquisition by Chilean firms of utilities and other companies privatized in other Latin American countries. It is estimated that by the year 2005, the aggregate pension fund system will be as large as the entire Chilean GDP. Meanwhile, Piñera's pension fund system has been adopted in other Latin American countries and studied by U.S. pension experts. It could eventually become a world model for modern social security.

LATIN AMERICA HAS BEEN, AND WILL BE, A LABORATORY FOR THE DEVELOPMENT AND IMPLEMENTATION OF NEW IDEAS.

More than 500 students and executives gathered to participate in the Latin American conference. Those assembled were encouraged by multiple examples of successful business stories as well as warned about the possible obstacles. At the end of the day, one thing was clear: While most Latin American countries are clearly interested in economic reform, the way the reforms are carried out depends on the unique historical-political-cultural characteristics of each country. The business leaders who bring modern management practices and develop a sensitivity to the cultural differences among countries will be the winners in this region rich with opportunities for investment and growth.

Alex Bulgheroni grew up in Argentina and is now a management consultant for The Boston Consulting Group in Buenos Aires. Before coming to Wharton he studied industrial engineering at Lehigh and worked in Argentina as a reservoir engineer in the oil and gas industry.

WHARTON IMPACT

electronic.com.merce://wwwired.to.buy

The World Wide Web is rapidly becoming the World Wide Mall. But how will electronic markets evolve? What do they mean for traditional marketing? What are the most effective interfaces for selling? Wharton professors — expanding upon years of research in marketing, operations, public policy, and other areas — are studying and helping to shape the future of commerce online.

The four P's meet the Internet

The "four P's" — product, place, price, and promotion — have long been the cornerstone of marketing. Electronic commerce has fundamental implications for each of these elements of the "marketing mix," according to a paper by Wharton Professor Jerry Wind and colleague Arvind Rangaswamy. The researchers examine forces shaping electronic markets and their impact on marketing and business strategy. Among their insights on the four P's:

Product: Only certain types of products are likely to be successful online. "Search goods" such as airline tickets and office supplies, which are bought by comparison shopping without having to experience the product, are well suited for online sales. Products requiring extensive searching, such as baseball cards and other collectibles, are particularly well suited to sell online. Products that can be digitized — such as books or software — can be both marketed and distributed electronically.

Place: Electronic commerce flattens the distribution channel by connecting buyers directly with sellers. Retailers have traditionally served as intermediaries between customers and manufacturers, offering buyers more variety and reduced waiting time for products. Now, customers have access to more variety online. Shoppers Advantage, for example, offers 250,000 items online, whereas even the largest superstores only stock about 100,000. Electronic commerce also can make location irrelevant. Arctic Adventures, a small Norwegian travel agency, sold more than 100 travel packages to American tourists in its first year on the Internet — without advertising or a U.S. office.

Price: Because products by different manufacturers can be compared easily online, price becomes far more important. Price setting and price changes take only a few keystrokes, which should escalate the speed and intensity of price competition. Electronic markets also allow for highly flexible pricing policies (such as purchasing a chapter of a book rather than the full text).

Promotion: Because consumers who use electronic shopping services are actively seeking a product (compared with passive television viewers), advertising must also change. Advertising has to be unobtrusive, but also interactive. Advertisers know more about the customers receiving their messages, so they can create context-sensitive ads. The development of user groups and other electronic communities may decrease dependence on advertising as "word-of-mouth" information about products travels more quickly.

"Many marketing managers view these developments (in electronic commerce) as leading technologies, rather than in terms of what they really are — leading indicators of a transformation underway to fundamentally alter how various types of market exchanges occur in the future," the authors write.
Arvind Rangaswamy and Jerry Wind, "Don't Walk In, Just Log In! Electronic Markets and What They Mean for Marketing," December 1994.

Why computers haven't taken futures traders out of the pit

The futures pit of the Chicago Mercantile Exchange is a shouting, seething mass of tens of thousands of traders who complete more than 550,000 contracts a day in a space of about 70,000 square feet. In contrast the electronic, automated counterpart of the exchange, GLOBEX, handles a mere 6,000 contracts daily.

Although electronic trading has become widely accepted in stock trading, it has not caught on in futures trading. This may be because stock trades depend on information about the companies traded while futures deals depend much more on expectations that are communicated through the activity on the floor itself.

The failure of the electronic system to gain wide acceptance "highlights some important interface design issues of the electronic system," write Gerald L. Lohse, assistant professor of operations and information management, and Satu Parikh. In particular, the efficient, though frenetic, personal contact and communication that occur on the floor are lost in the electronic system. Shouts and hand signals are used to offer futures to the market. Traders often make decisions about which pits to trade in based on the noise level of the pit. The electronic system, using an order execution algorithm, provides less information about trading levels, and is less flexible in accepting and changing orders.

Lohse and Parikh propose a new interface that uses icons to represent each trader and shows standing bids or offers. Traders could click on the icon of other traders to "hit" the bids. In this way, the activity of the trading floor is more closely represented by the electronic version.
Satu S. Parikh and Gerald L. Lohse, "Electronic Futures Markets Versus Floor Trading: Implications for Interface Design," May 1995.

Future scenarios: Mr. Goodstore meets 7-11 in cyberspace

How will electronic commerce unfold in retailing? In discussions with dozens of senior executives in dry goods, packaged goods and service industries, Eric Clemons, professor of operations and information management, identified four key scenarios for the future of retailing:

- Looking for Mr. Goodstore: This is the traditional face-to-face, low-tech, high-touch shopping experience. Customers have sufficient disposable income and time to purchase their goods at the mall through traditional, non-wired interactions, sipping champagne while shopping for suits.
- Sears is My Shepherd, I Shall Not Change: Shoppers are more concerned with price and the efficiency of the shopping experience, but continue to shop in traditional face-to-face interactions. These consumers are not shopping for pleasure as in the Mr. Goodstore scenario; they either reject advanced technology or are loyal to stores such as Sears and are reluctant to change.
- 7-11 in Cyberspace: This is an ultra-efficient, ultra-convenient electronic alternative to conventional shopping through electronic home shopping. Shoppers will be able to fly down virtual aisles that are tailored to their shopping history or place their order Monday morning for "the usual Monday order." These stores could undermine grocery stores and mass merchandisers. Current store operators are unlikely to be successful operators of the new virtual stores, which would require a different set of skills. Manufacturers may also suffer, because virtual store operators can easily add and remove items from the shelves, dropping the lowest-margin items and negotiating with manufacturers for discounts and overrides.
- Walden Pond Meets the Internet: In this scenario, consumers are less driven by efficiency than the "7-11 in Cyberspace" shoppers. They savor and enjoy the virtual shopping experience, "surfing" through products in a virtual mall. In this scenario, consumers benefit while efficient competition restricts profits for manufacturers and retailers.

Although the Mr. Goodstore scenario seems least likely to be the future of retailing, "this appears to be the official future embraced by many retailers, and the basis of much of their current short-term strategic positioning," Clemons says.

The last two scenarios seem most likely, he says, as computers proliferate and the Internet and new interactive media spread. "There is no expectation that any one of these scenarios will prove to be 'correct'; rather, all realized futures are expected to be a combination of two, three, or even all four scenarios," Clemons writes.
Eric Clemons, "Future of Electronic Consumer Interaction in Retailing: Analysis of Competing Scenarios," October 1995.

- Wharton Impact online: This and previous Impacts can now be found at Wharton's World Wide Web site, http:/www.wharton.upenn.edu/. They are indexed by issue and topic.
- For a brief account of a recent Wharton conference on electronic commerce entitled, "Beyond the Hope and the Hype: Creating a New Market Reality," see page 3.

Research Wire

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

Are Companies Masking High Executive Pay?

Under intense lobbying pressure from corporate America, the Financial Accounting Standards Board (FASB) recently aborted its proposal to require firms to expense the cost of options awarded to employees. Corporate America argued that by lowering reported earnings, the proposal to expense employee stock options would make U.S. companies less attractive to investors.

According to a recent study by researchers from Wharton and Harvard Business School, there is no systematic evidence that expensing employee stock options would make companies less attractive to investors. However, the researchers did find that opposition to the proposed accounting came primarily from firms making relatively large option grants to top executives, but not to other employees. The findings, says Wharton's Richard Sloan, suggest that the concerns expressed by corporate America about attracting investors may have been a smoke screen to avoid publicizing high levels of top executive compensation.

Patricia M. Dechow, Richard G. Sloan and Amy P. Sweeney; Economic Consequences of Accounting for Stock-Based Compensation

Nifty-Fifty Were Nifty After All

When the high-growth "nifty-fifty" stocks crashed in the 1973-74 market, investors concluded that high price-to-earnings ratios were a sign of danger. Not so, according to Finance Professor Jeremy Siegel, who found that the long-term performance of the "nifty-fifty" justified price-to-earnings ratios of 40, 50 or even higher. The stocks were, in fact, not overvalued, he concluded.

"Many of today's star performers, such as Coca-Cola, Disney and McDonald's, were members of the nifty-fifty," Siegel says.

Jeremy Siegel, "The Nifty-Fifty Revisited: Do Growth Stocks Ultimately Justify Their Price?" Journal of Portfolio Management, Summer 1995

Consensus Bias Leads to Errors in Launching New Products

Why was the demand for low-fat foods and "green" environmental products overestimated while the popularity of value brands was underestimated? It could be because of consensus bias: The products that are well-liked by well-educated brand managers making decisions are not the same as those that appeal to the market.

In a recent study, Professor Eric Johnson and colleagues found they could reduce another decision-making bias — over-confidence in forecasts — simply by asking people for the reasons they may be wrong, along with explicitly asking for estimates of uncertainty.

The bias from false consensus, on the other hand, was much more intractable. Even after providing subjects with more "relevant" information to use in the judgment, there was no reduction in false consensus. The results show that managers need to follow the basic principle of: "Get close to your customers. What our results suggest is that the distance might be further than we believe," the researchers write.

Deborah Mitchell, Marjorie Adams, Eric Johnson: "Your Preferences May Be Hazardous to Your Wealth: How False Consensus and Overconfidence Influence Judgments of Product Success," March 1995.

Balanced Budget Rules Can Work

Despite the political rhetoric in Washington surrounding balanced budget agreements, governments can balance their budgets, according to a new study co-authored by Wharton Professor Robert Inman. The researchers analyzed budget data from 47 U.S. states over a 21-year period and found that "states with balanced budget rules (appropriately constructed and enforced) do reduce the propensity of states to run deficits."

The authors reached several major conclusions such as: balanced budget constraints that apply to an audited, end-of-year fiscal balance are significantly more effective than constraints requiring only a beginning of the year balance. Also, all state balanced-budget rules are ultimately enforced by a state's supreme court, and those states whose supreme court justices are directly elected by the citizens have "stronger" constraints (i.e., lead to larger average surpluses) than those states whose supreme court justices are direct political appointments of the governor or legislature.

The authors write that "from the states' evidence, we conclude that a workable and enforceable balanced budget rule for the federal government can be written." Inman cautions, however, that knowing that a fiscal rule will work doesn't necessarily mean that it should be adopted.

Henning Bohn and Robert P. Inman; Balanced Budget Rules and Public Deficits: Evidence from the U.S. States

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

WALLENBERG *Continued from page 12*

new business opportunities as well."

Wallenberg is well positioned to understand the challenges of his industry. After graduating from Wharton, he enrolled in extensive training programs at J. P. Morgan in Manhattan and Hambros Bank in London. In 1984 he joined Enskilda Securities, where he held a variety of posts in their London, Singapore, Hong Kong and Stockholm offices.

From 1990 to 1993, Wallenberg was deputy managing director of Investor, a holding company with substantial interests in several of Sweden's major corporations, and an SEB client. "Working there taught me what clients look for in a bank and gave me a nutshell view of the competition," he says. "It was an invaluable experience."

In 1993, Wallenberg rejoined the SEB Group as advisor to the CEO. In 1994 he was appointed deputy COO of Enskilda and in 1995 was promoted to COO. He serves on the board of STORA AB as vice chairman and is a member of the board of the Knut and Alice Wallenberg Foundation and the Norwegian-Swedish Chamber of Commerce.

Before coming to Wharton as an undergraduate, he spent three years in the Swedish Navy, part of that time as the number two officer in command on a PT boat. "I was looking for a U.S. education with a financial focus," he says. "I chose Wharton because of its outstanding reputation."

MCELWEE *Continued from page 13*

In 1992, McElwee and two partners decided to test the entrepreneurial waters. They raised $81 million for their first fund, and the first four deals they did either went public or were bought out by other companies within a year. These successes enabled the company to raise a second fund of $225 million last year. "By that time, money was practically being thrown at us," McElwee says. The firm today has the original three partners plus four principals.

Weston Presidio has deliberately chosen to remain diversified. "We don't want to get categorized as a firm that invests only in one industry, even though the trend today is towards specialization," says McElwee. "For example, a firm doesn't just do software, it does Internet software. That's not our approach.

"What we consistently look for in a company is the quality of the management team, their knowledge of their specific project and their relative strength in the industry. If you are backing the right people, they will figure out a way to make the company successful. They have staying power."

CHOLMONDELEY *Continued from page 14*

"I had left the financial field before this, and when I got back into it, I realized I no longer enjoyed it," says Cholmondeley. "I also found a nonprofit to be too focused on internal operations and politics and not focused enough on the customer."

She left Blue Cross to take a position as vice president and director - international division for The Faxon Co., a global library subscription agency in Boston. During her fourth year there, the privately-held company was split up into pieces as part of a divorce settlement. The international operations were sold off, and in 1992, Cholmondeley moved on to Owens-Corning Fiberglas Corp. in Toledo, Ohio.

For her first 14 months she was vice president for business development and global sourcing. In 1994 she became president of Miraflex(TM) Fiber Products, which at the time was a top-secret project that required Cholmondeley to oversee the construction of a new plant, the hiring of a new crew and the record-time creation of a new product. Miraflex, which appeared on retailers' shelves in 1995, is expected to produce $500 million in sales from a new family of products by the year 2000. Cholmondeley and others expect that it will have uses beyond insulation, including, for example, flame retardant fabrics.

Leading a team that brings a new product into existence "is a once-in-a-lifetime opportunity," says Cholmondeley. "There is no greater thrill than working on projects that will become part of the company's folklore and history."

She is also a corporate vice president of Owens Corning — the company's first woman and minority officer — and a member of their Leadership Council.

"I have liked the variety that comes from moving around in different jobs," says Cholmondeley, who was born in Jamaica and raised in Guyana, South America. "You have to stay in a company long enough to make sure you produce results. But in most places today there is a lot of opportunity to change positions inside the company. That satisfies my need to see many different things and always feel that I am continuing to grow."

GORMAN *Continued from page 15*

or tax and accounting rules.

"In addition, during the course of my career, I have developed extended relationships with a number of clients, which means I know people all over the world and have followed them as they move into new positions or on to different cities and countries. I have built an extended list of contacts, many of whom have become friends."

Outside of work, Gorman might be said to have two other "clients," although for them his work is on a strictly volunteer basis. One is Houston's Museum of Fine Arts. Gorman has just begun a second three-year term as trustee and serves on the Museum's audit committee, finance committee, executive committee and exhibition committee. He also chairs the corporate partners leadership committee, and represents the museum on the Business for the Arts board, of which he is director.

His other area of involvement is Wharton. Gorman is chairman of the Alumni Association Executive Committee and has been president of the Wharton Club of Houston since 1992. "I'm at that stage in my life and career where I have the time to do things that broaden me and get me involved in other activities. I think you have to do that. Otherwise you become too narrowly focused.

"The Houston club has helped me increase my networking capabilities. Getting involved in community and business activities outside of your day-to-day job is almost a requirement these days for further development in just about any career you choose.

"I feel very positively about Wharton because of the education and training I received there," Gorman says. "I have a strong allegiance to the School and all it represents."

BASILE *Continued from page 16*

one unit of the *Wizard of Oz On Ice.* Another branch of the company is Siegfried & Roy, Las Vegas-based illusionists.

Basile himself stages about 125 performances yearly of both the circus and Walt Disney's World on Ice with attendance of approximately one million annually.

"I'm there for every show, but I never get the same performance," he says. "The performers have to deal with the audience differently every time. It's their job to get people up and excited, whatever it takes. From a viewing perspective, I am always seeing something different."

Including, this year, Airiana, the human arrow — a woman who is catapulted across the entire length of the circus at 60 mph. "It's truly special. It's mystery and magic," says Basile. "She represents the reason people love to come to the circus."

KALIN *Continued from page 17*

graduate degree from Wellesley College.

"The biggest challenge initially was that the entire economy was changing so rapidly, including the legal system, customs procedures and the tax structure. Everything was a moving target. The government was rewriting the books without explaining the new regulations to their officials.

"The keys to our success," she says, "are first, that we are workaholics, and second, that we speak fluent Polish. Most Americans here don't. They can order pizza and a taxi to take them to the train station. We learned the language by being on the job ...

"I hope I make a lot of money doing this, but I'm not just driven by that. It's very satisfying growing a business and actually producing something."

And being always open to new ideas and opportunities. "One of the big beer companies here just ordered 10,000 tee-shirts from us," Kalin notes. "We also get orders for one tee-shirt. We're not too proud to take the small orders. Sometimes they turn into bigger ones."

INDIA *Continued from page 21*

Cellar, 1900's and Cyclone's. While social change is far slower to reach India's rural population, Pepsi, McDonald's and MTV together with the more fundamental agents of change are beginning to weave their transformational spell.

A perennial fear that has kept investors away from India in the past is concern over corruption. Recent years have seen a crackdown in which the leader of the opposition and four ministers were indicted for taking bribes from an industrialist. It is significant that the anti-corruption campaign started at the highest levels. This should give reformers sufficient credibility and momentum to carry their efforts into every level of society.

India has just finished going to the polls, and the count is in — no mean feat in a country where the number of people actually voting exceeds the entire U.S. population. Narasimha Rao's reforming government was soundly defeated. No party achieved a clear majority and while a number of political coalitions are forming, it is unlikely that reform will be derailed. Atal Behari Vajpayee, head of the Bharatiya Janata Party (BJP), was invited to form the new government. However, his tenure as India's 13th prime minister was short-lived. Fears that the BJP's Hindu nationalist views may increase ethnic and religious tensions led to the formation of an opposing coalition headed by Deve Gowda. Gowda's United Front forced a no confidence motion, and Vajpayee resigned in the face of certain defeat. Gowda was sworn in as prime minister on June 1 and given 12 days to secure a vote of confidence for his 13-member coalition of regional and national parties. While not an enthusiastic reformer, Gowda strongly supports foreign investment. Further, the inclusion of regional parties in decision-making will ensure that India moves forward together. The important point here is that the forces driving India's future are those of economic reform and fair, open debate.

In conclusion then, the economic outlook is promising. India's infrastructure is being geared up to meet the needs of her growing economy. The capital markets are being reformed to encourage internal and external capital investment and efforts are being made to curb corruption.

Reform will in all probability continue and further economic progress is likely to lessen the religious and ethnic unrest. The strong foundation built by Narasimha Rao's government and the sheer momentum of the middle classes suggest reform will succeed. India is far closer to delivering her promise than others who are part of the new emerging market. There are many risks and uncertainties and the learning curves are daunting, but the richest rewards have always demanded the greatest reserves of vision and courage. Foreign investors with an eye to the future should take note, and take action before they miss out on what will surely be the opportunity of the 21st century.

Surindha Talwatte, WG '97, is a civil engineering graduate of the Imperial College of Science, Technology and Medicine in London. He came to Wharton after working for Midland Bank plc and the Hong Kong & Shanghai Banking Corp. in London and New York. Talwatte is working for Goldman Sachs in London this summer and intends to work in the investment sector in South Asia and the ASEAN region once he graduates from Wharton. He was born in Sri Lanka and grew up in London.

Given the success of the Wharton India Economic Forum's (WIEF's) first conference, preparations are well underway for next year's conference, "India, Investing in a New Era," scheduled for March 21, 1997. Participants will focus on investment- related issues from the perspectives of both the foreign and domestic investor.

A Revitalized Shanghai

More than 40 participants attended the first meeting of the newly-reorganized Wharton Club of Shanghai last winter.

Among the 40 were Wharton alumni as well as alumni of the Wharton-Jiaotong Executive Education program.

Professor Wang Xi, WG'47, president of the Shanghai Institute of Business Administration, is club president; Gu Dunqing, Wharton-Jiaotong'90, director of the board and executive vice president of Shanghai International Trust & Investment Corp., is vice-president; Maggie Yao, Wharton-Jiaotong'90, director of the Shanghai Office of the China Venturetech Investment Group, is secretary; and Xu Ying, WG'93, manager, General Electric (China), is treasurer.

Honorary chairman of the club is Meng Jianzhu, vice mayor of Shanghai, and advisors include Professor Wueng Shilie, president of Shanghai Jiaotong University, and Laurence Za Yu Moh, WG'53, chairman emeritus, Universal Furniture, Ltd. ▼

Evening School Honors Three

Steven Constable, senior regional manager at Martin Zweig Securities Corp., spoke at The Wharton Evening School Alumni Society's annual banquet in April on "Maximizing Returns While Minimizing Risk in the Markets."

The brunch was also an opportunity to honor three individuals: The Theodore J. Grayson Award for leadership and philanthropy was presented to I. Donald Snook, W'79, president and CEO of Presbyterian Medical Center in Philadelphia. Doris Cochran-Fikes, CW'72, formerly director of University Alumni Relations and now director, alumni secondary school committees, received The William R. Hockenberry Award for service to Penn's alumni society.

Bernard Habet, W'95, received The Robert L. MacDonald Award in recognition of an excellent scholastic record and outstanding personal characteristics. ▼

Seven New Members Elected to Alumni Association Board

At the Wharton Alumni Association's annual meeting on April 22, seven new members were elected to the Executive Committee. These alumni will work with the Board, and in partnership with Alumni Affairs, to provide programs and services to the School's 69,000 alumni.

The new members include:

Didier Choix, WG'86, a consultant with DDA Consulting Services in New York. Choix was most recently co-chair of his 10th reunion gift committee, which raised a record amount from their class.

Elliott Clark, W'83, a principal with Raymond Karsan Associates in Wayne, Pa. Clark is on the board of the Philadelphia club and has been active in the club's Career Management Committee, recently chairing the club's second annual career conference.

Jon Hastings, WG'96, is new venture manager at DuPont in Wilmington, Del. He was the first WEMBA student representative to the Alumni Association Board, and was recently the winner of a Dean's Award of Excellence for leadership of his WEMBA class.

David Kauffman, W'92, WG'94, is the owner of Kauffman's Wedding World in Altoona, Pa. He was a very active student leader as an undergraduate and has continued to participate as a young alumnus in career panels and career week.

Reggie Reglus, WG'95, is president and CEO of Reglus & Associates in South Ozone Park, N.J. He is on the board of the Entrepreneurial club, an active volunteer in the New York club, class correspondent and past chairman of the alumni effort for the 1995 Whitney Young Conference.

Bob Shalayda, WG'80, is a marketing manager with Lucent Technologies in Warren, N.J. He is a long-time class correspondent for the magazine.

Paul Zantzinger, WG'67, is an investment manager with GE Capital in Atlanta, Ga. He is president of the Atlanta club and has done significant work in strengthening student/club relations. ▼

Entrepreneurially-Minded? Join the Club

Three years ago, three Wharton alumni formed the Wharton Entrepreneurial Alumni Club to help enterprising alumni network and develop ideas for new business ventures.

Today, the club has more than 400 members on its database as well as a host of activities planned for the rest of this year, according to Nigel Edelshain, WG'93, one of the three founders.

"For entrepreneurs more than any other business people, contacts are critical," says Edelshain. In addition, "by working together, small business owners can gain access to resources they would otherwise miss."

The Wharton Entrepreneurial Alumni Club holds informal bi-monthly cocktail hours and has sponsored such speakers as John Sculley, WG'63, Alan Patricof and Ronald Lauder, W'65.

It has also partnered with the Wharton Club of New York to present discussions on entrepreneurial topics like "How to Buy a Business."

A club newsletter will be available electronically and a membership directory, giving details of all members' interests and industries, is planned for later this year, Edelshain says.

Other new initiatives include partnership programs with the Wharton Clubs of Northern and Southern California, and the creation of special interest groups for more in-depth discussions of key issues.

The Club's other two founders are Jonathan Terzi, W'91, president of a consulting firm in New York City called Terzi Enterprises, and Jonathan Blanc, W'93, founder and owner of a clothing import company called Collegiate Traditions. Edelshain is director of corporate projects at Paradigm Systems Corp., a three-year-old computer services company in New York.

Anyone interested in finding out more, call 1-800-220-5031. That line includes the latest news on upcoming events as well as information on how to get involved in the Club. ▼