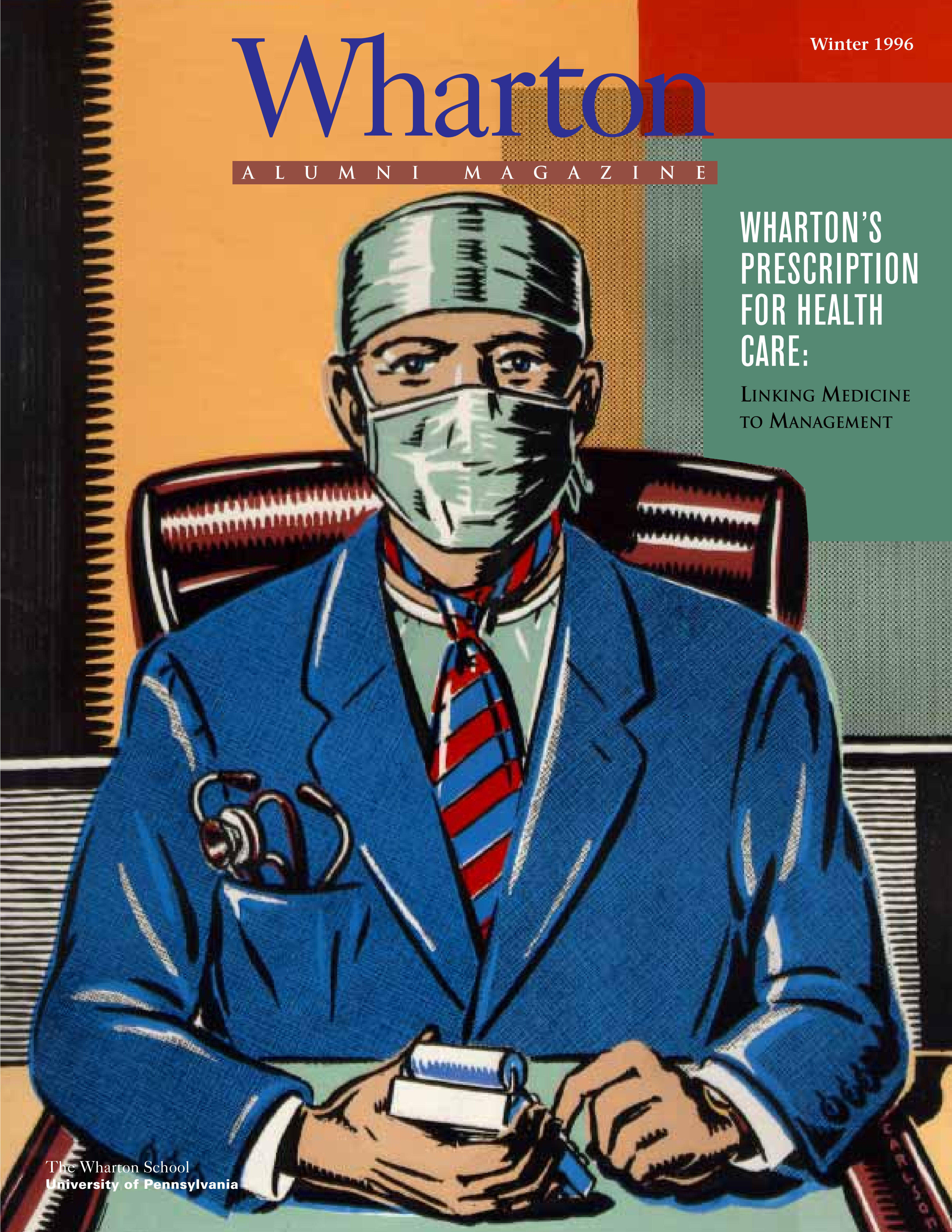
Winter 1996

Wharton

ALUMNI MAGAZINE



WHARTON'S PRESCRIPTION FOR HEALTH CARE:

LINKING MEDICINE TO MANAGEMENT

The Wharton School
University of Pennsylvania

INVITATIONS TO JOIN THE

GLOBAL ALUMNI NETWORK

IN

PHILADELPHIA

Wharton Alumni Weekend

Friday, May 17; Saturday, May 18; Sunday, May 19, 1996

- MBA Reunion Dinners for the Classes of 1991, 1986, 1981, 1976, 1971 and 1966
- Executive Education Session
- Gala Dinner
- Alumni/Faculty Exchanges
- Wharton Town Meeting
- Parade of Classes
- Picnic Lunch
- Farewell Brunch

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

IN

LONDON

Wharton European Forum

March 28, 1996: Welcome Dinner
Keynote Speaker: Peter D. Sutherland, Chairman of Goldman Sachs International

March 29: Day-long Conference on European Competitiveness

Location: Claridge's Hotel

For more information, contact:
Cynthia Alers, WG'88
President, Wharton Club of London
PO Box 3000, London, SW6 4SX
England
Fax: 44-171-584-5935

IN

HONG KONG

3rd Asian Regional Alumni Meeting

May 23-26, 1996

Events Include:

- Day-long Symposium on "Business Leadership in Asia — Profit and Responsibilities"
- Luncheon with Keynote Speaker Anson Chan, Chief Secretary of the Hong Kong Government
- Presentation by Wharton Dean Thomas P. Gerrity of the Dean's Medal of Honor

For information and registration, contact Karen Chang in Hong Kong: T: 852-2805-1218 F: 852-2543-3534

Wharton

ALUMNI MAGAZINE

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Features

Departments

Cover Article

The pace of change in health care delivery is accelerating as new relationships spring up between hospitals, physicians and third-party payers.

Illustration by Jonathan Carlson 6

Jobs, Everyone?
Grads Hit the Career Track Running

Reglus

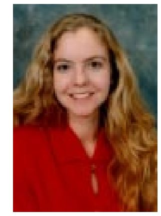
Wharton's Career Development & Placement Office reports a record year in the number of 1995 MBA graduates who have found jobs.

According to CD&P, 94.8 percent of the 769 graduates received job offers as of August 1, compared to 92.8 percent in 1994 and 84.1 percent in 1993. The average number of offers was two per graduate.

The median compensation for WG'95 graduates came in at $90,000, a figure that includes base salary and sign-on bonus.

Broken down by industry, 27.7 percent of the class accepted positions in consulting, compared to 23.5 percent in 1994, and only 9.4 percent 10 years ago. The second most popular industry was investment banking/brokerage, with 17.6 percent of the students accepting jobs there as compared to 19.8 percent in 1994.

Sixty-two percent of the students accepted offers with international responsibility—a percentage that has grown steadily over the last 10 years to set a record high this year—and 24.6 percent accepted positions overseas.



McAllister

The top recruiter was McKinsey & Co., followed by Booz Allen & Hamilton, A.T. Kearney, Bain & Co., Boston Consulting Group, Merrill Lynch & Co., J.P. Morgan and Co., Andersen Strategic Services, Morgan Stanley & Co. and Coopers & Lybrand.

Eight students indicated they are entering a family business, and 11 students noted that they are starting their own company.

Meet Reggie Reglus, founder of Reglus & Associates, a computer consulting and training company in Queens, NY. Like most entrepreneurs, he enjoys the freedom and autonomy that comes with being self-employed at the same time that he worries about making ends meet. As Reglus puts it, "Running the business is not difficult. Surviving is."

Originally, Reglus focused on fast-food restaurant owners, and his major client group today remains McDonald's franchisers, both single-store and multi-unit operators. He researches the existing software, matches it to the operator's needs and in some cases customizes the programs to address

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Gruss Fellows Chosen

Three MBA students and four Executive MBA (WEMBA) students celebrated their selection as 1995 Gruss Fellows during a luncheon in November held by Wharton's Public Policy and Management Department.

The fellowships are funded by a $1 million gift from Martin D. Gruss, W'64, senior partner of Gruss & Co., a private investment firm in New York. The gift allows PP&M to extend fellowships to current and prospective government managers who have demonstrated their commitment to public service. It also funds new PP&M courses as well as a range of educational activities, lectures and annual forums on major public policy issues.

The 1995 MBA fellows and their areas of interest include:

- Lara Jakubowski, a 1989 Penn graduate and former financial analyst at Lehman Brothers, interested in the management of government in economically distressed communities
- Rachna Singal, a 1992 Penn graduate and former intern at the World Bank, interested in USAID or the World Bank
- Matthew Bergheiser, a 1991 graduate of Princeton and former policy analyst at Lewin/Value Health, interested in the revitalization of depressed urban areas.

The 1995 WEMBA fellows include:

Standing, from left to right: Nessel, Massaro, Singal; seated, from left to right: Jakubowski, Bergheiser, LaCombe. Missing from picture: Morillon

Photograph / Tracy Kauffman Wood

- Patrick LaCombe, country analyst for Poland and Hungary at the U.S. State Department
- Richard Nessel, chief financial officer for the New York City Department of Transportation
- Lawrence Massaro, supervisory commodity business specialist for the Defense Department's Industrial Supply Center
- Anne Morillon, engineer/technical manager for the Department of Energy

New Ventures in Management Education

Delivery By Satellite

Interested in taking a class on "Finance and Accounting for the Non-Financial Major" without leaving your office building?

Beginning last fall, companies such as Disney, Hewlett-Packard, Texas Instruments and EDS are downlinking live, interactive executive programs via satellite from various business schools, including Wharton. In addition to the finance/accounting class, Wharton is offering "Creating Customer Value: The Essential Principles of Marketing."

Ten courses in all are on the new Executive Education Network (EXEN) developed by Westcott Communications in Dallas, Tex.

"The network gives executives at different levels of management the opportunity to receive effective training and education on site from top business school faculty around the country," says Robert E. Mittelstaedt, Jr., vice dean of Wharton's Aresty Institute of Executive Education.

Executives enrolled in Wharton's courses will be able to participate in interactive class discussions with faculty and peers via two-way audio and microphone-equipped keypads. Faculty will be able to measure a participant's attention and comprehension, and then alter the approach or pace accordingly. Participants can receive special attention from the faculty member, just as they would in a campus classroom.

For information, call 1-800-255-3932, ext. 1577 (U.S. and Canada); or 215-898-1776, ext. 1577.

Sign of the Times

Readers of the UK edition of the *Financial Times* are getting a weekly course in management.

On October 27, the newspaper launched what it calls an "unprecedented joint venture" between itself and three leading international business schools — Wharton, the International Institute for Management Development in Switzerland and the London Business School. The joint venture comes in the form of a weekly supplement "introducing readers to the main concepts of modern management, exploring the latest thinking in each area and examining best practices in a range of international companies."

The series, called "Mastering Management," is loosely based on the core curriculum of a typical MBA course and has been written by more than 50 professors, including 15 from Wharton.

It covers 19 subjects ranging from finance, operations and marketing to ethics, leadership and organizational behavior.

The lead-off article, written by Ross A. Webber, professor of management at Wharton, was entitled "Introduction to General Management: Modern Imperatives." Other Wharton professors contributing to the series include Michael Useem ("Building High Performance Systems"), Thomas W. Dunfee ("Social Cause Marketing"), and Peter Cappelli ("Distinctive Human Resources Are the Competitive Advantage of Firms").

Scholarship Fund Honors a Professor and a Program

A respected professor, an admiring alumnus and a new program in international studies and business have all combined to create a scholarship fund for students interested in earning a dual degree in management and liberal arts.

James W. Zucker, W'70, a partner in the New York firm of Lawrence, O'Donnell, Marcus & Co., has pledged the initial $25,000 to set up the J.K.S. Ghandhi Scholarship in honor of Jamshed Ghandhi, associate professor of finance and director of the Program in International Studies & Business (IS&B).

Zucker, a former student of Ghandhi's, describes him as "an inspiring and challenging teacher ... who is also a classicist, opera critic and self-taught master of Dante (in the original classical Italian)."

The IS&B program offers 40 selected students a unique undergraduate course of study which integrates business and professional skills with advanced language training and a liberal arts education which includes an area study specialization. Graduates

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Campus NEWS

■ Reflecting a growing interest among undergraduates in emerging and transition markets, Wharton has established The Undergraduate Emerging Economies Fellows Program to study such areas of the world as Eastern and Central Europe, Latin America, India, China and Southeast Asia. Students who choose to focus their studies in this area must complete a summer internship in an emerging economy and demonstrate proficiency in the language of their target region.

The academic theory component of the program — which offers a "focus" rather than a distinct major or minor — is drawn from the existing undergraduate curriculum, including electives that deepen students' knowledge of the target area. Students are also required to take a course entitled "International Industrial Development Strategies."

This initiative, which hopes to attract approximately 15 sophomores each year, is modeled closely on the MBA Emerging Economies program established last year.

■ To help boost the ranks of highly trained African-American and Hispanic-American business leaders, a consortium of five business schools, nine major corporations and seven predominantly minority colleges and universities have created a nonprofit organization called the Management Education Alliance.

The goal is to create centers of excellence in business education at African-American and Hispanic-American colleges and universities in ways that will help these institutions develop a particular competence in some aspect of management education. The centers will also better prepare their graduates for the rigors of a competitive global marketplace.

The alliance has already initiated a number of projects, including corporate internships and executive education seminars targeted to faculty members at minority colleges who typically don't have access to executives in their field or may lack the practical experience needed to further their own understanding of business.

Among the participating business schools are Wharton, the Harvard Business School, the Darden School and Emory University. Kenneth Shropshire, associate professor of legal studies and real estate, is Wharton's liaison to the consortium.

■ Shiv K. Gupta, a professor of Operations Research and Marketing at Wharton from 1966 to 1992 and chair of the School's operations research program from 1971 to 1984, died in June in Delhi, India.

Over his long career, Gupta published more than three dozen professional articles on topics such as ballistics, estimation theory, marketing, logistics, system theory and casino operations. He also authored three books, the last one entitled "Fundamentals of Operations Research for Management".

In Gupta's memory, a loan fund to help Indian graduate students attend Wharton has been established through Wharton's development office.

Speaking Out

Guest speakers from the business, government and education sectors visited campus last fall to share their opinions and experiences with Wharton students.

JUNE O'NEILL

The speakers included, among others:

■ Paul M. F. Cheng, WG'61, chairman of the Hong Kong-based Inchcape Pacific Ltd. and N. M. Rothschild & Sons (Hong Kong) Ltd.

■ Gail Dudack, chief investment strategist, UBS Securities

■ Rajat Gupta, managing director, McKinsey & Co.

■ Raul Sanabria Tirado, dean of the University of Los Andes in Bogota, Colombia

■ June O'Neill, director, Congressional Budget Office

■ Shaun F. O'Malley, W'59, former chairman and CEO of Price Waterhouse

■ Arifin M. Siregar, ambassador of Indonesia to the U.S.

PAUL M. F. CHENG, WG'61

Wanted: Follies Alumni To Help Celebrate 20th Anniversary

Fans of the Wharton Follies, take note: This February's performance marks the 20th anniversary of a Wharton tradition that started back in 1977 with **"A Placement Line"** and has been followed up by such memorable productions as **"Shall We Vance?"** (1979), **"Follies the Thirteenth: Nightmare on Spruce Street"** (1989) and **"Heaven Can Wait-list"** (1995).

PHOTOGRAPH / JERRY MILLEVOI

In honor of the 20th anniversary, Follies coordinators are trying to contact alumni from all shows, whether it was **"Vancin"** (1980), **"Pirates of Penn Vance"** (1982), **"Between the Balance Sheets"** (1988) or **"Alice in Wharton-land"** (1991). Coordinators are especially interested in hearing from anyone who participated in the first few shows and who will be attending this year's performance in Philadelphia or New York.

1996 Follies:

Thursday - Saturday,
Feb. 15-17, 1996 at 6 and 9 p.m.
Mandel Theater, Drexel University
For ticket information,
call John Sweeney at
(215) 928-9884

Also playing in New York
Friday, Feb. 23, at 6 and 9 p.m.
The Sylvia and Danny Kaye Playhouse
Hunter College, 68th Street
between Park & Lexington Aves.
For ticket information,
call Secil Tabli at
(215) 985-3613

To celebrate 20 years of success, a reception for Follies alumni will be held prior to the New York show on February 23, 1996. Contact Lesley MacLean at (215) 545-6330 or e-mail her at maclea02@wharton.upenn.edu to be included in a database of Follies alumni or for additional information.

After all, who can forget: **"Willy Wharton and the MBA Factory"** (1990), **"CLUEless, or Death of a Curriculum"** (1993), and **"As Wharton Turns - the Young and the Jobless"** (1994)?

Or **"Ain't Calcu-latin'"** (1981), **"ET - The Economy's Terrible"** (1983), **"Retained Yearnings"** (1985), **"Publish and Perish"** (1987) and **"Yield to Maturity"** (1986)?

Or **"Harry, Is This Wharton?"** (1978), **"Big Deal: A Dramatic Offering"** (1984), and **"The Wharton Television Network"** (1992)?

Jobs, Everyone?

Continued from page 2

a particular function, like cash management or accounting.

Over the past few months, he has subcontracted himself out to Comp USA and the Learning Annex, where he does training for company customers, and he recently began to research the idea of expanding into Internet consulting and systems integration.

Reglus, who works out of his home in Queens, majored in physics and economics at Bowdoin College in Maine. He became a computer expert during his five years as a budget analyst at Con Edison before coming to Wharton.

On the undergraduate side of the jobs picture, Penn's Career Planning and Placement Service reports that 26.14 percent of its Wharton students took jobs in investment banking, 26.14 in consulting, 12.45 percent in accounting and 12.03 percent in other financial services. Undergraduates had 9,301 interviews with 365 different companies. The average number of job offers was three per student.

The overall mean salary for undergraduates was $35,437, compared to $33,900 in 1994.

Mary K. McAllister, W'95, looked at consulting companies and investment banks before signing on as a marketing management trainee with E.& J. Gallo Winery in Modesto, Calif. She and a student from Dartmouth are the first two undergraduates hired by Gallo for its training program.

McAllister spent her first six months on different marketing projects for one particular brand—Peter Vella box wine (named after a winemaker at the company). "I've been involved in price sensitivity issues, consumer research, a direct mail project and package redesign," says McAllister. "I've also worked on lists of names for possible new products. You contribute to the creative side of things here as well as the business side."

This month, McAllister moves to San Francisco for a six-month training course in sales. After that she will return to the marketing department and hopes eventually to work abroad.

After a few years at Gallo, she plans to get her MBA, a move that Gallo both encourages and supports, in return for a three-year commitment to the company after graduation. "One of the reasons I chose Gallo was that it's clear the company wants to keep the people it hires," says McAllister. "They want a long-term relationship."

Scholarship

Continued from page 3

receive a BA in International Studies from the School of Arts and Sciences and a BS in Economics from Wharton.

Zucker's gift has already inspired two other alumni and former students of Ghandhi — Stephen Utkus, WG'84, and Steven Markel, W'70 — to contribute to the IS&B scholarship program. Notes Utkus: "It is programs such as these that I believe truly distinguish Wharton in the area of international business and finance."

THE BUSINESS OF HEALTH CARE

LAST FALL, WHARTON'S HEALTH CARE SYSTEMS DEPARTMENT CELEBRATED ITS 25TH ANNIVERSARY. FACULTY AND ALUMNI HAVE LED THE EFFORT TO LINK THE DISCIPLINES OF ECONOMICS AND MANAGEMENT TO THE PRACTICE OF MEDICINE

To understand why Wharton's health care management program was first established in 1970, and why it has been so successful in educating undergraduate, MBA and doctoral students, it helps to know some of the history.

For example:

- In 1965, the year Medicaid and Medicare were passed, health care represented six percent of the Gross Domestic Product. Today, it is a trillion dollar industry — the largest in the nation — totaling 13.9 percent of GDP.
- In 1967, the Leonard Davis Institute of Health Economics was established with a gift from Leonard Davis, founder of Colonial Penn Insurance Co. LDI's mission was, and is, to serve as a multidisciplinary research institute focused on the economic, behavioral and public policy aspects of health care delivery and financing.

The visionary behind LDI, which is recognized as the precursor to the health care systems department, was founding director Robert Eilers, professor of insurance at Wharton and of community medicine in the School of Medicine until his death in 1974 at age 43.

"Eilers more than anyone established LDI as a university-wide institute specifically with the mission of bridging medicine and Wharton," says William Kissick, chairman of LDI's governing board. "And it was Eilers who decided early on that if the institute was going to have credibility in Wharton it had to have an educational component." That meant an MBA program — and later undergraduate and doctoral programs — with the specific goal of training managers and analysts of health care systems.

- In 1970, the Wharton faculty approved the creation of a graduate health care management program at Wharton. At the time, says Mark Pauly, Bendheim Professor of Health Care Systems and vice dean of doctoral programs at Wharton, health economics in the minds of Leonard Davis and many others meant cost containment. The passage of Medicare and Medicaid two years earlier had unleashed the payment of billions of dollars in state and federal reimbursements to hospitals and doctors who provided health care to the poor, elderly and handicapped. By 1967, lack of effective constraints on these programs had caused health-related inflation to skyrocket.

"Health care was a non-system," says Arnold Rosoff, professor of legal studies and health care systems. "All the elements were functioning separately. The delivery of care was not linked to the payment of care. Medicine was dominated by physicians who had no economics background and no training as managers."

Another area of interest to LDI founders in the late 1960s was universal insurance coverage for health care services. Medicare and Medicaid together covered about 20 percent of the population while private employer-based coverage spread rapidly to most employees and their dependents. Yet millions of other Americans who didn't qualify for Medicaid but couldn't obtain health insurance fell between the cracks. Although Congress gave serious consideration to national health insurance in 1974 and again in 1993, no legislation was approved and universal coverage remains an elusive goal.

Last fall, the health care systems department celebrated its 25th anniversary. Cost containment and health care for the uninsured are still two of the major challenges facing the industry, but they have been joined by the equally important issues of quality assurance and technology assessment. Meanwhile, phrases used by Wharton planners in 1970 to frame the issues are now common language in the health care debate: Patients are referred to as consumers of health care; doctors and hospitals are referred to as providers; managed care is a relatively new term that holds out the promise of controlling health costs through the use of provider-targeted incentives and directives.

The rationale for placing a health care program in a business school — essentially linking medicine to the disciplines of economics and management — has clearly been justified. "Our program exists because health care does respond to market forces," says Patricia Danzon, Celia Z. Moh Professor of Health Care Systems, professor of insurance and risk management, and chair of the health care systems department. "Competitive pressures have become much more aggressive and management skills have become essential."

THE ISSUES

Kissick compares today's health care industry to an onion. "Every time you peel something away, there is another layer ... and the more you peel, the more layers there are," he says. "In 1965, I totally understood the American health care enterprise — its system, the financing, everything. I had my arms around it. I can't do that today. It is so complex and it is changing so rapidly."

One of the biggest drivers of this change has been the advent of insurance products with different kinds of incentives for the behavior of physicians and patients. These can range from the pre-hospitalization testing that some insurers require to a staff model HMO where physicians are employees of the plan to an Independent Practice Association (IPA) where physicians groups contract with an outside carrier.

"Back in 1970, cost containment looked like an insuperable problem," says Pauly. "But with the spread of managed care, there seems to be evidence that costs are, at the very

John Ferry, MD, WG'82, president and CEO of Southampton Hospital in Southampton, NY.

Southampton Hospital is a 194-bed community hospital in a semi-rural resort area known as The Hamptons on Long Island, NY. Because of its location, "we have one of the wackier staffing and organizational problems I've heard of," notes hospital president and CEO John Ferry, WG'82.

Year-round, the population is about 80,000, consisting mainly of retirees, farmers, fishermen and service people for the local economy. In the summer, the population bulges to 300,000, including actors and actresses, movie directors, Wall Street investors, models and so forth. Finally, about a mile from the hospital is an Indian reservation.

If that sounds complicated, the challenges are only beginning. Southampton Hospital is about to merge with two others "to allow us to survive," says Ferry, who has been CEO of the $55 million facility for approximately two years. "Before I came here, the hospital was losing close to $3 million a year. Last year we lost about $643,000. This year we will make a profit. But I don't feel a false sense of security because I can't tighten the belt anymore."

Add to that the likelihood that the hospital will take a multimillion dollar hit from Medicare/Medicaid reform, "and you can see why economies of scale" are appealing, he notes.

Still unclear is who will be CEO of the newly merged entity and where it will be located — in one or more of the existing facilities or on a totally new site.

In the midst of this uncertainty, Ferry, who was trained in medical school as a pediatrician, offers some thoughts on health care:

"I have a lot of hope for the idea of provider-sponsored networks," he notes. These networks, composed of doctors and hospitals, would start taking on some of the financial risk of providing health care, "which is what the insurance companies are trying to get us to do anyway, except that they want to take some of the profits."

Working with insurers, Ferry notes, does have benefits: Insurers offer marketing, which hospitals "don't exactly excel at," and they offer information systems that are clinical and claims-based, and relate specifically to physician activity. This allows insurers to sift through information systems to come up with trends, develop profiles on patients and doctors, and so forth.

"But the technology is transportable," Ferry says. "Insurance companies don't have a lock on it. Provider networks could very well develop this on their own."

Another implication of these networks is that physicians over 40 who went into medicine to be their own bosses will no longer be practicing the way they expected to," Ferry adds. "Instead, they will work in groups. Also, patients will have less choice, which they will come to expect because they will be paying less, and they will also have to drive farther to get services.

"It's a disruptive scenario, but in the end will we be much worse off? No, not in terms of what people call medical care. And there may well be pluses, such as an emphasis on outcomes measurement, which means that as physicians we can no longer say we are doing a good job, we have to prove it ."

ILLUSTRATION / JONATHAN CARLSON

least, increasing at a slower rate, that insurers aren't paying for unnecessary procedures and treatments, and that waste and inefficiency have been reduced."

Lynn C. Bongiorno, WG'95, manager, medical delivery systems, Oxford Health Plans

Lynn Bongiorno chose to work for Oxford Health Plans because, she says, "HMOs are driving where the health care dollars are being spent."

Oxford has 3,000 employees and close to one million members in Connecticut, New Jersey and New York. The organization, based in Norwalk, Conn., recently expanded into New Hampshire and Pennsylvania. Bongiorno is in charge of negotiating contracts with ancillary vendors such as laboratories and home care companies. "I'm trying to change the whole contracting system to bring cost, access and quality into the negotiation. It will allow us to make better decisions about what services to bring into our network, in what geographic region and at what price," she says. "Ultimately we are trying to use analytical techniques to link the whole system back into quality."

From Bongiorno's perspective, the two biggest issues in health care these days are the unchecked use of medical technology and the inevitability of rationing care. "Technology is a major culprit behind the cost increases," she says. "The challenge is to figure out the appropriate use of technology by applying statistical analysis to determine the best outcomes. It also means working with doctors as partners and trying to educate them regarding our results."

In the area of rationing, Bongiorno says, "HMOs are trying to accomplish it in a logical and efficient way. You put together a list of protocols so that clinical judgments can be made about what to cover and what not to cover. When is something experimental, when is it medically unnecessary, and so forth. Our goal is not to give directives to physicians, but to capture information and do more outcomes measurement so that we can then inform and educate doctors about the appropriateness of certain types of care."

Another target of health care reform, says Bongiorno, is the typical hospital system which "isn't yet run like a business. Hospitals tend to have too many people doing very finite tasks with an inordinate amount of equipment. They don't crosstrain their employees to do different jobs in ways that would create a more patient-focused environment.

"Until hospitals can run themselves more efficiently, we don't want to share risk with them," says Bongiorno. "They are too expensive."

As part of its own health care reform efforts, Oxford three years ago developed a concept called group practices without walls. It calls for the establishment of private practice partnerships in which doctors remain independent and have their own offices, but also agree to share the risk with Oxford of providing care.

"For every member who signs up with a primary care physician in one of these partnerships, we put an actuarially determined number of dollars into a fund. The physician keeps what is left in the fund at the end of the quarter. We don't police the physicians. They make all their own decisions, and they operate independently, but they have the same incentives we do. They assume some of the risk."

Oxford now has about 120 of these physician practice partnerships, each with 25 to 50 doctors. They work "astonishingly well," says Bongiorno.

The managed care revolution is part of an ongoing restructuring that has turned the whole health care delivery system on its head. Added to the recent increase in horizontal mergers — between hospitals, managed care systems and insurers, for example — has been an even more pronounced interest in vertical mergers, where a continuum of care is provided through the merger of, for example, a hospital system, a physician practice, a nursing home and a home health facility.

"This is a new level of integration," Danzon says. "What's good is that it's being driven by pressures in the marketplace, not by the political system. The physician group that wants to hold out as an independent practice is going to lose market share. The reason hospitals are buying physician practices and setting up feeder networks is so that they can play in this new arena. You have to participate if you want to survive."

A key concept in health reform is the idea that risk ought to be shared by those who provide the service. Many physicians groups are already operating under incentive systems where they promise to deliver whatever care is needed for a pre-determined capitation fee per patient, notes June Kinney, associate director of the health care systems department since 1981. "What's new is that hospitals are beginning to have to capitate care [beyond primary care] for specialized services, such as radiology, and for products, such as pharmaceuticals."

The new system raises many questions for those in charge of running the enterprise. "Working out how to manage the players within those organizations, and how to design the information systems so that you can deliver high quality care at lower costs and also provide solid evidence on health outcomes ... is the major challenge facing the delivery system now," says Danzon.

Part of that challenge concerns capitalizing on the promise of new technologies, not just sophisticated medical advances like gene therapy and tissue engineering, but information technology. "Health care is basically an information industry," says Kissick. "We collect, interpret, store, retrieve, analyze and apply information. We can do so much now that we couldn't 25 years ago."

New and more sophisticated software has led to a growing industry in technology assessment. Evaluating the cost vs. the effectiveness of new techniques will most likely become an increasingly important component in decisions about what should and should not be covered by health plans.

"You frequently hear that health care is more like other industries," notes Danzon. "I think that is true, but nevertheless there will always be significant differences, partly because health care matters so much to people and because quality is so intangible, but also because there will always be significant third party payments. When there is third party payment, and consumers are not going out and paying with their own money, then they will behave differently.

"This means that management techniques and controls in health care have to be quite different."

The Program

Each year, 40 MBA students with backgrounds in all segments of the industry — pharmaceuticals, hospitals, consulting companies, medical practices, insurers and the public policy arena — enter Wharton's health care management program. Approximately 15 percent of those are physicians, and three to four each year do a joint MBA-MD program with Penn's medical school.

Between 15 and 20 undergraduates a year concentrate in health care, and three to four candidates enter the doctoral program.

The MBA students are required to take the same core courses as the other MBAs, as well as five health care major courses plus electives. The program also includes an advanced study project and a summer internship at a health care organization.

During its 25 years, the curriculum has continually changed to reflect the evolution of health care delivery. But over the past decade, that pace of change has accelerated as new relationships have formed among health professionals, hospitals and third party payers.

Last year, for example, a course was added on collaborative structures in health care delivery in response to the creation of integrated delivery networks and new alignments of doctors and hospitals. The course looks at the complex organizational designs and management challenges of these new entities.

In 1990, says Kinney, the department added a course on the pharmaceutical industry. "Pharmaceutical companies used to focus mainly on just marketing their products. Now they are concerned with cost effectiveness, price pressures and the challenges of having to sell in a managed care environment."

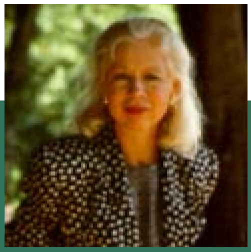
"Many of our courses evolve as the environment changes," adds Danzon. "For example, the course on HMOs and managed care used to be called health care financing and it looked at employer considerations in choosing a health plan. While that is still covered, the course now looks more at management and internal controls within HMOs."

Running throughout the program is the theme of sharing risk among different payers, hospitals and physicians, says Kinney. "That involves much more complicated information systems that look at such things as data on medical outcomes, cost benefit and cost effectiveness analysis and disease management."

The issue of access to health care for the uninsured, among other policy issues, is covered in health economics, while a course on comparative health systems looks at how countries like England, Germany, Canada and Japan finance and manage health care.

The success of Wharton's program is indicated by its high rankings in national polls and its ability to draw top health care students. "Because of our positioning — in a business school, with a strong insurance and economics base in our faculty and with strong ties to the medical, nursing and dental schools — we attract business talent which may not have gone into this field otherwise," notes Kinney. "These are the kinds of people you need to accomplish this task of introducing market concepts into a field that has been dominated by the old values, which were to spend and not take account of efficiency."

When the health care program went from being a unit to a full-fledged department in 1983, it also meant the addition of faculty whose primary appointments were in health care systems. Several of these faculty have been involved in health care issues in the national arena: During the debate over universal health insurance in the early 1990s, Danzon and Pauly wrote a proposal with two colleagues for national health care reform that would obligate all Americans to purchase basic health insurance and make such insurance affordable to all income groups, regardless of their employment status.



◀ **Danzon: "Our program exists because health care does respond to market forces. Competitive pressures have become much more aggressive and management skills have become essential."**

Pauly: "You can never hope anymore that you will have enough resources in an HMO or Medicare to [cover all the medical procedures] that can possibly do some good. So the challenge is to decide which are the most worth doing." ▶

Danzon also has done research on Canadian health care and has analyzed pricing systems for pharmaceuticals. Pauly is writing a book on the impact of business on the health reform debate and, in a separate project, is analyzing HMOs' treatment of new technology and how that influences which kinds of insurance people buy. With a colleague, he is conducting a study on the cost of hospice care for people with AIDS.

Lawton Burns, associate professor of health care systems and co-author of a recent book called *Health Care Management,* is part of a four-university research team studying integrated delivery systems in 10 hospitals. "Right now," he says, "nobody knows what impact these systems will have. The

Mark D. Smith, MD, WG'89: executive vice president, The Henry J. Kaiser Family Foundation

One of the reasons Mark Smith went to Wharton was because he sees "business as both the culprit and the solution" in the health care crisis.

"The country is profoundly ambivalent about the corporatization of health care services," he says. "Certain aspects of health care have always been part of the corporate for-profit culture, such as pharmaceutical companies and X-ray machines. But what is new is the increasing number of hospitals, HMOs and physician service corporations that are now for profit.

"People aren't sure how to feel about that. We want health care to be more business-like, more accountable, more efficient, and we want it to have an ethic of customer service in ways it certainly doesn't now. But it makes us a little queasy to think about return on investment when taking care of people with AIDS, for example."

Smith is an internist who continues to do clinical work at San Francisco General Hospital and has a faculty appointment at UCSF. He also serves on the anti-viral advisory committee of the FDA, and has chaired the CDC's HIV prevention advisory committee. While earning his MBA from Wharton, he ran the Philadelphia Commission on AIDS, and after graduation, was director of outpatient services at Johns Hopkins.

He is now in Menlo Park, Calif., at the Kaiser Foundation, an independent health care philanthropy whose focus is the care of low-income and underserved Americans and also South Africans. One of the foundation's grant-making priorities is HIV diseases.

The foundation has recently funded a series of patient education fact sheets, provider fact sheets, an interactive CD-ROM for AIDS patients, and needle exchange and condom distribution programs.

One of the issues in the health care dilemma that should be more prominently debated is professional ethics, Smith says. "Part of the problem lies in the realm of public policy. How do you establish a public policy environment that rewards the best of the business model and restricts its worst, in an industry that does not act like other industries?

"Also, there are clear indications of market failure in, for example, the fact that 31 million Americans are uninsured. Unless we curb some of the unraveling of the traditional insurance markets so that there is a place for spreading risk, these people won't get cared for very well. You could end up with a system that is great as long as you are healthy.

"The issue of providing coverage for the uninsured involves political and financial will. There is not a technical solution, no magic bullet way to do it. The question is, do we have leadership in the political process that would make this a priority and build a consensus to handle it? I don't know that I see that right now.

"People in almost every aspect of health care, including doctors, nurses, consultants and health policy analysts, have lived through 50 years of an uninterrupted bull market— always more money, bigger hospitals, higher salaries, higher premium levels, more jobs, bigger slices of GNP. That bull market is now over in many segments. It behooves people all the more to think about what kind of contribution they want to make."

industry is pursuing them with the hope that they will save money and improve quality, but nobody has figured out the right questions to ask or the right information to gather."

Kissick, who is also the George Seckel Pepper Professor of Public Health and Preventive Medicine and professor of health care systems, recently published a book called *Medicine's Dilemmas: Infinite Needs Versus Finite Resources* and is working on several others. He has also done extensive work with the state of West Virginia on the cost of medical education.

Skip Rosoff is researching the legal implications of using clinical practice guidelines in court cases. If a doctor treats patients according to guidelines laid down by a managed care organization, for example, and if one of the patients suffers damage because a more costly, more invasive procedure was not used, "one of the key legal questions is: Can the doctor defend the treatment by saying that he or she was relying on the guidelines set by the managed care organization?" asks Rosoff. "To what extent will the courts allow these clinical practice guidelines to be used as a defense?"

Faculty research aside, the reasons students choose the health care major vary. For students who are doctors, the motives are clear: "One of the spurs to our program was that physicians saw these changes in health care coming and they didn't want be managed by non-physicians," says Rosoff. The majority of students, however, aren't doctors. For them, suggests Pauly, "the intellectual, managerial and interpersonal challenges of managing our health care system seem more immediate than doing a deal on Wall Street."

The Successes

The complexity of our health care system, and the debate over how much health care should be provided, for whom, and at what price, leads to what Kissick calls the Iron Triangle of health care — "the tension in our society between access, cost and quality, and our inability to balance all three, or even two."

The consensus among many educated observers is that the successes already achieved by managed care in holding the line on costs are an excellent start, although for consumers the changes bring certain restrictions, including a more limited choice of doctors and hospitals and closer monitoring of the services covered by their insurance plans.

The whole subject of restrictions leads to the increasing role that rationing, or as some would prefer to call it, resource allocation, may inevitably come to play in health care delivery choices.

"Managers need to be taught to ration properly," says Pauly. "You can never hope anymore that you will have enough resources in an HMO or in Medicare to do all the medical things that can possibly do some good. So the challenge is to decide which are the ones that are most worth doing, which is what your patients and members want you to do. Your HMO could pay for bone marrow transplants, but your premiums would be higher. What should be the protocol for very low birthweight babies? A lot of HMOs are trying to adopt clinical pathways or guidelines."

Kissick's image of health care is as a "quasi-regulated market system with certain checks and balances ... where health care institutions develop budgets, receive capitation payments, and then allocate those funds based on input from consumers as well as providers." Pauly sees a supply and demand system where health care providers such as HMOs closely monitor their physicians and reward those who are responsive to patients. Patients for their part choose a health plan based on the plan's cost, the services covered and its reputation.

All observers agree that whether the debate is about rationing or cost containment or better service, one of the great promises for improvement lies in information technology and its potential for better allocating resources, measuring quality and conveying information to buyers and consumers — ideally with the goal of using information more wisely to improve care as well as hold down costs.

"The systems and incentives are right, provided we have good measures of outcomes," notes Danzon. "We still have a long way to go before we have reliable report cards [to help us] compare plans on both outcomes and costs.

"At the same time, there has been enormous growth in this industry. It's a very exciting development and the U.S. is leading the world."

The Alumni

According to figures from the health care systems department, alumni of the program fall into the following categories: Approximately 30 percent work in health care delivery organizations, including hospitals, managed care, long-term care and clinical practice; 21 percent in consulting; eight percent in pharmaceuticals, biotechnology firms or equipment manufacturers; six percent in financial services and insurance; eight percent in educational or research institutions or foundations; three percent in federal, state or local government, and the remainder in other health-related positions.

As a group, Wharton's health care alumni graduates are an unusually cohesive and activist bunch. Two years ago, for example, 10 alumni and students spent a week in Beijing offering quality management training to 60 administrators from China's preeminent teaching hospitals.

In addition, the health care alumni make up one of only two alumni clubs based on industry (rather than geography), and they sponsor numerous symposia, lectures and conferences, including October's three-day celebration of the department's 25th anniversary entitled "Redesigning Our Future."

At that event, the Robert D. Eilers Memorial Lecturer was John Eisenberg, WG'76, chairman of medicine and physician-in-chief at Georgetown University. The speaker is typically an individual who is distinguished and visible in the field of health care. "That we have someone of that caliber in our own alumni ranks is a sign of the program's success," says Rosoff.

"We were the first and the biggest program to train physicians in management," notes Pauly. "Many of them went off to be leaders in managed care plans. And we also created a kind of fifth column in medical schools, people like John Eisenberg who are spreading the word that physicians have to start thinking about management issues."

Lisa David, WG'84: partner, APM Inc.

"Everyone involved with serving patients recognizes that we are in for a period of tumultuous change," notes Lisa David, a partner in the consulting firm of APM, Inc., in Manhattan. "As a consultant, there is a lot more intensity and pressure in what we do, but in many respects it's easier because you don't have to sell anybody on the need for change. It's a matter of helping them come up with the right answer.

"We are doing more to improve basic care than we did eight years ago," adds David, who has been with APM since 1985. "The interests of doctors, hospitals, alternative providers and so forth are coming together. So you start to get whole answers instead of improving things on the margin. And for people with good business training there are better career opportunities than ever before, including all kinds of new businesses as well as new roles in all the traditional health care organizations."

APM works mostly for health care providers, including hospitals, large medical groups and institutional provider networks. "We are looking for cost efficiencies, better coordination of services from the patients' perspectives, and the delivery of higher quality, more proactive care," David says. This could mean designing a provider network's relationship with managed care companies and/or helping decide the network's organizational structure. APM also looks at how hospital processes are configured to deliver care, and analyzes information systems to determine appropriate technology use.

In some respects, David says, "the delivery structure is being redesigned by the health care providers themselves. What is not being answered are the policy issues of who is covered and how many standards of care we have in this country. The current dialogue will get worse in terms of what we are willing to pay for. We will have more uninsured, and there will be a greater discrepancy between what those with coverage will have access to, and what those who don't, won't."

There are reasons for concern over health care, David says, "but the potential for doing the right thing is there ... For every company I see coming in to make money, there is another company that is getting paid to do it better from a patient's perspective. A good number of managed care companies do well because they actually are doing a better job of working with the patient, not just restricting access. There are models out there to follow."

ALIVE AND WELL AND WORKING IN ...

ILLUSTRATION / PIERRE-PAUL PARISEAU

It's referred to by some as "the gateway to both Americas" and for many alumni in and around Miami, the city is indeed "the place to be if you want to do business in Latin America." ◆ Miami's proximity to Latin American cities, its convenience, its bi-and tri-lingual population, and the entrepreneurial opportunities it offers for those who can navigate the changing global markets are noted by alumni in this article. In addition, tourism has rebounded and a new performing arts center is under construction. The city is on a roll. ◆ Miami was also the meeting place for the Wharton Family Business Program's "Next Generation" seminar in December, which focused on leadership training for the successor generation in Latin-American family-owned corporations. ◆ For those of you who want to check out Miami for yourselves, or happen to be visiting one of the 350 alumni in the Miami area, we include a list of recommended restaurants and hotels.

Carlos M. de la Cruz, W'62, WG'63
Chairman and CEO, de la Cruz Companies

Strategically speaking, Carlos M. de la Cruz has the ability to look into the future and determine how the forces of competition will shape his business and career.

For example, in the early 1980s as a banker in Miami, de la Cruz looked around him and realized that however much he loved the city, "it was not a headquarters town for large bank holding companies. To stay in banking would have meant moving, most likely to Charlotte or New York City.

"Also, I didn't see that the industry would permit a small bank to survive. When I got into banking 30 years ago, there were about 15,000 banks in the U.S. How many are there now? Local banks had a role to play in the old economy. Since then, Eurodollars, the globalization of the economy, the lowering of tariff barriers and the interchange of data have altered the whole financial picture."

Favorite Restaurant
Mark's Place

Grand Bay
Favorite Hotel

In 1984, de la Cruz saw an opportunity to change careers and still use his expertise in sales and finance. He bought Eagle Brands, Inc., the Anheuser-Busch beer wholesale distributorship for Dade County. Two years later he acquired the adjoining distributorship [from Michael Cameron, WG'76], more than doubling the company's size. Today Eagle Brands has sales of $100 million. In addition, de la Cruz has three car dealerships — Miami Honda, Central Hyundai and Sunshine Ford — with combined sales of approximately $200 million. And last month he purchased Coca-Cola's Puerto Rican bottling operations.

A strategic issue that every company should always consider, de la Cruz notes, is "what kind of value your service will have in the future from the point of view of the economy. For example, as retailers get larger and the Walmarts of this world start selling more and more of your products, does that alter the role of the wholesaler vis a vis the market?"

While de la Cruz is well-known in the Miami business community, he is probably equally well-known among the city's civic organizations, many of which have benefited from his philanthropy. Although de la Cruz recently cut back on his volunteer activities — choosing to focus primarily on the United Way of Dade County and the University of Miami where he earned a law degree in 1968 — he has been involved over the years with Mercy Hospital, the Greater Miami Visitors and Convention Bureau, Miami Partners for Progress, Georgetown University and Florida International University (serving there as founding co-chairman of the Black Educational Scholarship Trust), among others.

Civic responsibility is part of a family tradition. In Havana, Cuba, where de la Cruz and his wife Rosa were born, the de la Cruz family founded La Liga Contra el Cancer, Cuba's largest charity, in 1926. "My grandmother was president of the volunteer organization for years and I remember visiting it as a child. Basically I have always thought that if you have the ability and time to get involved, you should. It was always expected of me."

After graduating from Phillips Academy, Andover, in 1959 and Wharton, de la Cruz worked for Citibank in New York, then moved to Spain and ran a mutual fund for the Rockefeller family. In 1970 he joined a merchant bank company and headed its portfolio management department. He moved back to the U.S. in 1975 and continued his career in banking. From 1982 to 1984 he was president of the Spanish-owned Miami National Bank.

De la Cruz and his wife have five children and six grandchildren and live in Key Biscayne. Throughout their home is an extensive contemporary Latin American art collection which, de la Cruz says, has been tended to primarily by his wife. "Her agenda dovetails with mine in the sense that we only collect works by artists of Latin American origin," says de la Cruz. "We are trying to give them access to museum shows and help them be seen and considered. Rosa and I work closely with Patrick Murphy, director of the Institute for Contemporary Art [at Penn], and he has shown several of the artists in our collection."

Jose Antonio Baltodano, W'73
Chairman and CEO, Mercon Coffee Corp.

If you want to start your own company, says Jose Antonio Baltodano, work for one or two years for another company so that you learn the systems, and don't try to save money on people: Hire the best available.

Favorite Restaurant
Giacosa

Biltmore
Favorite Hotel

Baltodano, who started Mercon, the second largest coffee importer in the U.S. with sales today of about $280 million, followed half his advice. The quality of Mercon's 35-person workforce is "better than average," Baltodano notes, adding that he makes a point of compensating employees well and working hard to create an entrepreneurial environment in his 14-year-old firm. As for the other suggestion, "the first four years were difficult. I worked very long hours developing new systems — control systems, accounting systems, and so forth. I think it is probably better to learn existing systems and improve them so that you don't have to start out designing everything on your own."

But that was back in the '80s. Today, Mercon imports coffee from all parts of the world, including the Far East, Vietnam, Indonesia, Thailand, Africa and all Latin American-producing countries, and sells it to roasters in the U.S., Canada and Japan. Its 11 percent market share is second only to Cargill's. Company headquarters and traders are in New York, while Baltodano operates out of the company's management office in Miami.

Baltodano was born in Managua, Nicaragua, but left to come to Wharton for two reasons: The reputation of the undergraduate program and his family connections to Penn.

His father and two brothers went to Wharton and his grandfather went to Penn's medical school in the late 1800s. In 1973, Baltodano returned to Nicaragua and worked for the family cotton and coffee business until most of their property was confiscated by the Sandinistas. "Business conditions were such that the best option was to emigrate," says Baltodano.

He returned to the U.S., graduated from Harvard Business School in 1982 and then started Mercon in New York. The company is private, with 60 percent of the shares owned by the family.

Baltodano and his wife, an architect, live in Coconut Grove and have two daughters, 13 and 9.

"Coffee consumption in the U.S. dropped about seven percent during the last 12 months due to the high prices of coffee," says Baltodano. "What has gone up has been sales of specialty/gourmet brands. Coffee shops have basically increased their share of the U.S. market, which means that consumers drink a better coffee today than they used to drink five years ago."

Jaime Alvarez, WG'87
Director, A&M International

Being successful, Jaime Alvarez has found out, means that you have to work more, not less. At least that's been his experience as director of A&M International, a global cargo/transportation company started in 1992 by Alvarez and a friend from high school days.

Today, A&M has 18 employees and $7 million in sales. It ships vehicles, containers, heavy equipment, whole industrial and asphalt plants and other loads from sellers in the United States to buyers throughout South America. Among A&M's biggest clients are IBM, Hewlett-Packard and Caterpillar.

"We're getting into the major leagues," says Alvarez. "It used to be that we competed with small companies, but now it's the bigger companies, who are very professional and have years of experience and good reputations. We have to make sure our service is better than theirs, which is a very big challenge. But I think we are succeeding little by little."

Alvarez was born in Lima and earned a degree in industrial engineering from the University of Lima. After graduating from Wharton he returned home and worked first for Goodyear Co. and then for an insurance brokerage. He subsequently spent five years as finance manager at Pan Americana, the largest television network in Peru.

While still at Pan Americana, he helped his friend and now partner start up A&M International. In 1993 it became a fulltime job. Alvarez, who lives in Miami Beach, works about 12 hours a day, and travels about 50 percent of the time to visit clients.

"We first started in Peru, then expanded to Ecuador, then Chile, Argentina, Brazil and Bolivia, and now we are moving into Colombia and Venezuela. There is the potential for the whole South American market."

FAVORITE RESTAURANTS
Casa Juancho &
Café Barcelona

Yasmine Zyne, W'76
Assistant General Counsel, Ryder System, Inc.

As a member of Ryder System's law department, one of Yasmine Zyne's areas of expertise is employment law. She reviews the company's human resource policies, monitors employee legal issues, researches changes in employment law and does what she can to ensure that "employees like working here," says Zyne.

If her own work history serves as an example, she must be doing something right. Zyne first joined the Miami headquarters of Ryder— a $4.7 billion transportation and business services company with 43,000 employees scattered around the U.S., Canada, Western Europe, Mexico and recently, South America—as a summer employee during high school in Coral Gables. After graduating from Wharton, she went to Georgetown Law School, where she worked summers as a law clerk for Ryder. In 1980, she was hired fulltime in the general counsel's office.

FAVORITE RESTAURANT
Christy's

Doral Resort
& Spa
FAVORITE HOTEL

In addition to employment law, Zyne, who is one of five assistant general counsels in a 21-lawyer department, supervises the environmental lawyers to ensure compliance with environmental laws and to negotiate contracts with environmental vendors. She also oversees lawyers involved in the purchase, sale and leasing of real estate.

Ryder System, says Zyne, is considered both an innovative and civic-minded employer. It recently built a daycare center that offers subsidized care and preferential placement to Ryder employees, and a year ago contributed money to establish the Ryder Trauma Center at Jackson Memorial Hospital. For her part, Zyne recently served on the board of directors of the Young Leaders Group of the American Red Cross. She and her husband and their two daughters, ages 8 and 10, live in Boca Raton, 55 miles north of Miami.

"As a city, Miami has a lot to offer," says Zyne. "A new performing arts center is being built that will bring a lot of new talent. And tourism is starting to rebound."

Bernardo Loredo, WG'79
Managing Director, First Capital Advisors; Entrepreneur

Bernardo Loredo's life is an interesting mix of portfolio management and Cuban sandwiches.

He has spent the last two years in Miami managing high net worth individuals for First Capital Advisors, a minority-owned investment boutique whose main business is merchant banking. The majority of the firm's members are Hispanic or African-American.

At the same time, he and a partner, Rinaldo Cartaya, WG'79, opened their first Cuban sandwich restaurant—Bocatidos—a year ago in Coral Gables, and a second one in November.

"Its a brand new fast food concept," says Loredo, noting that Cubans have a reputation for making the best sandwiches in Latin America. Bocatidos offers a varied menu, but its main attraction is a ham, swiss cheese, pickles and pork sandwich that has been popular enough with consumers to allow the Coral Gables restaurant to break even within six months. "The idea is to go public, but we need to open six restaurants and raise more money before we can consider this," says Loredo, who already has the backing of one major investor and several smaller ones.

Loredo was born in Cuba and moved with his family to Philadelphia when he was eight. He graduated from Villanova in 1973, then spent four years at Ernst & Young before entering Wharton. In 1979 he worked at Booz Allen & Hamilton for one year, then at Citibank for five years, where he was an investment advisor to wealthy Latin American clients, primarily from Mexico.

He moved from Citibank to become president of Ladenburg Thalmann & Co. and start their asset management business. After four years he left to join First Capital Advisors. Loredo is married, has a three-year-old son, and lives in Key Biscayne.

"Miami is the perfect place for me at this juncture in my life and career," says Loredo. "All the Latin American countries are pursuing free market policies. It started in Chile and Mexico and is now moving to Argentina. At some point Brazil will get its act together too. Eventually these markets will be integrated with the American market, which for me means being exposed to a lot more entrepreneurial opportunities."

FAVORITE RESTAURANT
Le Festival
The Grand Bay
FAVORITE HOTEL

Kevin May, WG'92
Private Client Services, Goldman Sachs

Although he has been out of Wharton less than four years, Kevin May already feels like he has experienced a major career shift, or as he puts it, a "major detour" from where he started.

In 1992 he joined McKinsey & Co. in Caracas, where he worked on a Latin American entry strategy for a U.S. consumer goods company, domestic and international growth strategies for a Colombian apparel producer, and turnaround strategies for a Venezuelan poultry producer and plastics manufacturer, among other projects.

Two years later he moved to the private client services area of Goldman Sachs, where he spent seven months in their training program in New York and London before settling down in Miami last March. May, who speaks Spanish and Portuguese, manages portfolios for wealthy individuals throughout Latin America, primarily in Venezeula, Peru and Brazil.

It's significantly different from what he was doing at McKinsey. "Both McKinsey and Goldman Sachs are very relationship-driven, but here it is much more portfolio management-oriented rather than project-oriented. I really enjoy being in the markets day in and day out. I am managing investments as opposed to helping organizations ...

"In a way, I am in business for myself in that I have to build my own portfolio of clients. I have to be a self-starter every single day, although I also work with a team in Miami and have contact with people in New York and London and throughout the rest of the firm."

FAVORITE RESTAURANT
News Café
Biltmore
FAVORITE HOTEL

May, whose father was an Air Force pilot, was born in Sacramento, graduated from high school in Rogers, Ark., and went to Washington University in St. Louis, where he met his wife who is Venezuelan. They live in Coral Gables. "Miami is a great city," he says. "It is the port of entry to Latin America for the U.S. and vice versa."

Ted Miller, WG'74
Senior Vice President/Manager, Atlantic Security Bank

"If you are going to do business in Latin America, Miami is the place to be," says Ted Miller, senior vice president/manager for Atlantic Security Bank. "The staff one can assemble here is bi- or tri-lingual, and they are familiar with the markets. I can be at the airport in 20 minutes on board a non-stop flight to any major city in Latin America. It's enormously convenient."

Miller should know, since he travels constantly around the U.S., Latin America and Europe in his position as head of lending for Atlantic Security Bank, which he describes as a "very profitable, small merchant trade finance bank" with about $650 million in assets and net worth of $250 million. The bank, whose president is Carlos Munoz, WG'74, is owned by a Bermuda holding corporation called Credicorp Ltd., which also owns the largest private bank and largest private insurance company in Peru. The bank, Banco de Credito Del Peru, is run by Raimundo Morales, WG'70.

"Also, one of Atlantic's directors, Fernando Montero, WG'69, is a Wharton graduate," adds Miller. "Credicorp has one of the largest contingents of Wharton graduates in Latin America, eight to ten at any one time, maybe more. There are five in Atlantic Security alone."

As head of lending for the bank, Miller is responsible for trade transactions that have their origin or destination in Latin America. "For example, we have financed shipments of wheat from Argentina to Belgium, the importation of hops from Australia to Colombia and phone systems from Canada to Peru. We are generally short-term lenders," says Miller, who speaks Spanish, Portuguese and understands French.

FAVORITE RESTAURANT
Café Abracci
The Grand Bay
FAVORITE HOTEL

Miller was born in Syracuse, N.Y., grew up in Whittier, Calif., and attended the University of Southern California. He flew

Continued on page 24

FEATURE

CANDLE POWER

PHOTOGRAPHS / SHONNA VALESKA

How Robert Goergen, WG'62, Turned a $25,000 Hobby Investment into a $300 Million Manufacturer of Candles, Fragrance Products and Candle Accessories

According to Robert B. Goergen, turning a business around isn't exactly rocket science. "I was interviewed once by a reporter from *Fortune* magazine about what I had done to resurrect a household consumer products company back in 1986. The reporter's reaction was: Isn't that what management is *supposed* to do? I said yes, but they weren't doing it."

Goergen should know. Not only is he an ex-nuclear physicist, but an entrepreneur's entrepreneur who has earned his money the hard way — by running the companies he buys.

Goergen is currently chairman, CEO and president of Blyth Industries, Inc. Over the course of 18 years, he has taken the company from a $2.8 million regional manufacturer of grocery store and religious candles to a $300 million industry leader that designs, manufactures and markets an extensive line of candles, fragrance products and candle accessories. Sales for 1996 are projected at $400 million. Current market value is $800 million.

Goergen owns more than ten million shares of common stock in Blyth, which went public in May 1994 at $8.25 a share and was recently trading at $27 (adjusted for a December 1995 100% stock dividend). It's a stunningly successful illustration of a formula that Goergen has adhered to since his first "hobby investments" of the mid 1970s: Freedom = net worth.

THE ROCK 'N' ROLL YEARS

Goergen didn't start out planning to be an entrepreneur. He grew up in a working class suburb of Buffalo to parents who divorced shortly after he was born. His mother's firm belief in the importance of education, plus his own aptitude for math and science, led him to a scholarship at the University of Rochester where his initial plan was to study nuclear physics. It took a summer job researching the field of airborne radioactivity to convince him that he wanted a career with more people interaction.

"Friends suggested I might like to be president of a company. Okay, I said, how do I do that? The answer was get an MBA." With the bulls-eye determination that would characterize his later business dealings, Goergen applied to Wharton, was granted a fellowship, finished the coursework in 18 months and landed a job with Procter & Gamble for $7,600 a year.

At P&G, after taking a long look up the brand management career ladder, he decided to move on to The McCann-Erickson advertising agency. Among his successes as a senior account executive for Coca-Cola was persuading the company to switch its ad music from the sedate rhythm of The Limelighters to the rock 'n' roll beat of Diana Ross, Tom Jones and the Beach Boys.

In 1966, Goergen joined McKinsey & Co. and worked primarily with large consumer goods companies like Heublein, PepsiCo and Mobil Oil. Within four years, he was made a principal, one of a select group that included, among others, future IBM chairman/CEO Louis V. Gerstner, Jr. and American Express chairman/CEO Harvey Golub. Three years later, he was ready to move again.

"McKinsey tended to work with big companies. I was interested in small companies," says Goergen. "And at McKinsey, no matter how well you did, you were paid a salary. I wanted significant equity."

At age 35, Goergen landed a venture capital position with Donaldson, Lufkin & Jenrette and after several years became the managing general partner of three private equity capital partnerships. He did so well on one of his first investments — putting $500,000 into a fledgling citizens band radio company early in 1973 and selling out two years later at a profit of nearly $7.5 million — that *Forbes* magazine wrote a two-page feature on his successes in 1977.

Ironically, by the time the *Forbes* article appeared, Goergen had already made decisions that, unbeknownst to him, would result in his leaving Wall Street and his home in Greenwich for a new job in Chicago and a room at the Chicago Athletic Club.

LOOKING FOR EQUITY

While still at DLJ, Goergen had begun a series of "hobby" investments with several partners who, like himself, were itching to make money on their own. He put $7,000 into Delta Filter Corp. of Albany, N.Y., and $35,000 into the HammerBlow Corp., a Wisconsin manufacturer of couplers for agricultural and off-road vehicles.

Sandwiched between those two was Valley Candle Co., a manufacturer of church and grocery candles based in Brooklyn, N.Y. Goergen, his attorney and two entrepreneurs each contributed $25,000, borrowed the rest and bought the company for approximately $1 million.

Goergen spent his weekends advising Valley Candle management, and within one year the company had acquired Candle Corp. of America (CCA), a Chicago-based manufacturer serving the restaurant and Hispanic markets.

The deal changed Goergen's life. Valley Candle borrowed $3 million to meet the purchase price and, in a characteristically bold move, Goergen personally guaranteed the loan.

Back then, it didn't seem like much of a risk. "Every time we made an acquisition and had to borrow more money," Goergen says, "I guaranteed it. I was confident these companies were so mismanaged that we could turn them around." CCA, however, was different.

Within several months, it became clear to Goergen that the management team in Chicago was not up to running what was now an $11 million company. Suddenly it looked as if the whole operation might fail. "I went to the board of directors and offered, under certain conditions, to come in full-time as CEO," Goergen says, noting that the $3 million guarantee was a "significant motivating factor" in his decision. "But I also saw this as an opportunity to turn around the company and build up equity. My theory — and I have nuclear physics examples of what I mean — is that real freedom and independence is a function of net worth, not salary or income. And so I left Sprout to focus on Candle Corp."

Goergen moved into a rented room at the Chicago Athletic Club and began the long, slow business of "doing what management is supposed to do."

THE LEAN TEAM

The headquarters of Blyth Industries is spare. A no-frills industrial carpet winds throughout plainly decorated offices and ends up in a conference room furnished with a table bought at Drexel Burnham's bankruptcy auction. The office site was chosen primarily for its proximity to the Greenwich, Conn., train station 200 yards away.

Blyth Industries has 1,700 employees, 800 of them located in and around Chicago, the seat of the company's financial and administrative functions and major manufacturing and distribution centers.

The Greenwich headquarters, by contrast, houses a lean team of five professionals and three support staff. Its location reflects Goergen's desire to stay in the community where he and his family have lived since 1977.

Blyth is, in fact, the parent company of two subsidiaries — Candle Corp. of America and PartyLite Gifts. It designs, makes and sells candles, scented candles, outdoor citronella candles and fragrance products, including potpourri, and markets a broad range of related accessories. Products are sold under the brand names Colonial Candle of Cape Cod, Mrs. Baker, Carolina Designs, Ltd., Old Harbor, Gardens & Groves, Aromatics, PartyLite Gifts, Candle Corp. of America and Eternalux.

The company's operating strategy has been, and continues to be, growing through new product development as well as acquisitions.

Over the past 18 years, that strategy has gone through four phases, beginning in 1977 with Goergen's decision to camp out in Chicago for as long as it took to turn CCA around.

"At the time we were very bootstrapped. One of our vendors announced to me in 1978 that he had more money via accounts payable in the company than I did. But that year we managed to acquire a $2 million high-end candle company called Charmwick based in Santa Cruz, Calif., and in 1981 bought $1 million Best Candles Florida in Miami." Candle Corp. of America (formerly Valley Candle) began to expand into the mass market.

From 1982 to 1985 — phase two — CCA focused mainly on new products, including the development of outdoor patio candles (citronella). "The key was introducing new products with relatively high gross margins, increasing sales volume, lowering manufacturing and purchasing costs, and at the same time constantly adding new people in sales, manufacturing, marketing and the creative end."

Meanwhile phase two also coincided with what Goergen calls "a diversion," referring to a three-year period when he and two partners bought and ran Rayovac Corp., a $160 million battery manufacturer that was then losing about $25 million a year.

"I ESTABLISHED MARKETING PROFIT CENTERS SO THAT PEOPLE WORKING IN FOOD SERVICE CONCENTRATED THEIR EFFORTS ONLY IN THAT AREA AND DIDN'T WORRY ABOUT WALMART OR BLOOMINGDALE'S OR THE CATHOLIC CHURCH."

Unlike other investments, however, Rayovac called for a full-time commitment. Goergen and his two partners divided and conquered — Goergen in charge of Rayovac's European operations plus the financial and human resource divisions, another partner in charge of the U.S. operation and a third partner in charge of Japan and Mexico. Within six months operations were at break even and Rayovac was well on its way to becoming a profitable battery company.

In 1986, Goergen and his partners sold the company to the management team, and Goergen spent the next year as interim CEO of Clopay, a household consumer products company based in Cincinnati that had been one of the Sprout deals back in the 1970s. Clopay was sold that year through a tender offer.

"There I was in 1986. My partners and I had made a lot of money in Rayovac. I could have retired," Goergen says. "I thought about working on my squash game and becoming a regional amateur." Instead, he decided to direct his energies back to the candle business.

Enter phase three. From 1986 to 1991, Blyth acquired three companies, all in the consumer area, all of them losing money. The expansion brought CCA to $50 million in sales and added growth in the mass market area, in independent gift stores and department stores and, with PartyLite, in the direct selling area. "We picked the best managers and built up strong teams. That was the key," Goergen says.

All along the way, Goergen was continuing his philosophy of converting from low gross margins to high gross margins in order to have money for marketing and advertising, and in order to keep bringing out new products. "While I was doing that, I had to build up critical mass, which meant we always had to bootstrap and leverage."

It was around this time that Goergen started selling stock in the company at book value to senior managers and plant managers. "We offered options that were very affordable because we wanted to encourage people to participate. I think it's important to have stock in something you go to every day," Goergen says. Since the company's IPO in 1994, all the management stockholders have become millionaires, in some cases several times over.

Goergen was also emphasizing his market segmentation philosophy of selling candles. "I established marketing profit centers so that people working in food service concentrated their efforts only in that area and didn't worry about Walmart or Bloomingdale's or the Catholic church." In 1990 he started a brand management system, working with his managers to create pricing policies, product policies and distribution strategies. "I feel that most people don't start out as superstars. So if you can channel them with a strategy and help them focus on certain goals, the chances of their becoming a superstar are much higher."

The road to stardom for Blyth employees is clearly lined with market fundamentals, including constant market research into what consumers — both the retailer and end user — want in terms of color, price, fragrance and packaging. "Our strategy has always been to have the right product at the right price in the right channel of distribution," says Goergen.

THE ROARING '90S

Phase four, from 1992 until the present, has brought another round of expansions. Among them, $12 million Aromatic Industries in Rancho Cucamonga, Calif., a potpourri company bought in 1992 because Blyth's market research showed that purchasers of fragrance candles also bought potpourri. In the traditional Goergen style, Blyth bought the ailing company for well below book value, turned it around, and integrated it into Blyth within a year. Blyth has also stepped up its exporting efforts, primarily in Canada and Europe.

In May 1994, when sales were at $157 million, Blyth Industries went public, offering 3.7 million shares and raising $33 million for the company. "We were leveraged, and going public would pay off our debt," Goergen says, which it did, although the company recently took on another $25 million in a private placement note to build a plant outside of Chicago and double the size of a distribution center in Plymouth, Mass. About 30.7 million shares are currently outstanding. Forty-six employees have stock options, and all employees can buy stock through a company profit sharing plan.

A FORMER MANAGEMENT CONSULTANT, PAMELA GOERGEN IS AN ACTIVE MEMBER OF BLYTH'S BOARD

Going public was also an opportunity for Goergen to make his fortune, again and in bigger numbers. Blyth stock — of which 5.6 million shares were owned by Goergen — opened at $18.50 the day of the offering, making Goergen a millionaire a hundred times over. Within approximately one year, the share price had doubled; recently it tripled and in December it split two for one.

It's not only the stock price that is impressive. The $300 million in sales which the company had logged by the end of 1995 is an increase of 39.5 percent over 1994 sales of $215 million. The current growth rate of the $1 billion candle market is estimated by Blyth managers at 15 percent.

The company's gross profit margin is 50 percent, up from 30 percent in 1990. Operating profit margins are slightly more than 10 percent. Return on equity is 30 percent, approximately double that of other consumer goods companies.

Meanwhile, the company continues not just its phenomenal growth, but also its evolution. Discussion during a management meeting in August focused, in part, on repositioning Blyth over time more as a home fragrance company than just a candle and candle accessories company. "Consumer research tells us that candles are growing so much because they are a convenient way, and an emotional way, to deliver fragrance in the home," says Goergen. "Not in dining rooms where you don't necessarily want a scent, but in living rooms, bathrooms, bedrooms, kitchens and outdoors. A lot of products are already geared to this — sachets, potpourris, air fresheners, and so forth. That's where the market growth is."

THE RIGHT STUFF

Inside Goergen's Greenwich office is a plaque given to him by a business colleague when Blyth went public. The dedication ends with the words: "... to a man who has figured out a new use of the term 'Living By Your Wicks.'"

Clever, but it doesn't quite capture Goergen's ability to concentrate with razor-like intensity on the particular operational problem at hand. Or, as he did once during the '80s, to juggle the management of five different companies at once.

"When I go into a company, I'm very analytical. I look for the jugular issues," says Goergen. "I ask tough questions and then I don't forget the answers. Partly it's a result of my training at P&G, McCann-Erickson and McKinsey."

Many times "people do dumb things," says Goergen. "Someone is looking for volume instead of for profitability. Or someone says they are spending according to budget even though the sales aren't there to justify it. Or a company has two different sales forces even though combining them clearly would reduce costs, simplify communications and increase effectiveness."

The challenge is locating the "right" companies — low-tech businesses that sell low-ticket, consumable items, "like razor blades" — buying them at the "right price", i.e. at or under book value, and doing the necessary homework.

"My partners and I always made sure that when we bought a company from a larger one, we knew more about that company than the owner. And we always came into that company on day one with a game plan."

Goergen's acquisition strategy has been "to build net worth and keep every tub on its own bottom. Each company would be separate. If one went down the tubes, it wouldn't kill me financially.

"I was always investing and trying to help these companies, because I didn't know what was going to happen at Candle Corp. Would it grow or not? Someone asked me during the IPO in 1994 if I always knew that this was going to be a terrific company. The answer is no."

To hedge his bets, Goergen in 1979 set up The Ropart Group to handle his investment, as opposed to his management, activities. The group typically has focused on private equity investments, turnarounds and acquisitions, but for the last three years has been relatively inactive. In the late 1980s, Goergen sold out several of his earlier investments, including Delta Filter and The Hammerblow Corp., to concentrate more heavily on Blyth, and in 1994, when the company went public, he ratcheted his commitment to Blyth even higher. It now takes up about 90 percent of his time.

Today The Ropart Group has 10 private equity investments, including, most recently, ownership in two small specialty finance firms. Goergen has a multiple stock portfolio which he manages himself. He also owns 56,928 shares of the Xtra Corp., one of the largest trailer leasing companies in the U.S., and is chairman of the board but plays no role in the day-to-day operations of the company.

"My style was always to put a lot of energy into the deals, negotiate some equity for the management — I consider myself the key manager — get the company on course and then back off. Except with Blyth."

STOCK TIPS AND NEGOTIATION ADVICE

In a speech he gave to the William Simon Graduate School of Business Administration at the University of Rochester in 1991 on "Financial Entrepreneurship in the 1990s," Goergen named five key factors to success. One of them was "the value of an understanding spouse."

Goergen met his wife Pamela, a graduate of Immaculata College, in New York City when she was working as a management consultant. The couple married in 1968, and now have two sons, ages 25 and 23, one of whom works at McCann-Erickson and the other at DLJ.

"I DON'T WANT A HULA HOOP OR THE TROLL DOLL — INDIVIDUAL PRODUCTS THAT SUDDENLY DOUBLE OR TRIPLE YOUR SALES AND THEN CRASH. IT'S NOT HEALTHY. WHAT WE NEED IS TO CONSTANTLY DO THINGS A LITTLE BETTER."

Although Pamela Goergen left her job shortly after her children were born, the MBA degree she earned at night at Baruch College in New York City has been useful: She is an active member of Blyth's board, and is often recruited to be president or treasurer of fundraising committees for local schools, libraries, hospitals and museums. She is a past director of the United Way of Greenwich. She also manages the couple's three homes in Greenwich, North Palm Beach, Fla., and Quogue, New York.

Goergen seems to have passed the investment gene on to his children. During one particular day last summer, two of the phone calls into his office were from his sons: One had a new stock issue to suggest, the other asked for advice on negotiating the purchase of an apartment.

Goergen, 57, has continued a strong relationship with his alma mater, The University of Rochester, and currently serves as chairman of the board of trustees. In 1993 he was head of Rochester's presidential search committee. His belief that education can make a difference in the quality of people's lives is reflected in his establishment of The Goergen Foundation in 1986, a charitable giving vehicle for his family that has a heavily educational orientation.

The other keys to financial success cited by Goergen in his 1991 speech included:

- Learn on other people's money. "No one is born an entrepreneur; on-the-job operating experience will lay the basic foundation."
- Real time performance: "Whatever your job, do not simply meet expectations. Rather, perform very well and exceed others' expectations. Credibility is more important than capital."
- Omphaloskepsis. (Read on.)

When Goergen decided not to pursue a career in physics, he realized he had missed out on a significant amount of liberal arts education. To fill in the gaps he took French lessons and art history courses and began to build up his vocabulary by writing down interesting words on 3x5 note cards, words like "jejune," "turbid," and "omphaloskepsis."

A literal translation of "omphaloskepsis" is the philosophy of studying one's navel. Goergen translates it as the practice of looking inward periodically to examine yourself and your long-term goals. "I don't recommend doing it every week or every month, or using it to make peer group comparisons. Once a year is okay, but no less than five years.

"I decided in 1993 to make a five-year commitment to be CEO of Blyth. In 1998 I'll be 60, and I'll take another look. Will I want to continue on here? Will I start planning for my successor? What are my interests and do I want to devote more time to them? How healthy am I? I don't know the answers now. What's important is the process of settling down and examining your goals."

There are two other words that Goergen frequently uses to make his point, and both are featured in Blyth's 1995 annual report. "'Meliora,' which means never being satisfied, because as soon as you are, you will be killed by the competition. And 'kaizen,' or making progress in small steps. I don't want a hula hoop or the troll doll — individual products that suddenly double or triple your sales and then crash. It's not healthy. The only sustainable item like that has been the Barbie doll. What we need is to constantly do things a little better."

"It's more fun to make money than to have it," says Goergen. "Having it can be a burden. It means you need to start dealing with lawyers and thinking about estate planning and municipal bonds. You worry about preserving, rather than creating or building or growing."

Goergen is clearly not done with the creating and building part. "Maybe I'll be sitting here five years from now and maybe we'll be doing a billion dollars in sales along with more acquisitions, greater expansion into Europe, more new products. Whatever the future brings, we'll be helping this company grow." *R.W.S.*

Research Wire

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

Do Growth Stocks Ultimately Justify Their Price?

Conventional Wall Street wisdom echoes Graham and Dodd, who asserted more than 50 years ago that investors paying more than 20 times average earnings for a stock typically stand to lose considerable money in the long run. But according to Wharton Finance Professor Jeremy J. Siegel, this conventional wisdom is wrong.

In a recently published study in the *Journal of Portfolio Management,* Siegel analyzed the subsequent returns of the "nifty-fifty," a group of highly capitalized growth stocks which were touted in the early 1970s, but crashed in the 1973-74 bear market. He found that the long-term performance of these stocks often justified price-to-earnings ratios of 40, 50, or even higher. And, contrary to popular wisdom, these stocks as a whole were not overvalued relative to the market at their 1972 price peak. "Investors should not fear high-cap growth stocks which sell at 30 or more times earnings," Siegel says. "Many of today's star performers, such as Coca-Cola, Disney and McDonald's, were members of the nifty-fifty."

Jeremy J. Siegel; The Nifty-Fifty Revisited: Do Growth Stocks Ultimately Justify Their Price?

CEOs Hired from Outside Earn More Than Those Promoted from Within

CEOs hired from the outside earn salaries and bonuses averaging 13 percent more than those promoted from within, a Wharton study has found. And when factors such as firm size, profitability, age, and influence over the board of directors are controlled for, the study found that external successors' salaries soar to as much as 36 percent more than those of their internally promoted counterparts.

Evidence from a sample of 305 CEOs analyzed for the study validates the hypothesis that external CEOs who lack firm-specific skills earn more than CEOs promoted from within. The study's authors suggest that in some situations — particularly when there's a desire to forego the ways of the past — firm-specific skills may even be undesirable.

Dawn Harris and Constance Helfat; Specificity of CEO Human Capital and Compensation

How to Gain a Competitive Advantage in the Banking Industry

As mergers, downsizing and regulatory changes continue to reshape the banking industry, a new Wharton study has quantitatively identified several areas in which banks can gain competitive advantage: managing risk, increasing customer satisfaction, and exercising prudence in capacity management (for example, adding new branches and new employees).

The study, sponsored by the Wharton Financial Institutions Center, analyzes 219 large banks between 1984 and 1992 and finds that while banks differ widely in their ability to manage risk, large banks take on relatively more risk as measured by the stock market's assessment of their risk. The study's author, Gerald R. Faulhaber, also found that if a bank improved its customer satisfaction ranking by 10 percent (based on a nationally-recognized index), it could expect its earnings to increase by 4 to 6 percent. As for expansion, the study found that, on average, banks over-estimated demand by 10 percent, resulting in a 25 percent earnings decrease. "This study shows that the three factors of managing risk, customer satisfaction and capacity management are the keys to competitive success in the banking industry," Faulhaber said, "Those banks which fail to focus on these areas — and there are many — are leaving money on the table."

Gerald R. Faulhaber; Banking Markets: Productivity, Risk, and Customer Satisfaction

How Companies Determine Executive Bonuses

The merit of basing a CEO's annual bonus contract on the financial performance of a company has long been questioned. But financial performance remains the basis used by the vast majority of firms.

A study conducted by Wharton researchers Christopher Ittner, David Larcker, and Madhav Rajan has found that only 36 percent of firms use alternative performance measures, such as customer satisfaction or product quality, to determine executive bonus pay. Many argue that financial performance-measured bonus pay is detrimental to a firm's long-run performance, while others consider alternative performance measures subjective and easily manipulated to boost bonuses. Nevertheless, the study finds no evidence of abuse of alternative performance measures. The researchers also found that firms pursuing strategies based on innovation and new product development are most likely to use

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Iwao Tomita, WG'63: Career Entrepreneur

TOMITA

In describing the long arc of his professional career, Iwao Tomita talks about milestones. The first was his decision in 1940 to enter Japan's selective Naval Academy one year before Pearl Harbor. "I never thought at the time that I would be involved in a Pacific War," says Tomita, who was born in 1924 in Tokyo.

He served as a supply officer on a battleship carrier and a frigate in the merchant marine from 1943 to early 1945. By the time the war was over, 20 of his 50 classmates from the Naval Academy were dead. For two months at the end of 1945, Tomita was chief administrative officer on two minesweepers, one of which was sunk when it hit a mine.

A second milestone occurred in 1947, when Tomita founded Yuka Industries, a company whose initial business was recycling transformer oil. Tomita left the company, now $100 million in revenues, in 1951 to start up Japan Gas Chemical, which has since become $2 billion Mitsubishi Gas Chemical. "My career was always to create new companies," says Tomita. "I don't like to wait a long time for step-by-step promotions. I like to do things myself."

Meanwhile, there were other "lesser" milestones along the way. In 1950, Tomita passed his CPA exam. In 1957 he received a Fulbright scholarship to attend Wharton for one year. In 1961 he wrote a book, the first of several, entitled *"How to Organize and Grow a Company with a Few Competent People."* And in 1962, he decided to leave Japan Gas Chemical Co. and complete his MBA at Wharton. "People at home thought I was crazy to quit. Why did I do it? Because I had been at the same company for 10 years and I was tired of it. I wanted a new career. That is very unusual in Japan."

Tomita majored in accounting and finance at Wharton, and in 1963, established the first Arthur Young & Co. branch in Tokyo. In 1968 he founded Tohmatsu Awoki & Co. — now Tohmatsu & Co. — for what was then Touche Ross & Co. Tomita is currently a senior partner and member of the board of Deloitte Touche Tohmatsu International.

Tohmatsu, with $300 million in revenues, 2,300 professionals and 18 offices, is the largest accounting firm in Japan, and has as clients many of the country's major trading companies and international banks. Approximately 100 Japanese accountants and consultants work in 45 locations worldwide.

Tomita himself spends one third of his time in the U.S., one third in Japan and Asia and one third in Europe. "One of my daughters lives in New Jersey, and I have condominiums in Bermuda and in San Diego, but mostly I stay in hotels," he says. "I am used to it." He and his wife, whom he married in 1944, have three daughters and a home in Tokyo.

Although Tomita considers himself "Americanized" by his education and work experience, he is not a big fan of the U.S. economic system. "Americans concentrate on short-term profits and making money for their shareholders. Otherwise they get fired. Japanese think longer-term, which makes them more competitive. And Americans have less loyalty to their company. If they don't get enough money they just quit and go somewhere else, even the partners."

As for US-Japan trade, "it takes time for Japanese business structures to change. The U.S. government pushes the Japanese government to change now. It will happen, but gradually."

Suzanne Janes Peck, WG'66; Beth Peck, WG'95: Family Ties

When Suzanne Janes Peck entered Wharton's MBA program in January 1965, her class had "seven women, one black and a lot of white males." Which was okay with Peck, because she went to Wharton with one goal in mind: To find a husband.

BETH AND SUZANNE PECK

"You have to remember that back then the term 'women's lib' hadn't yet been coined," says Peck, who earned her BA from the College of Notre Dame of Maryland and graduated from Wharton with honors. "Words we have today — like mentor and empowerment — didn't exist, at least not in the blue collar section of Wilmington where I grew up.

"I saw [husband] Paul's picture in the MBA face book, targeted him and got him," she adds. "He didn't have a chance. We were married before we graduated."

The punch line is not just that Peck and her husband celebrated their 30th wedding anniversary in December, but that Peck went on to have a successful career in a non-traditional field — software technology. She is currently vice president of marketing and regional operations for Systems and

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PHOTOGRAPHS / ANTHONY WOOD

Computer Technology (SCT) Corp., a $200 million company based in Malvern, Pa., that provides technology outsourcing and software product services. She and her husband, a senior executive with the U.S. Customs Service, live in McLean, Va.

Her previous jobs included 13 years at Honeywell, from 1971 to 1984, the last two as director of industry operations; two years as vice president, merchant banking systems, at Bankers Trust; and eight years at Student Loan Marketing Association (Sallie Mae), the last two as senior vice president, systems and new business activities. She has been in the workforce fulltime since Wharton with the exception of one year, because, as she puts it, "I was so unhappy when I wasn't working."

Along the way, she had three children (and one full-time housekeeper). The oldest, Beth Peck, graduated from Wharton's MBA program last May and is now a financial analyst in the acquisitions and divestitures group at DuPont in Wilmington, Del. Before attending Wharton, she earned her undergraduate degree in chemistry from the University of Virginia and spent five years at Baxter Diagnostics in Miami.

Suzanne Peck didn't steer her daughter towards Wharton "in the sense that she held up her own experience and said, 'This is your life plan, follow in my footsteps,'" says Beth Peck. "Her influence was more subtle. Because of what she has accomplished, I saw that it was possible for a woman to go to Wharton and be very successful in life. She led by example more than by deliberate plan."

Beth Peck, who was one of 202 women (in a class of 764 students) as opposed to seven, has clearly found the business environment hospitable. "So far, working at DuPont has been wonderful," she says. "My Wharton degree has opened doors to levels in the corporation that I didn't even know existed when I worked for Baxter." She and her husband, an attorney, live in Narberth, Pa.

Suzanne Peck's early career experiences were, not surprisingly, different from her daughter's. "I would say that for the first 20 years of my career, I worked with virtually no women because computer technology was coming out of engineering, which tended to attract only men," she says. Although her goal at one point had been to be an advertising copywriter, "I stayed with technology because the people were so smart and so honest. But they were not extraordinary communicators. One of the things I could do for them was translate. I could put into business terminology their goals and the opportunities they saw for technology."

Steve Polsky, W'86: New Voice in Telecommunications

Back in 1988, when Steve Polsky was working in new product development at GTE in Dallas, he and his colleagues used to joke during lunch hours about starting their own companies.

Within a year, Polsky had found a partner, left his job, and entered that exhilarating, exhausting process of building a company out of nothing.

Well, not exactly nothing. Polsky had a number of advantages that helped him launch VoicePlex Corp., a software company whose product was a flexible system combining voicemail, IVR (interactive voice response) and automated attendant service capabilities.

First, as a graduate of the five-year, dual-degree Jerome Fisher Program in Management & Technology, Polsky had specialized in both computer science and finance. Second, at GTE he had joined a management training program in engineering that rotated him to laboratories in Florida, Massachusetts and North Carolina and eventually landed him in Dallas where he worked on new product introduction in the voice messaging area.

And third, his father Carl Polsky, a tax attorney and practice professor at Wharton, co-guaranteed a $200,000 working capital loan to Steve and his partner, Sohail Sattar, also a former GTE employee. More importantly, he offered his son advice that would prove especially useful, such as a) set up the business as a Sub S company and b) make sure from the beginning that you are audited by a reputable accounting firm.

Polsky

All that said, Polsky and Sattar spent close to three years working seven-day weeks, sleeping four hours a night, and living off bologna and turkey sandwiches, "although as the business expanded, we stepped up to Taco Bell, and eventually to the Olive Garden," Polsky adds. He didn't draw a salary for two years, but he did get a break from his roommates. "They never charged me for utilities because they knew I would never be home to use them," he says.

In hindsight, VoicePlex was the right idea at the right time. "We were selling to an existing market, including banks, which meant that we had proven, established customers," says Polsky. "And technologically, our competitors were based

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MIAMI *Continued from page 15*

in the Air Force for six years, serving in both Vietnam and then in Panama, where he met his wife. They have two children, a son, 13, and a daughter, 12, and live in South Coral Gables.

After Wharton, Miller worked for United California Bank first in Los Angeles and then in Rio de Janeiro. In 1978 he moved to Panama as a credit manager for First National Bank of Boston. In 1981 he joined Groupo Harari, managing their real estate properties in Panama and the U.S. until 1987, when he joined Banco Disa as acting general manager. He moved to Atlantic Security in 1990.

OSCAR RAMIREZ, WG'76
PRESIDENT, BOLIVAR TRADING COMPANY

When Oscar Ramirez and his father were looking to start a new company, they contacted friends, studied the market, and decided on Bolivar Trading. That was in 1986, and today, the $6 million Miami-based company sells petroleum equipment, including tanks, underground pipe, leak detection systems, lube equipment, carwashes and gasoline stations, to major oil companies—Shell, Texaco and Exxon, among others —throughout Central America, the Caribbean and South America.

FAVORITE RESTAURANT
Fabios
(in Fort Lauderdale)

Hyatt
FAVORITE HOTEL

The company has 10 employees in Miami and another 30 employees in seven offices in Central America.

Ramirez was born and raised in Nicaragua and educated in the U.S. at Georgia Tech and Wharton. In 1976 he went to work for his father's bank in Panama, and seven years later became vice president of another family business, Colaco International, a debt collection company. Today, in addition to his responsibilities as president of Bolivar Trading, he is president of both Colaco and Bolivar International, a holding company in Panama.

His wife, whom he met at Georgia Tech, is American. They and their two children, ages 17 and 18, live in Fort Lauderdale.

His business, Ramirez says, "is changing all the time. There are always new technologies being implemented, especially now that gas stations are being built that are environmentally safe. So every year, the equipment is constantly being upgraded.

"The other challenge is finding good people, primarily engineers, who have contacts in different countries and know how to use and install the new technology."

RESEARCH WIRE *Continued from page 21*

these alternative measures.

Christopher D. Ittner, David F. Larcker, and Madhav V. Rajan; The Choice of Performance Measures in Annual Bonus Contracts

IN HIGHER EDUCATION, QUALITY PAYS LONG-TERM DIVIDENDS

Attending a higher quality college can increase one's future wages by as much as 20 percent, according to a study led by Kermit Daniel, assistant professor of public policy and management. The study compared the earnings of men who had similar backgrounds, but who attended colleges of different quality. More than 500 four-year colleges and universities were ranked on a quality scale according to such factors as student-faculty ratio, percentage of faculty with PhDs, and per-student spending rates.

"While there is talk of spending cuts in higher education that would result in lower faculty-to-student ratios and less per-student spending," Daniel says, "our research suggests that these proposed cuts would have a negative impact on the future wage earnings of college graduates." The study also found that the wages of black men vary more by quality of college than the wages of whites, while a racially diverse student body increases the earnings of both black and white male students. In addition, the authors, controlling for quality, found no evidence that attending a private university vs. a public university would increase future wages.

Kermit Daniel, Dan Black, and Jeffrey Smith; College Quality and the Wages of Young Men

POLSKY *Continued from page 23*

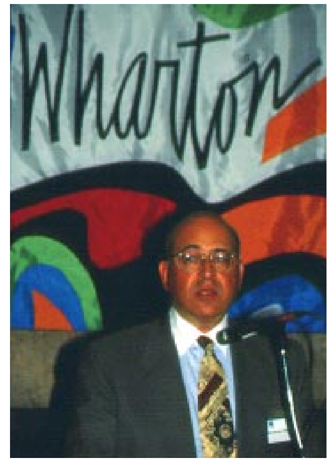
on proprietary systems. Because of advances in computers, we could base our product on standard computing platforms, which meant it was cheaper and gave us more flexibility and more choices of technologies to integrate."

VoicePlex also benefited from relationships with existing companies. For example, GTE eventually agreed to market the company's product, which led to clients like Zale Corp. and Texaco. From 1990 to 1993, the company grew an average of 300 percent a year, hired eight employees and moved to a bigger office.

In August 1994, when VoicePlex sales were $4.4 million and the company had 23 employees, Polsky and Sattar sold out to InterVoice, a leader in interactive voice response systems based in Dallas, for $8 million and 255,000 shares of common stock. "We were essentially a very small company selling to very large companies, at a time when the industry was consolidating," says Polsky whose official title was chief operating officer and executive vice president. "We needed a financial underpinning, which meant either going public or finding a partner or buyer. The best solution was selling." Polsky now works for InterVoice as vice president of operations for the telecommunications systems division.

"It's an exciting process to start your own company," he says. "But it has difficult moments and very tough decisions have to be made along the way. I recently saw a sign that says it all: 'The road to success is mostly made up of detours.'"

Alumni Leadership Conference: Strengthening the Wharton Community



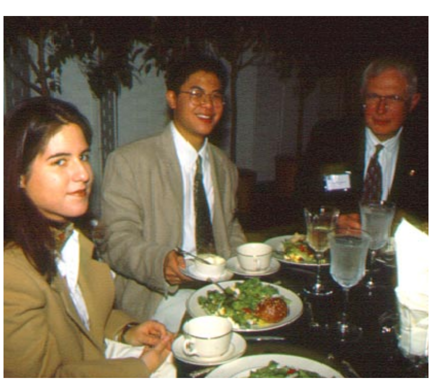
Alumni volunteers from all over the world gathered on campus in October for two days of celebration, education, and perhaps most importantly, appreciation.

It was the School's first Alumni Leadership Conference, and its goal was to draw together the best of Wharton's alumni leadership, from students to club presidents to advisory board members, among others. More than 150 participants, including some from Norway, Australia, France and England, attended the event.

Part of the conference agenda was "to give [alumni leaders] an inside view of Wharton's progress and prospects, and to provide support for their activities on behalf of the School," notes Wharton Dean Thomas P. Gerrity.

According to Jordan Tannenbaum, Associate Dean for External Affairs, the timing of the conference was especially good "because of our recent No. 1 rankings in *Business Week* and *U.S. News & World Report.* People are feeling very positive about the School."

The conference kicked off on Friday, Oct. 27, with remarks from Michael Tarnopol, W'58, managing director of Bear Stearns, on the importance of leadership among alumni. A reception in the Tarnopol Room, to which the whole Wharton community was invited, was followed by a dinner at the University Museum.



During that event, Frank Fountain, Jr., WG'73, vice president, government affairs, at Chrysler Corp., offered his personal reflections on volunteer leadership and its impact on the School.

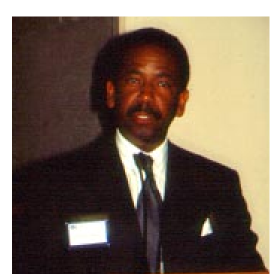
On Saturday, Oct. 28, alumni participated in executive education seminars on persuasion and brand equity, followed by a presentation on the School's accomplishments and goals by the dean and senior administrators.

Afternoon workshops were held on reunion planning, club management, fundraising, career recruiting and admissions interviewing.

"Alumni participate in these activities throughout the year in their own cities," says Marti Harrington, WG'76, director of alumni affairs. "It is exciting to have so many leaders together exchanging ideas and generating even more enthusiasm."

According to Tannenbaum, the initial idea had been to have the conference once every two years. The success of the October event, however, has led to a proposal to hold the event annually.

"I never cease to be impressed by the strength and leadership demonstrated by the Wharton community," notes Gerrity. "This leadership has built enterprises, carried forward organizations and shaped the future of business. This leadership has also been the driving force of Wharton's progress."



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