

Winter 1997

Wharton

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

BEYOND BRICKS AND MORTAR

ACCOUNTING FOR
INTANGIBLE ASSETS



The Wharton School
University of Pennsylvania



WHARTON ALUMNI WEEKEND

PHILADELPHIA

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

- 1967, 1972, 1977, 1982, 1987, 1992 Class Reunions
- Welcome Reception
- Executive Education Programs
- Class Parties
- Alumni/Faculty Exchanges
- Wharton Town Meeting
- Picnic Lunch and Parade
- Farewell Brunch

Registration materials and event calendar will be mailed shortly.
For more information, call Alumni Affairs at 215-898-8478.

OTHER ALUMNI EVENTS

PARIS

THE 2ND WHARTON EUROPEAN FORUM

Thursday, June 19 and Friday, June 20, 1997

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

Details and registration information to follow

SHANGHAI

THE 4TH ASIAN REGIONAL ALUMNI MEETING

Friday, May 30 and Saturday, May 31, 1997

Theme: "Shanghai Into the 21st Century"

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

Details and registration information to follow

COVER ARTICLE

The importance of traditional performance measures — such as return on investment, stock price and quarterly earnings — has long been paramount. But that may be about to change.



Illustration by
Steven Noble

7

Features

- 7 MEASURING NON-FINANCIAL ASSETS**
Managers These Days Are Taking a Hard Look at the Value of Intangibles Like Customer Satisfaction, Intellectual Capital and Employee Loyalty. Soft Assets, They Say, Can Help Predict Future Economic Performance
- 13 EUROPEAN UNION, OR IS IT DISUNION?**
Management Professor Geoffrey Garrett Analyzes the Politics and Personalities Behind the Struggle for European Integration
- 17 ALIVE AND WELL AND WORKING IN ...**
San Juan

Departments

- 2 SCHOOL UPDATE**
The MBA Club Scene
Alumni Honored
Executive Education, According to Liechtenstein
- 22 ALUMNI PROFILES**
Manuel V. Pangilinan, WG'68: The "New Asian Manager"
Kathleen A. O'Neil: WG'76: Banking at the Fed
Anthony Hamilton-Russell, WG'90: Making Wine in South Africa
- 24 FACULTY OPINION**
Two Sports Anniversaries, But Little to Celebrate
- 25 WHARTON IMPACT**
Taking Stock of Overpriced Equities
- 29 MANAGING YOUR CAREER:**
How Wharton Can Help

Editorial Staff

EDITOR
Robbie W. Shell
STAFF WRITERS
Tom McMahon
Mike Baltes
EDITORIAL ASSISTANT
Julia Feldman

DESIGN
Warkulwiz Design Associates

EDITORIAL OFFICE
344 Vance Hall, 3733 Spruce St.
Phila, PA 19104 (215) 898-8478
Fax (215) 898-2695
alumni.affairs@wharton.upenn.edu
URL address: http://www.wharton.upenn.edu/alum_mag/alum_mag.html

Administration

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

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

MARTI HARRINGTON, WG'76
Director of Alumni Affairs

Advisory Board

JOAN WALSH CASSEDY, WG'82
President
King Communications Group
JAY A. DUBOW, W'81
Partner
Wolf, Block, Schorr and Solis-Cohen
DAVID GRAFF, WG'84
Senior Vice President
Hearst Magazines International
ART HOWE, WEMBA'86
President
Montgomery Newspapers
DAVID R. REIM, WG'90
President
Simstar Digital Media, Inc.
ELLEN YIN, W'87, WG'93
Health Care Consultant



THE CLUB SCENE



The MBA Marketing Club sponsors Marketing Mania, an annual all-day event near campus which matches up 35 marketing companies with more than 500 interested MBA students.

The Wharton India Club is currently preparing for its second Wharton India Economic Forum which last year brought together 100 companies and close to 200 students for a day-long conference titled "India, Opportunity of the 21st Century."

The Wharton Cigar Club, started in 1995 to "further the knowledge and enjoyment of cigars," now has more than 100 dues-paying members for whom club officers have negotiated discounts at a local cigar shop and free subscriptions to *Cigar Aficionado*.

The energy and ingenuity of Wharton's MBA students allows career-focused mainstays — including, for example, the Investment Management Club, Asia Capital Markets Club, Sports Management Club and Consulting Club — to flourish alongside such newer socially-driven entrants as the Ballroom

Dancing Club, The Whartones and the Home Beer Brewing Club.

Culturally-oriented clubs, like the Wharton Latin American Students Association, Korean Club, Emerging Economies Club and African-American MBA Club, reflect the diversity of Wharton's student body while those interested in community service can sign on with Say Yes to Education, Wharton Students Helping the Homeless or the Buddy Program.

Meanwhile, for the physically active, there are climbing, scuba diving, ice hockey, roadrunning, rowing, rugby and ultimate frisbee clubs.

And that's only the beginning. At last count, the Wharton Graduate Association (WGA) — the student-run body that provides clubs with financial and managerial assistance — sponsors 30 professional clubs, 20 athletic clubs, 14 social clubs and 16 cultural affairs clubs, plus another 20 that don't fit into those categories (the Ethics Club, a Mac Users Group and the Orientation Club, to name a few). Notes Dan Kelsey, WG'97, "Students here often remark that in an environment which encourages leadership, it is fitting that almost everyone can be president of something at Wharton."

All you really need, besides WGA approval, is an agenda. Marketing club co-president Jeanne Ehrenkranz, WG'97, for example, wants to "increase the awareness of Wharton's marketing strengths in the face of its dominant reputation as the premier finance school," she says. The club encourages students to pursue marketing careers by providing

Continued on page 6

EXECUTIVE EDUCATION, ACCORDING TO LIECHTENSTEIN

H.S.H. Prince Philipp, CEO and chairman of the Liechtenstein Global Trust (LGT), describes his company's new executive education initiative as a "truly innovative and unconventional program" where participants experience 10 weeks of "rigorous mental and physical training..."

Part of that training will come from Wharton's Aresty Institute of Executive Education, which has engaged in an unusual joint venture with LGT, a

\$42 billion asset management and private banking company headed by the second son of the ruling family of Liechtenstein. Liechtenstein is a small (62 square miles, 30,000 residents) principality located between Switzerland and Germany.

Prince Philipp's idea is to create Renaissance leaders in his company through an academy which combines traditional professional education with the development of personal

intelligence skills and teamwork. The program offers training to 60 senior managers during a 10-week period spread out over three years.

Wharton's role in the academy program is to provide courses in marketing, international finance and leadership development. Three 20-member groups of LGT managers will be here on campus for two-week sessions in September, October and November.

Continued on page 5

HONOR ROLL

At three different events on campus last fall, five individuals were honored by Wharton for their dedication to the School and/or for achievement in the field of management.

■ The Dean's Medal of Honor, the School's highest tribute, was awarded Nov. 15 by Dean Thomas P. Gerrity to Liem Sioe Liong, founder of the Indonesian-based Salim Group.

The citation accompanying the award recognized him "for a lifetime of management leadership, achievement and commitment to family, country and the pursuit of excellence."

The Salim Group is one of Southeast Asia's largest conglomerates, with more than 200,000 employees in divisions ranging from agribusiness and financial services to chemicals and trading and distribution.

"Mr. Liem has helped to lead the resurgence of the Indonesian economy through his leadership in private sector growth," noted Gerrity, citing also the "exceptional role" Liem Sioe Liong has played in Indonesia's history and "the model of business and management leadership" he has offered.

The Dean's Medal is given to prominent individuals around the world who have made extraordinary contributions to their field.

■ On Nov. 1, Slivy Edmonds Cotton, WG'79, was presented with the first Distinguished Alumna Award by Wharton Women in Business at the 17th annual Wharton Women in Business Conference. Cotton, who is the senior managing director of The Edmonds Group, a newly-formed private investment and merchant banking firm, addressed a record crowd at this year's conference, whose theme was "Innovation and Impact — Turning Ideas into Action."

The Distinguished Alumna Award will be given each year to an individual who has achieved professional success, shows the potential for continued career development, has demonstrated a commitment to bal-



LIEM SIOE LIONG



SENG TEE LEE



SLIVY EDMONDS COTTON



JIM ANCHIN AND MICHAEL FISHER

ancing career and community involvement, and serves as a strong role model for Wharton women.

■ During a ceremony on October 24, three alumni were given Distinguished Service Awards (DSA), an honor established by the Wharton Alumni Association in 1988 to recognize exemplary volunteer contributions to the School. One of those recipients was Seng Tee Lee, W'50, who received the award in 1995 but was unable to accept it in person until last fall.

Lee, who lives in Singapore, is chairman of the Lee Pineapple Company, a business that he and his brother, Seng Gee Lee, W'43, WG'44, grew into one of the giants of the Southeast Asian economy.

Lee's donations have built Lee Terrace and Lee Garden near Steinberg Hall-Dietrich Hall and also the Lee Library in the Steinberg Conference Center. He has contributed to renovations of the undergraduate vice dean's suite, the Furness Building and Lippincott library, and in 1994, created a loan fund for West Philadelphia entrepreneurs to start and run their own companies.

The other 1995 DSA recipient, Craig Harding, WG'75, chairman and CEO of The Harding Group in Greenwich, Ct., received his award on campus in May 1995.

Recipients of the 1996 Distinguished Service Awards are Jim Anchin, W'65, WG'66, and Michael Fisher, WG'74.

Anchin is the managing partner at Anchin, Block & Anchin, LLP in New York. His involvement with Wharton includes serving as a member of the Undergraduate Advisory Board and a spokesperson for the Undergraduate Admissions working group.

He is also a member of the board of directors of the Wharton Club of New York and was a volunteer on his 30th reunion gift committee. He has been a long-standing member of the Benjamin Franklin Society and last year

Continued on page 6

AN ENTREPRENEURIAL APPROACH TO FISHERIES AND FORESTS

■ Would a state-of-the-art aquaculture facility at the Philadelphia Naval Yard generate enough jobs and revenues to justify its existence?

■ How can our country's national parks be better managed and more cost-efficient?

Students and researchers affiliated with Wharton's Sol C. Snider Entrepreneurial Center are part of two separate teams helping to answer these questions.

The aquaculture — or commercial fish farming — project is spearheaded by Penn's Veterinary School and funded with a \$450,000 grant from the Delaware River Port Authority. Wharton's mandate is to conduct feasibility studies for what is currently envisioned as a 5-acre facility where fish will be raised, processed and shipped out to locations in the three-state region.

The aquaculture center could serve several purposes, says Clark Callahan, director of the Wharton Small Business Development Center and a member of the project team. "One is to create a new use for the huge Philadelphia Naval Yard that would generate jobs, revenues and general economic development in the Philadelphia area."

Another goal, says project member Patty Khuly, WG'97 and a 1995 graduate of Penn's vet school, is to "address the depletion of the world's fish resources caused by decades of commercial fishing and an increase in the popularity of

seafood ... What's especially thrilling about this project," Khuly adds, "is that we are working in a cutting-edge industry involving new technology," including, for example, closed recirculation systems that allow water to be filtered, reused and adjusted for such variables as salinity, nutrition and temperature.

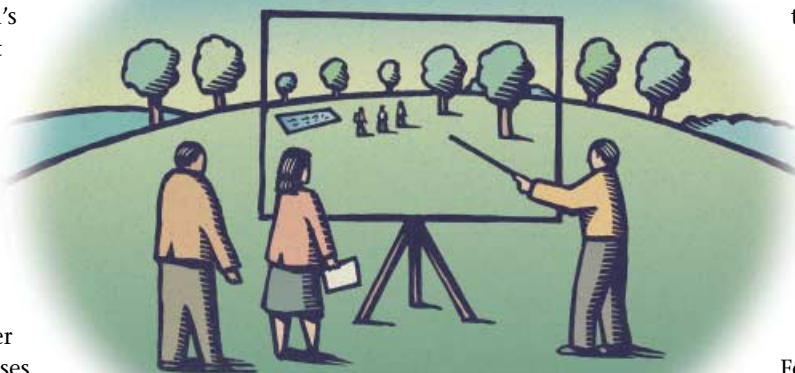
The project is cross-disciplinary in that it brings together business, engineering, architectural and veterinary students along with faculty, researchers and administrators.

The project team will present its feasibility studies to the Delaware Port Authority this month.

The national parks project began last fall when the Entrepreneurial Center was asked by the U.S. Department of Interior, National Park Service, Eastern Region, to prepare strategic plans for three different parks — Valley Forge, Shenandoah National Park and the Maggie Walker House in Richmond, Va.

According to Bill Alexander, the Center's managing director, both MBA and undergraduate students spent the fall semester researching operational issues. For example, the project team looked at ways to increase revenues from vendors, including hotels, restaurants and other auxiliary services. "I know there is a big fear that you will walk into a national park facility and find that all the trails have corporate plaques on them," says Alexander. "We certainly don't want that, but

Continued on page 6



BROADCASTING THE NETWORK: These 10 students are members of the Wharton Undergraduate Alumni Relations Council (WUARC), founded four years ago to promote interaction between Wharton undergraduate students and alumni.

In November, WUARC members helped host Career Week during which panels of recent alumni came back to campus to talk with students about their career choices. Earlier this year, WUARC created an alumni resource guide for seniors, designed and distributed class mugs, organized lunches between students and alumni and invited alumni club representatives to meet with interested undergraduates.

"Wharton's network was one of the things that attracted me to the School, but I didn't know how to access it," notes Margaret Rhee (shown in white shirt), W'97, chairperson of WUARC. "This council seemed like a great way to get involved early." ▼

Campus NEWS

■ Samuel T. Lundquist, director of admissions and financial aid for the Graduate Division from 1992 until last summer, has been named chief of staff for Dean Thomas P. Gerity and director of the Dean's Office.

In this newly-created position, Lundquist becomes a member of the School's senior management team, advising the Dean and providing assistance on special projects, including the School's strategic plan.

Robert Alig, WG'87, senior associate director of Wharton Graduate Admissions since 1995, succeeds Lundquist in the position of director.

■ Last October, 105 Students from Wharton's Executive MBA program (WEMBA) spent five days meeting with government and business leaders in South Africa.

The International Seminar, organized every year during the final year of the two-year WEMBA program, offers students the opportunity to study and observe a particular area's economic and business environment.

Members of this year's graduating

class chose South Africa as their destination because they felt that this country "will play a key role in the business world and in regional development," notes Catherine Molony, associate director of WEMBA.

The students met with the deputy minister of finance for the government of the Republic of South Africa, the chief executive of the Chamber of Mines of South Africa, the CEO of South Africa Breweries along with a number of corporate representatives.

■ Ernest Dale, a professor emeritus of management who was known worldwide for his writing and consulting on organizations and leadership, died in August at age 79. Dale, who earned two degrees in economics from Cambridge and a PhD in economics from Yale, came to Wharton in 1964.

He was a former president of the American Academy of Management, a leading proponent of the "Does It Work?" school of management and author of a dozen books, including the best-selling textbook *Management: Theory and Practice*. ▼

VOLUNTEERS NEEDED



On April 19, 1997, Christmas in April volunteers from Wharton and members of the surrounding community will revitalize 30 homes belonging to the elderly, disabled and low-income residents of West Philadelphia.

We need your help to achieve our goals. If you wish to contribute funds or your time, please contact:

Christmas In April Philadelphia

PO Box 42752

Philadelphia, PA 19101-2752

or call Eileen Dibb (215) 731-9233

LIECHTENSTEIN

Continued from 2

In accordance with LGT's mandate, the visiting executives will be exposed not only to state-of-the-art business education but also to the arts and humanities. Their curriculum will include, for example, sculpture classes, a visit to the Philadelphia Museum of Art and rowing on the Schuylkill River, according to Fran Johnston, associate director of custom program development at Aresty.

Wharton's participation in the Academy is based in part on a recommendation from LGT executive Rolf Kaelin, who attended an Advanced Management Program at Wharton six years ago.

The Liechtenstein program, says Robert E. Mittelstaedt, Vice Dean, Executive Education, "goes beyond pure business instruction to recognize that the future of management education lies in developing the whole person." ▼

WhartonIndia

ECONOMIC FORUM

Presents its Annual Conference

"India, Investing in a New Era"

March 21, 1997

Wyndham Franklin Plaza Hotel

17th and Race Streets

Philadelphia, Pennsylvania

For further information contact:

Wharton-India Economic Forum

University of Pennsylvania

Tel: (215) 898-7631, Fax: (215) 573-8999

web site: <http://dolphin.upenn.edu/~whindia/>

Promoted by

Wharton Emerging Economies Program

Sponsored by

LEHMAN BROTHERS

21st ANNUAL

WHARTON FOLLIES

In Philadelphia:

Thursday through Saturday
Feb. 6, 7, 8
at 6 and 8 p.m.
Mandel Theater, Drexel University
For ticket information, call
Robert Burlinson at 215-242-9654

In New York:

Friday, Feb. 14, at 8 p.m.
Tribeca Performing Arts Center
199 Chambers Street
For ticket information, call
Secil Tabli at 215-985-3613

HONOR ROLL *Continued from 3*

became a member of the Joseph Wharton Club.

Fisher is one of the co-founders, and currently the managing partner, of Multi-Manager Investments AG in Zurich, Switzerland.

In 1988 Fisher became one of the charter members of the newly-formed European Advisory Board. Last year he coordinated the First Annual Wharton European Forum — titled “European Competitiveness: Dynamo or Dinosaur?” — in London. The Forum drew 200 alumni and business leaders from 19 countries in the region. ▽

FISHERIES AND FORESTS

Continued from 4

we do want better contract procedures in place that will maximize royalty arrangements for the parks.”

The Entrepreneurial Center team is also developing proposals for local “friends” groups to play a more significant role in fundraising by organizing community programs, nature walks, concerts and other events.

Two months ago, the federal government announced that entrance fees at many national parks will be increased, in many cases doubling, as part of a plan to raise \$30-\$50 million for park improvements. The fee changes will be phased in by April.

The Wharton project has enlisted the full-time help of Kate Rhoades, W’95, who spent the last two summers working in Yellowstone National Park. “I am looking at ways to supplement government funding either through private sponsorships or licensing arrangements,” she says. Rhoades has also been interviewing officials at historic Williamsburg, Va., and working with a company that surveys the attitudes and travel habits of American tourists.

Her work will be supplemented by MBA students who, as part of a required field application project during the second semester of their first year, are looking specifically at how to

increase royalty streams to the National Park Service Foundation through the marketing of products — ranging from camping equipment to tee-shirts to Christmas cards — licensed by the Park Service. ▽

CLUB SCENE *Continued from 2*

employer information, assisting with on-campus corporate presentations and helping students with resumes and mock interviews.

Cigar club founder and co-president Jamie Wilmsen obviously has a different agenda — not only “furthering the knowledge and enjoyment of cigars” but also “strengthening the alumni network,” by, for example, sponsoring alumni events to “reinforce Wharton as an important aspect in peoples’ lives after they graduate.”

India Club president Irma Goyal, WG’97, is driven by a desire “to teach future business leaders about the potential which India can offer from a business standpoint, but also to offer non-Indians a chance to learn through fun, non-threatening cultural events.”

“Many students are involved in more than one club,” notes Kelsey, who is a member of the cigar club, consulting club, cycling club and marketing club. What these groups all have in common “is that they improve the on-campus experience for everyone involved.”

The WGA offers support, adds WGA president Mike Carrel, WG’96, “but student-run clubs are the true catalysts for positive change at Wharton.” (Next issue: Undergraduate Clubs) *Dan Kelsey* ▽

THE

6TH

ANNUAL

WHARTON

LATIN

AMERICAN

CONFERENCE

WHARTON LATIN AMERICAN CONFERENCE

“Succeeding in Times of Change” will be held Feb. 21, 1997 at the Pennsylvania Convention Center in downtown Philadelphia

TOPICS INCLUDE:

- Investment Banking in Latin America
- Crossing Borders
- The Consumer Products Market
- Alternatives for Economic Development

AMONG THE SPEAKERS WILL BE:

Lorenzo H. Zambrano, chairman and CEO, Cemex; Francisco Gros, former CEO of the Central Bank of Brazil, currently a managing director at Morgan Stanley; and Ana Botin, CEO, Banco Santander.

For information on purchasing tickets at the special alumni rate, please contact the Wharton Latin American Conference office at (215) 573-5598 or fax to (215)-573-3651. The website address is: <http://dolphin.upenn.edu/~lamconf/>

MEASURING NON-FINANCIAL ASSETS

MANAGERS TODAY ARE TAKING A HARD LOOK AT THE VALUE OF INTANGIBLES LIKE CUSTOMER SATISFACTION, INTELLECTUAL CAPITAL AND EMPLOYEE LOYALTY. SOFT ASSETS, THEY SUGGEST, CAN HELP PREDICT FUTURE ECONOMIC PERFORMANCE



Every three months, thousands of executives, analysts and money managers around the world wait anxiously for the hard numbers that will move markets, slash or increase payrolls and drive expansion. Although the importance of traditional performance measures such as return on investment, stock price and quarterly earnings has long been paramount, things may be about to change.

In a decade characterized by exploding global competition, a shift from manufacturing-oriented firms to service-oriented firms and almost perpetual reengineering, more and more companies are paying far greater attention to the measurement of “soft” or “intangible” assets — intellectual capital, training, human resources, brand image and, most important, customer satisfaction. As Steven Wallman, a commissioner at the U.S. Securities and Exchange Commission, says, “assets like customer satisfaction and employee loyalty are increasingly viewed as drivers of wealth production and earnings. If measured reliably, they can provide critically important information to the financial markets.”

Reliable measurements are half the battle. The real challenge, says David Larcker, Ernst & Young Professor of Accounting, is actually linking quality and customer-focused initiatives to accounting and stock market returns.

Larcker and colleague Christopher Ittner, KPMG Peat Marwick Term Assistant Professor of Accounting, are at the forefront of a movement within a growing number of companies to predict future economic performance using soft asset measurements. They, along with University of Michigan Professor Claes Fornell, have developed a sophisticated approach for measuring the economic value of soft assets with a mathematical model based on the American Customer Satisfaction Index and the Swedish Customer Satisfaction Barometer.

“The choice of performance measures is important for everyone in an organization,” says Larcker. “For example, more and more of these measures — like customer satisfaction, employee satisfaction and quality — are being folded directly into bonus contracts for executives. The idea is that traditional financial measures don’t capture everything about managerial performance. There are certain steps a manager can take to improve customer satisfaction that don’t show up immediately in the bottom line, but will show up in the future. These are forward-looking indicators of economic values of the company.”

Neel Foster, a board member at the Financial Accounting Standards Board, agrees. “As we move into more of an infor-

mation age and service-based economy, the importance of soft assets is becoming more relevant to valuing some companies than brick and mortar. A lot of companies don't even have brick and mortar."

The distinction, Foster says, is an important one for analysts whose job is to "figure out what future cash flows are and estimate the value of a business. If they don't have any information regarding soft assets and the kinds of cash flows that they're going to generate, they have an incomplete picture."

Drastic changes in industries such as telecommunications, banking and utilities have fueled the interest in putting a value on soft assets. "The service sector is under tremendous competitive pressure due to deregulation," Larcker says. "A customer now has a choice of alternative service providers. If a company doesn't satisfy them, they'll just go to another company that can."

The same might be said about employees. "We're taking a lot of technology from the customer side and applying it to the employee side," says Jim Brown, WG'92, vice president of quality and business development at GE Capital. "We're looking at employee retention and employee satisfaction and relating this back to things we can do differently as a company. Previously we had much more generic 'feel good' surveys for our employees, asking them how they like it here, how they like their benefits and so forth. Now our questions relate to what makes an employee leave or stay. For example, what is the likelihood he or she will be with us five years from now. That is more of an outcome measure. Then we drill down to the areas that would affect that decision."

While many companies have, in fact, made progress in improving their measurement of soft assets, the U.S. corporate landscape is littered with firms, even entire industries, that followed narrow, financial measures, says Marshall Meyer, professor of management and sociology.

In his forthcoming book, *Finding Performance* (Harvard Business School Press, 1997), Meyer points to several industries that lost significant market share to competition in the early 1980s because they were obsessed with production and inattentive to quality. The auto industry is one. Another is the mainframe computer industry whose preoccupation with profit margins in static commercial markets blinded it to growth opportunities in consumer markets and opened the way for clone makers to seize the market for desktop

computers. A third is the banking industry which found itself holding billions of dollars of distressed assets, mainly real estate, in the early 1990s because it had been booking profits while ignoring risk.

"The common element in these stories is that financial disasters might have been avoided had the right measures been in place," says Meyer. "The stories have taught business people that no single measure can capture the totality of performance and that obsession with any single measure can be very risky. The managers I've spoken with, as a consequence, now accept the need for multifaceted performance measurements to capture financial and nonfinancial dimensions of performance simultaneously."

The usefulness of information provided by nonfinancial measurements is not limited to companies for their internal decision making. As Foster has pointed out, analysts and investors would find the information useful as well. Yet current accounting rules do not allow for intangible assets to appear on the balance sheet as an asset like equipment or inventory, notes Ittner. "Say a company invests in intangible assets such as employee training or research and development. The payoff from that may take some time to show up in a typical financial statement."

For those analysts who do obtain such information about intangible assets, the results can be powerful, says GE Capital's Brown. "Morgan Stanley upped its estimate of GE's stock price almost 20 percent based on the information GE reported to them about what they were doing with their quality initiative and where they thought it was leading," Brown says.

Ideally, adds the SEC's Wallman, "analysts ought to be saying that they desperately want this information, and that it must be generated from a model that's comparable across businesses and is fair, reasonable and verified by a third party such as an auditing firm. As it becomes clearer that this information is both reliable and useful, and that it can measure numbers that provide cross-company and cross-industry comparisons, there will be a growing demand for the information. It will start with sophisticated investors and lenders of capital, who will obtain the information either directly from the company (confidentially if need be) or commission their own studies. Or, you'll find money managers commissioning studies. Finally, you'll see information about intangible assets made public."



LARCKER (LEFT) AND ITTNER

II. TACKLING THE PROBLEM OF MEASUREMENT

While companies have mastered the ability to pinpoint cycle times and defect rates, measuring intangible assets like customer satisfaction and employee satisfaction has proven more difficult.

According to Ittner, a major pitfall in trying to develop reliable measurement systems is that measures move around too much. For example, a study by Ittner, Larcker and Marshall Meyer of a major financial services firm found that according to its measures, 80 percent of its customers were satisfied in a given quarter. But in the subsequent quarter only 55 percent said they were satisfied. A measurement system like that has too much error, Ittner says. And the implications can be damaging. "If you use the wrong measure, or it doesn't map into economic performance, not only have you wasted a lot of money creating a customer satisfaction index that's not very good, but you've potentially made disastrous product and service design decisions."

"Many times companies just come up with a list of attributes and ask people to rate them without having any real knowledge of what's important," says William Madway, W'79, WG'85, director of research at Charlotte, N.C.-based American City Business Journals, a publisher of 35 business newspapers nationwide. "One could miss the boat entirely as to defining what a satisfactory experience is for a customer."

"A critical factor in developing accurate measurements is making sure that they're part of a broader-based measurement system that integrates data about a customer's behavior and the competitor's customer behavior," says Denis Hamilton, WEMBA'87, director of quality management at Johnson & Johnson. "Many companies have mastered techniques that measure attributes such as price, image, service and product factors, but the secret is in designing surveys around behavioral segments of the market. The learning comes from contrasting loyal customers against non-loyal customers."

A large chemical company studied by Larcker is a case in point. After learning that its customer satisfaction levels (and revenue growth rates) were lower than its competitors, company analysts found that customers really wanted the chemical company's salespeople to be not just order takers, but partners who would interact with the customers to suggest value added initiatives, such as how to more efficiently use technology. Once the chemical company's salespeople moved from pure order takers to partners, Larcker says, the chemical company saw noticeable improvements in customer satisfaction and a resulting rise in sales revenue and customer profitability.

Some companies are looking to each other for answers. Hamilton, a point person in J&J's customer satisfaction initiatives, recently chaired a consortium of nine blue-chip U.S. companies that meets three times per year to discuss best

GE CAPITAL

General Electric, long at the forefront of quality initiatives, is also taking a lead in linking those initiatives directly to financial performance. One of GE's top subsidiaries, GE Capital, is in the midst of rolling out a customer loyalty survey and customer service program to each of its 26 different businesses, which range from consumer credit cards to highly specialized financing.

David Larcker, Ernst & Young Professor of Accounting, has been directly involved with GE Capital's initiatives in conjunction with Pamela Cohen of CFI Group, the Ann Arbor-based consulting firm.

The first phase of GE Capital's initiative involves the collection of customer information and the establishment of extensive databases. Research firms, such as CFI, then work directly with senior managers from the individual businesses to identify target customers and determine what GE Capital employees do day-to-day to affect customer loyalty and retention. One major problem that was uncovered in some of the businesses was a slow and confusing billing process.

Little time was wasted as project teams were deployed from across various GE Capital businesses to redesign the billing process. But, says Jim Brown, WG'92, vice president of quality and business development at GE Capital, "it is not sufficient to look just at the billing process. That might be where the problem manifests itself with the customer, but a lot of times the problem may actually start with sales people not understanding what they're selling customers and customers not understanding what they're buying."

According to Brown, a team's size depends on the business, but typically ranges from as little as six to eight employees, or, in some of the larger businesses, as many as 30 employees across a number of teams and various geographies. It is essential, he says, to pull together teams from across a number of internal functions to solve the problems.

"The most difficult thing in this whole initiative is to take cross-functional teams and have them work on problems spanning across functions. Then, you actually have to get the improvements implemented and make them stick. We've found that we need to continually measure these processes and control them through reporting and constant feedback. We currently use a quarterly reporting system, but we're probably heading to a monthly system."

GE Capital demonstrates its commitment to improving quality by pulling employees from their regular jobs and dedicating them to quality improvement projects on a rotation that can last up to two or three years. In addition, Brown says, the company has instituted several financial incentives at both upper and lower levels of the organization to be more team-based and to focus specifically on these project results.

"The cutting edge is focusing everything around the customer and linking it to actual behavior, which is probably the next phase we're going into," Brown says. "Now, we're relying a lot on interview data and what customers tell us. Next, we want to link it to actual behavior and finally, link it to financial performance. That doesn't mean that we're going to have perfect data, but it's something we can begin estimating over the next several months, then refine over the next few years. It's difficult, but there's no question it can be done."

COMMON PITFALLS IN CUSTOMER SATISFACTION MEASUREMENT

Although there is no Holy Grail of customer satisfaction measurement, David Larcker, Ernst & Young Professor of Accounting, and Christopher Ittner, KPMG Peat Marwick Term Assistant Professor of Accounting, offer their observations on limitations in typical customer satisfactions measurement programs.

Customer satisfaction measures are unstable over time. In many companies, customer satisfaction measures exhibit considerable variation from one period to the next. However, unless the company (or its competitors) has made a significant change in its operations, this variation is likely to be due to measurement error, rather than to actual changes in real customer satisfaction.

Customer satisfaction is measured using a single overall question. Customer satisfaction is too complicated to be measured with one survey item. However, many companies use a single question and simply tabulate the percentage of respondents that provide the highest rating (i.e., a "top-box" measure). But research demonstrates that these methods have dubious reliability.

Customer satisfaction measures cannot be linked to desired economic outcomes. Many firms are frustrated in their efforts to demonstrate that changes in customer satisfaction lead to future changes in customer purchase behavior, sales growth, accounting returns and shareholder value creation. Unless customer satisfaction can be linked to either current or future economic performance, customer satisfaction measures are unlikely to be providing any useful information for decision making and performance evaluation.

The drivers included in the customer satisfaction measurement are not actionable. Even if reliable and valid measures of customer satisfaction can be obtained, they are of little use unless the analysis also identifies the factors that drive customer behavior. Most customer satisfaction analyses include some examination of factors that are assumed to drive customer behavior. However, unless these factors can be translated into action plans, the customer satisfaction measures alone are unable to guide improvement initiatives. For example, customers may indicate that "professionalism" is an important determinant of their satisfaction rating. However, without some additional detailed qualitative analysis of what "professionalism" means to the customer, it is almost impossible to develop action plans for increasing customer satisfaction.

Customer satisfaction measures are not linked to customer profitability analysis. Sophisticated customer satisfaction measures provide valuable information about future customer purchase behavior and the revenue consequences of improvement initiatives. However, it is still necessary to determine the cost required to increase customer satisfaction. In some cases the cost of increasing customer satisfaction can exceed the associated revenue gains. In other instances, the most highly satisfied customer may be the least profitable due to the higher costs of serving these customers. Without supporting internal accounting systems to capture customer-level profitability data, customer satisfaction measures alone provide limited guidance for improving profitability.

practices in customer satisfaction. One of the main issues is how to standardize surveys, especially when business units may be spread around the world.

A big challenge for the global business entity, for example, is how to fold cultural differences into measurement systems, particularly in businesses where service is important to decision making. For example, J&J is very decentralized and comprised of more than 160 operating units worldwide. One of the first things to do, says Hamilton, is determine what kind of measurement scales to use.

"In Germany, scales must be reversed because in the German school system one is considered high and five is considered low, whereas in the U.S., five is typically considered a favorable score and one is lower," Hamilton says. "In the Far East, questions that require negative responses are typically not desirable because of the cultural orientation against using the word 'no'."

Another challenge for far-flung companies is instituting measures across various business units. "You have to get a firm-wide measure, but it's so dependent on what's happening in local markets," says Madway. "In my company, these business units tend to be very autonomous. It has varied from city to city as to whether the individual office did any type of customer satisfaction study. And, if they did, it wasn't uniform. One of my goals is to standardize the measurement process."

Equally difficult for managers like Madway is restating questions in a more detailed and comprehensive way to get the most useful information.

"Sophisticated performance measures are very new to many industries, especially newspaper publishing," Madway says. "In the past, newspaper executives would test readership behavior by asking their readers about a few major attributes such as appearance, reporter quality and quality of coverage, using simple scales ranging from excellent to poor."

Today, Madway notes, there are much better gauges in predicting readership and loyalty such as the degree to which the paper contains information or articles that help the reader with their business, or the degree to which interesting articles are easy to find. "We've taken the same types of questions and changed the way they're asked."

III. LINKING CUSTOMER SATISFACTION MEASUREMENTS TO QUALITY

Larcker and Ittner recently surveyed senior managers responsible for managing quality programs at major U.S. firms and found that 75 percent felt considerable pressure to demonstrate the financial consequences of their quality initiatives. Yet only 29 percent thought they could link quality to

accounting returns such as return on assets, and only 12 percent could link quality to stock price returns. Similarly, only 27 percent could link customer satisfaction measures to accounting or stock price returns.

According to Ittner, a common stumbling block is most firms' inability to link internal and external quality data. For example, defect rates and cost of poor quality are typically tracked by the quality or operations department, whereas customer satisfaction is tracked by those in marketing research. "If you really want to find out the returns of these quality programs, or which projects are going to give the biggest payback, you'd better look at both internal and external effects simultaneously," Ittner says.

"Putting more emphasis on nonfinancial measures allows a much broader understanding of what quality means," he adds. "For example, does the product or service meet customer needs? Measuring defects is one component of that, but it's a very minor component compared to things like 'Is it aesthetically pleasing?' 'Can it be serviced?' 'Is it reliable?' Incorporating nonfinancial measures gives a more encompassing definition of quality."

The difficulty, however, is that managers do not always know what to do with reams of data, says Patrick Harker, UPS Transportation Professor for the Private Sector and professor of operations and information management. "There was a lot of frustration in the early quality movement because organizations wouldn't do anything about the information they were collecting about customers. It would get lost in a bureaucratic abyss."

Indeed, several recent studies indicate that a majority of quality programs have failed to produce significant economic returns. McKinsey & Company, for example, found that nearly two-thirds of the quality programs that it examined had either stalled or fallen short of delivering real improvements. A survey by A.T. Kearney found that 80 percent of more than 100 British firms reported "no significant impact as a result of TQM," and more than 300 U.S. companies surveyed by Arthur D. Little found "zero competitive gain."

"Everybody assumes that customer satisfaction translates into better performance in the future," says Larcker. "But so far there has been relatively little evidence to back this up ...

"From a business perspective, there are two considerations: First, can you develop measures of satisfaction — relating to customers, employees, whatever — that actually tell you something about future economic consequences? Second, what component, or drivers, can you change to cause this measure to go up? If you can answer these two questions, this will tell you where you want to focus your quality initiatives."

The methodology used by Ittner and Larcker — which is based on several recent statistical advances and innovations

in the analysis of qualitative and quantitative data — provides customer satisfaction measures that are more predictive of the ultimate economic goals of the quality program. In addition, the model explicitly includes the elements of service, quality and so on that are leading to customer satisfaction, thereby providing insight into those quality improvement opportunities offering the highest potential economic payback.

To test their model, Larcker and Ittner have used data from several manufacturing and service organizations. Ittner says the first step in estimating this model is conducting qualitative research through techniques like one-on-one customer interviews and focus groups to determine the primary quality components, such as product price, packaging, cleanliness of facilities, courteous service and breadth of promotion programs.

"You have to figure out what people really mean by quality," Ittner says. "For example, in the fast food industry, initiatives like offering the latest promotions (the newest Walt Disney toy, for example) can have a big impact on

customer satisfaction. Quality is a lot more than just the product, especially in service businesses. Ultimately you don't just want customers to be happy; you want them to come back and buy your product or service again."

After collecting the initial qualitative data and identifying the potential drivers of customer satisfaction, the researchers use a sophisticated statistical technique

that "maximizes the ability of the customer satisfaction measures to predict economic outcomes (retention, customer profitability, the likelihood of the customer providing positive word-of-mouth advertising) and ultimately economic outcomes such as stock price or return on assets," Ittner says. "You don't just want to maximize customer satisfaction, but those aspects of customer satisfaction that have the biggest impact on economic performance."

After making that assessment, a company has a ranking of quality components in terms of their input on customer satisfaction and the creation of economic value. This is a key input in deciding how a company allocates the budget for quality improvement.

To test whether the link has been made, sales figures should be checked against satisfaction scores over some time period (generally six to twelve months). Controlling for things such as layoffs, strikes, or unexpected downturns in the economy, a positive relation between customer satisfaction and financial performance is typically observed.

"Information like this is invaluable for companies in industries with short customer cycles like banks or the Yellow Page directories, or in industries like telecommunications and health care where customers can easily switch

"ULTIMATELY YOU DON'T
JUST WANT CUSTOMERS
TO BE HAPPY; YOU WANT
THEM TO COME BACK
AND BUY YOUR PRODUCT
OR SERVICE AGAIN."

allegiance,” says Ittner. “You can see fairly quickly if people aren’t happy, and this allows you to make adjustments where needed.”

However, this analysis is not limited to companies with short customer repurchase cycles. In industries with long repurchase cycles, nonfinancial customer satisfaction measures can provide early warning of problems long before financial results turn down.

For those companies that are able to more accurately measure soft assets, say Larcker and Ittner, there is a payoff. A study they completed in 1996 found that companies ranking the highest in the American Customer Satisfaction Index (discussed annually in *Fortune*) — a leading tracker of customer satisfaction data for major U.S. companies — significantly outpaced lower-ranked companies in the stock market.

IV. LOOKING AHEAD

“The cutting-edge work now being done links different parts of a company into a system that is essentially mathematically based, but feeds on data collected within the firm and from its customers,” says Claes Fornell, the Michigan professor who is also founder of The CFI Group, an Ann Arbor-based consulting firm specializing in customer satisfaction measurement.

“For example, if we change this aspect of an employee’s working environment, we can trace the effects of that all the way through to shareholder value. We can see how employee satisfaction impacts the customer’s evaluation of the firm, how that affects return on investment and how return on investment impacts shareholder value.”

Fornell, a research collaborator of Larcker’s, says that one of the outcomes of the work being done by Larcker, Ittner and others, is that companies will not be as captive of short-term financial performance. “Quarterly earnings reports will still be significant, but not as important as they are today. Intangible assets such as customer satisfaction are much more long-term in nature.”

Moreover, customer satisfaction and quality are just the tip of the non-financial asset iceberg. “There are other assets — alliances, supplier relationships, intellectual capital, employee diversity, channels of distribution — that are equally, or even more, valuable,” says Larcker.

The work in this area may also mark a resurgence in the quality movement, according to some long-time experts in the quality field.

“Quality is not passé,” says Wharton Professor Paul Kleindorfer, Universal Furniture Professor of Operations and Information Management. “It’s the very core of an analytically oriented, customer-focused person who wants knowledge about the market and how his or her organization can create value for that market. In the hands of such a person, quality is a very valuable perspective and a real motor for change and growth.” ▼

Michael Baltés

USING NONFINANCIAL MEASURES TO DETERMINE COMPENSATION

Although companies have traditionally relied on financial measures to reward executives, David Larcker, Ernst & Young Professor of Accounting, says that an increasing number of nonfinancial measures like customer satisfaction and employee satisfaction are being used in the bonus contracts of executives. For example, the Chrysler Corporation ties a large amount of its executive bonuses to the J.D. Power and Associates quality survey.

Larcker, Wharton’s Christopher Ittner, KPMG Peat Marwick Term Assistant Professor of Accounting, and Madhav V. Rajan, associate professor of accounting, collected data from 317 companies across many industrial sectors and found that 36 percent of the companies sampled used nonfinancial measures to determine executive rewards.

They also uncovered several key factors that influence which type of measure a company preferred. The primary insight is that companies that pursued strategies founded on innovation and new product development (strategies that are fundamentally long-term in scope) tended to favor nonfinancial measures. In addition, nonfinancial measures are used more frequently in companies with a well-developed quality program, in utilities and telecommunications firms that face regulatory and competitive pressures to improve nonfinancial dimensions such as safety and customer satisfaction, and in firms where financial performance measures are heavily influenced by factors outside the executives’ control.

Finally, they found no evidence that executives manipulated boards of directors into adopting nonfinancial measures to pad bonuses (an important finding because it contradicts a common fear that greed may motivate the adoption of such measures).

Although many companies have embraced the tying of compensation to nonfinancial performance measures, some experts say that the results have been mixed and that success often depends on the organization. In some companies, this approach is applied not just to senior executives, but taken down to the sales level, says Denis Hamilton, WEMBA’87, director of quality management at Johnson & Johnson. But, says Hamilton, that may not necessarily be positive. “The general view I’ve heard is that there’s too much manipulation of the results when you take it down to that level.”

However, Bill Madway, W’79, WG’85, director of research at American City Business Journals, says that companies can always do a better job of satisfying customers, and one way is to tie employee bonuses into nonfinancial performance measures like customer satisfaction. “This applies to everyone, especially the lower-level employees because they’re on the front lines with the customers,” Madway says. “If employees are able to drive up customer satisfaction and it helps the company’s bottom line, they should be rewarded for that.”

EUROPEAN UNION,

OR IS IT

DISUNION?

MANAGEMENT PROFESSOR GEOFF GARRETT ANALYZES THE POLITICS AND PERSONALITIES BEHIND THE STRUGGLE FOR EUROPEAN INTEGRATION

Talk to Professor Geoff Garrett about the subject of European integration and you will hear a tale of drama, intrigue and passion more suited to a discussion of Italian opera than international economics.

Garrett draws upon such material as the tension between German Chancellor Helmut Kohl and Germany's powerful Bundesbank, the climactic end of the Cold War in 1989, the street riots in Paris over government job cutbacks, the sudden collapse of the Italian lira and English pound in 1992 and the ongoing struggles of Eastern European countries to win acceptance into the European Union (EU).

"Developments over the past 15 years have transformed the way Western Europe works," says Garrett, an associate professor of management whose research is primarily in international political economy and European integration. "On many important dimensions we are seeing something akin to the formation of a European federation of states among countries that have a long history of hostility and disagreement. It is a fascinating process to watch."

For the moment, all eyes are on Europe's upcoming transition to EMU — the formation of an Economic and Monetary Union with the creation of a single currency, the "Euro", in 1999. Yet even as analysts are busy debating which of the 15 countries in the European Union will join EMU, Garrett is quick to point out that monetary union is only the latest development in the evolution of European integration. Two other events of major significance set the stage for EMU's arrival.

The first, and one that is extremely important for business, was the creation of a large body of pan-European law. "Although this body of law has its roots in the Treaty of Rome signed back in 1957, the case law of the European Court of Justice (ECJ) that was developed between 1964 and 1979 has been critical," says Garrett.

Unlike most international law, he adds, "ECJ decisions are binding and are followed by most member countries. The court has real authority to arbitrate in international disputes, which has been a boon for trade."

The second major development was ratification of the Single European Act in 1987 and the subsequent move towards majority decision-making rule. "This is more or less without precedent," says Garrett. "In the Security Council of the United Nations, for example, any permanent member can veto any decision it doesn't approve of. But with the passage of the Single European Act, the rights of individual countries to block initiatives they don't like were substantially reduced."

The Single European Act heralded a renewed commitment towards a truly free market system in Europe, Garrett adds. "European leaders committed to going much farther, much faster, than ever before, and decided to do it by greatly reducing national sovereignty in the regulation of markets."

But the momentum for European integration took an unexpected turn in 1989 with the end of the Cold War. "Suddenly enormous new problems and opportunities were created throughout the world," says Garrett. "People worried that unification would lead to an aggressive, expansionist Germany. Germany was already the economic power; now it would be the political power as well. How do you deal with that?"

Moving north and east, there were other considerations. Because of their proximity to Soviet bloc countries during the Cold War, Austria, Finland, Norway, Sweden and Switzerland had chosen to remain neutral and outside the EU. That all changed post 1989. In the early 1990s, three countries — Austria, Finland and Sweden — did join the EU. Switzerland and Norway chose not to. The main reason the Swiss didn't join,



GARRETT

says Garrett, “is because they are notoriously protective of their national sovereignty; the Norwegians are as well, plus they have enormous oil reserves which makes it easier for them to go it alone.”

Still further east, applications for EU membership from Eastern European countries, led by the Visegrad Four — the Czech Republic, Hungary, Poland and Slovakia — have met with tacit resistance from the governments of Spain, Portugal, Greece and Ireland who worry that their privileged position on agriculture and development assistance will be threatened by competition from Eastern Europe. France has also expressed reservations. Germany, however, wants the Visegrad Four in.

And that’s just a preview of what’s to come. The anxieties over European integration are especially pressing now because of EMU’s timetable: Although a single currency is not scheduled to take effect until 1999, countries will be admitted to, or denied membership in, EMU based on data from 1997.

In an article last year in the *Financial Times*, Garrett assesses the economic consequences of EMU and its implications for EU member states. His research takes into account EMU’s convergence criteria — a set of requirements for entrance into EMU that are laid out in the Maastricht Treaty of 1992. The two key criteria are: a country’s budget deficit cannot exceed three percent of GDP; and public debt cannot exceed 60 percent of GDP. But these rules aren’t hard and fast, Garrett notes. Countries will be admitted or not, based on a ruling by a “qualified” majority as to whether sufficient progress has been made towards meeting the criteria.

In his article, Garrett talks about the potential costs of creating a single European currency and a single monetary policy for all EU members. He also looks at three other factors that will influence the domestic effects of joining: the extent to which countries’ central banks are already independent from political control, the extent to which their labor market institutions can coordinate the workforce to contain wage increases, and the extent to which countries trade with each other.

“This critically important economic initiative has very deep political roots that go back to more than a century of instability in Europe and, most importantly, the series of wars between France and Germany,” says Garrett. “What interests me is how the politics and economics fit together.

It’s very different from a corporate strategy view of Europe which looks at EMU’s impact on this or that type of multinational. At the same time, corporations do need to know what this new Europe will look like if they are to make informed decisions.”

Garrett was born in Australia, earned his BA at the Australian National University and his MA and PhD at Duke University. He taught at Oxford and Stanford before coming to Wharton in 1995.

His forthcoming book, titled *Partisan Politics in the Global Economy*, argues against the idea that globalization of the economy has fundamentally reduced national autonomy, suggesting instead that there are many ways to successfully compete and also retain national economic identity.

Below, he discusses key issues and important players in the move towards European integration.

EMU: PROS and CONS

“EMU makes a lot of sense for countries that are part of the European ‘core’, meaning those countries that do substantial trade with Germany and have symmetrical business cycles.

Governments from other countries might want to be in EMU for a different reason. Joining EMU, they feel, might actually reduce the power of the German Bundesbank over their economic policies. The bigger the monetary union and the more members in it, the less the monetary union is likely to be dominated by German-style concerns — price stability above all else.

In my article in the *Financial Times*, I speculated on the predicaments of different EU members. Participation in EMU is an easy decision for Austria, Germany, Luxembourg and the Netherlands. These countries already have delegated monetary authority to institutions that are insulated from political control, most importantly the German Bundesbank. As a result, the dislocations from the transition to monetary union would be small. Labor market institutions are also quite encompassing in these countries, and hence the labor market is likely to respond efficiently to EMU. Moreover, these countries form a tight trading bloc and their business cycles are highly correlated.

The UK is at the other end of the spectrum. The Bank of England continues to be heavily influenced by the government. British labor market institutions have become very fragmented following the Thatcher decade. The British economy is not well integrated into Europe in terms of trade and business cycles.

The bulk of EU members lie in between these two extremes. The most important case is France. The Bank of France is relatively independent but French labor market institutions are weak. Furthermore, intra-European trade is not so important for the French economy as for the members of the EU core.

I believe that there will be a monetary union in 1999. The political importance of maintaining the pace of European

integration will overcome other misgivings. But this EMU will be small, comprising only France and the tight “DM-zone” — Austria, Germany, Luxembourg and the Netherlands. Is that good? For the DM-zone, absolutely. They are the ones that *should* be in it. France fits into this category, but for political rather than economic reasons. Belgium ought to be in it as well because its economy is intimately tied to Germany’s. But Belgium radically violates the convergence criteria because it has the largest public debt of any European country. If you let Belgium in, it becomes very difficult to exclude anybody else.

The question for Europe is, will this small group of tightly-linked countries within a larger free trade area be a magnet that will attract other countries over time, so that perhaps in five years or so Italy, Spain and Portugal will join this monetary union? That’s the optimists’ view.

The pessimists’ view is no, there will be a big barrier created in Europe in the form of a small core of countries that is tightly integrated in almost all ways. These countries will probably attempt real foreign policy cooperation as well, which in the past has been impossible for Europe. Witness Bosnia, which has been a disaster for European foreign policy. The negative view says there will be a big barrier around this small European core and everyone else will lose.

The Italian government, for example, is scared. On the one hand, the Italian economy is not part of the EU’s economic core. But on the other hand, the Italian government desperately wants to be in EMU because not being in suggests second-class European citizenship. Italy doesn’t want to be excluded. Joining the EMU might also impose some much needed discipline on Italy’s domestic business environment. German leaders, however, view Italy as an undisciplined economy that could destabilize EMU. The French government has recently expressed similar views. Given these reservations, it is doubtful that Italy will be in the first wave of EMU, a body blow for one of the founding members of the EEC (as the EU used to be known).

For many people outside the EU core, the big issue is whether a small EMU will create a two-class system in Europe that could have damaging long-term consequences. I think that is more likely than the magnet theory that says the core moves first and everyone else will soon follow.”

EASTERN EUROPEAN COUNTRIES: OUTSIDE LOOKING IN

“Before the Eastern European countries can even think about EMU, they have to be admitted into the European Union.

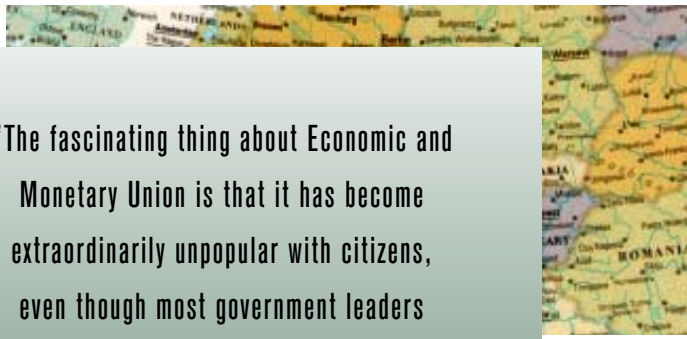
Getting the Eastern European countries into the EU is extremely complicated because they are poor countries that are competitive in agriculture and cheap manufactured goods. The existing EU members who are also poor — led by Spain, Portugal, Greece and Ireland — currently receive substantial development aid from the wealthy north of

Europe that they fear would get diverted to Eastern European countries if they were admitted to the EU.

The other group of countries that has reservations about expanding the EU includes France and Italy, with large and uncompetitive steel, textile and agricultural sectors. The clearest problem here concerns the Common Agricultural Policy, a complex system of agricultural subsidies to large but inefficient agricultural producers. At the moment, three quarters of the European Union budget is made up of agricultural transfers from countries that consume agricultural products to countries that produce them. The biggest producer is, and always has been, France, who of course wants this common agricultural policy to stay in place. It can’t stay in place if you give it to the Eastern Europeans.

Who is the big mover behind Eastern Europe’s acceptance into the EU? Germany. The German agenda is part political and part economic. First, Helmut Kohl believes that stabilizing Eastern Europe is essential to Germany’s future, and I think he’s probably right. The way to stabilize Eastern European countries is to bring them into the Western bloc. In addition, German companies were the first into Eastern Europe. They have by far the strongest foothold and as a result can only benefit from this process.

Ultimately the Eastern European issue pits Germany against most of the other Western European countries, including its perennial partner in EU affairs, France. The question is whether the political will of Helmut Kohl or his successor can make this work.



“The fascinating thing about Economic and Monetary Union is that it has become extraordinarily unpopular with citizens, even though most government leaders are completely committed to it.”

I think Eastern Europe will get into the EU but they will most likely come in as second-class citizens, at least initially. All the rules of membership will apply to them but in cases where they could do damage to existing members’ economies, they won’t get all the benefits. For example, they won’t get as much development assistance, now moving from the wealthy European countries to Spain, Ireland, Greece and Portugal. These four countries will agree to Eastern Europe’s entrance provided their own benefits aren’t cut. And the only way not to cut their benefits is either give very little to the East Europeans or have Germany pay for Eastern Europe.

Kohl's inclination is to pay this price, but that is impossible at the moment considering the enormous debts his government has accrued as a result of rapid German unification.

Given these constraints, do the Eastern European countries really want to join the EU? The answer is yes, they want to join very badly. The governments from these countries think there would be economic benefits, which there probably would be. For example, their economies would become much more attractive to foreign investors because now you would be investing say, in the Czech Republic, but your firm could sell its goods and services with no trade barriers to Germany. So you don't have to pay German costs to have access to the German market.

Also, the Eastern European countries hope that by joining the EU they will get some development aid from Germany.

Nonetheless, the whole Eastern Europe question is going slowly. Realistically, you won't have even the four most developed Eastern European countries in the EU until well after 2000. The decision to let them in has to be made very slowly because agriculture is paramount to France, development assistance is critical to Spain, and both countries can make common cause with Italy on these issues. These are the three most influential countries in the EU apart from Germany."

HELMUT KOHL AND THE BUNDESBANK:

"Germany has the strongest economy in Europe and a strong central bank, so it is very hard for anything to happen in Europe without Germany wanting it to happen.

But that hasn't been a problem because Helmut Kohl has committed himself completely to the project of European integration. Obviously German reunification was even more important at the turn of the decade, but that happened relatively easily. Now creating a 'European Germany' is paramount to Kohl. He has to balance not only external constraints, like the opposition of some countries to Eastern Europe's inclusion plus the differing opinions about what monetary union should look like, but also a serious domestic constraint, which is the German Bundesbank.

The Bundesbank has believed for a long time that Kohl always puts political objectives above economic prudence. And the Bundesbank is a very powerful actor in Europe. If the Bundesbank raises interest rates, that causes a recession on the whole continent, which is what happened in the early 1990s. The Bundesbank raised German interest rates as a way of punishing Kohl for reunifying Germany very quickly and in an extremely expensive manner. The result was a devastating recession throughout Europe.

The Bundesbank is mandated to care only about the inflation rate — i.e. price stability. If that means you have to live with a 10 percent unemployment rate, the Bundesbank says, 'That's okay. The government should deal with that, not us.' It's a remarkably powerful institution.

The historical reason that the Bundesbank was given this mandate was that Germans believe, probably rightly, that it

was careless money, or hyperinflation, in the 1920s that led to political instability and gave rise to Hitler. As a result there is a shared national view in Germany that inflation is bad and that prices should be kept as stable as possible."

NO POWER TO THE PEOPLE

"The fascinating thing about EMU is that it has become extraordinarily unpopular with citizens, even though most government leaders — led by Kohl and President Jacques Chirac of France — are completely committed to it. Why is it so unpopular? Because the economics of it are very complex and the citizens don't understand it. What they do understand is that back in the early 1990s they were promised that the Maastricht Treaty would make everybody in Europe better off.

Over the next five years, however, a lot of citizens suffered badly. While fixed exchange rates, in the form of the European Monetary System (EMS), were associated with lower inflation and higher growth in the 1980s, things looked very different in the early 1990s. Most European countries were going into a post-cold war recession, but the German economy was overheating as a result of government spending on German unification. Since Europe was tied together by the EMS, the other countries had to adopt German monetary policy, which was far too tight for them. Slower growth and rising unemployment were the logical consequences of this. Citizens began to realize that their governments had signed away an enormous amount of sovereignty at Maastricht. Then on black Monday, September 16, 1992, EMS all but fell apart in very dramatic fashion. The pound and the lira were both forced out of the system — heralding a year of currency instability and massive international capital movements in Europe.

Most people believe that the Bundesbank played a role in the crisis by hinting that the Italian and British economies should not be in a monetary union with Germany. The Bundesbank effectively told the currency markets that the lira and pound were overvalued and should float against the Deutsche Mark. Conversely, the Bundesbank propped up the franc.

The tightness of the French-German bond over monetary union is amazing. The French government has been prepared to sacrifice massive domestic hardship in the name of keeping monetary union alive. Essentially what this has meant is that the French government has adopted German economic policies at a time when those policies are terrible for the French people.

The fact that government leaders in both countries are willing to do this shows you the importance of these big political issues. The legacy of the pre-1945 era for France and Germany is clearly so powerful that the goal of trying to eliminate the possibility of another continental war is one they are prepared to pay almost any price to achieve. In France that has meant unemployment, massive strikes in the public sector and large scale rioting in the streets.

Continued on page 27

ALIVE AND WELL AND WORKING IN ...



OUR SERIES ON ALUMNI IN DIFFERENT CITIES TRAVELS TO PUERTO RICO, HOME TO APPROXIMATELY 3.7 MILLION PEOPLE — INCLUDING 150 ALUMNI — IN INDUSTRIES RANGING FROM BANKING, INSURANCE AND FOOD PROCESSING TO REAL ESTATE, LAW AND TOURISM. THE 100-MILE LONG ISLAND IS ALSO HOME TO MORE THAN 200 BEACHES, YEAR-ROUND TEMPERATURES IN THE 80S AND A PORT THAT IS THE CRUISE SHIP CAPITAL OF THE CARIBBEAN. WHETHER YOU GO FOR BUSINESS OR THE BEACH, CONSIDER TAKING ALONG OUR LIST OF RESTAURANTS AND HOTELS. THEY COME HIGHLY RECOMMENDED.

RICHARD CARRIÓN, W'74
CHAIRMAN, PRESIDENT AND CEO, BANPONCE

As if running Puerto Rico's largest bank, aggressively expanding operations into the U.S., Central America and the Caribbean, and targeting new initiatives in the family business sector isn't enough, Richard Carrión is also aiming to get Puerto Rico chosen as the site for the 2004 Summer Olympics.

Carrión is chairman, president and CEO of BanPonce, where he oversees a financial services holding company with \$16.8 billion in assets and a market cap of \$1.8 billion. Banco Popular, the corporation's full-service commercial banking subsidiary, has 170 branches in Puerto Rico and focuses mainly on the small and middle market.

In the U.S., Banco Popular has expanded its empire by targeting emerging Hispanic communities and setting up user-friendly neighborhood banks. The company has 30 branches in New York, six in New Jersey, eight in Chicago and four in Los Angeles, and plans to expand this year into Florida and Texas. It is already the largest commercial bank lender of SBA loans in the U.S.

This northern strategy complements an expansion to the south as well. Banco Popular currently offers its ATM service to consumers in the Dominican Republic and is in the process of building a system in Costa Rica. "We are looking for local partners in Central America and the Caribbean," says Carrión. "We also have an investment in a Jamaican bank and our own banking network in the Virgin Islands."

Within Puerto Rico itself, the family business sector is a clear fit for Banco Popular. "It is very much our market, and it is an extremely important one for Puerto Rico," says Carrión, who has five children ages 4 to 16. "Family-controlled companies are more committed to the business and they are good competitors."

One of the biggest challenges for family businesses, he adds, "is stewardship of the corporation. As succeeding generations come, who is going to manage the company? We like to say that running a business is extremely difficult and running a family is extremely difficult, so running a family business is difficulty squared."

Banco Popular is offering educational seminars to family businesses — in conjunction with the Wharton Family-Controlled Corporation Program — and helping them "put in place the mechanisms that will improve their opportunities for survival. We are also helping our commercial loan officers better discern the difference between a stable family business and one that is headed for trouble."

Banco Popular itself was run by Carrión's father and grandfather before Richard Carrión took over as president in 1985 and as CEO in 1989. In 1990, the company merged with its rival, Banco de Ponce.

As for the Clinton administration's recent repeal of Section 936 of the U.S. tax code, which in effect eliminates a set of special tax breaks for U.S. companies operating in Puerto Rico, Carrión expects a short-term negative impact on Banco Popular — which does a considerable amount of business with mainland companies that operate on the island — as well as on the Puerto Rican economy. "We will see a significant exodus of 936 funds from the market, which will have to be replaced with slightly more expensive ones. But in the long run we should be all right. Puerto Rico needs to diversify its economic base more than it has, and there are already mechanisms on the manufacturing side for doing this."

Then there are the Olympics. Carrión, an avid racquetball player, is lobbying hard to have Puerto Rico chosen as host for the 2004 Summer Olympics. "It would be very helpful for our economic and social development," says Carrión, who suggests that the hotel capacity issue be solved by putting people up in cruise ships in the San Juan harbor.

"What makes the Olympic Games great is the philosophy of competition," he adds. It's true that the commercial side of the Olympics has allowed the philosophy to grow and be present in more parts of the world, but it is the strength of the Games that should be brought to the forefront."

RAFAEL A. ROCA, W'49
CHAIRMAN OF THE BOARDS, PRAICO
INSURANCE GROUP

After Rafael Roca left Wharton he joined the family business, which back then consisted of coffee and sugar plantations, stone quarries and cattle. "It wasn't for me," says Roca. "Coffee plantations are up in the mountains. I preferred the city. I went to work for GE's industrial sales division for half the salary and without the car my father had offered me."

He spent four months at GE, four months at Seagrams' rum distillery, and then, in 1950, moved to Puerto Rican-American Insurance Co. (PRAICO).

He has been with them ever since in a variety of positions, including co-owner and chairman. "When I first started, PRAICO had five employees; now it has 566," says Roca. In 1993, the last year production was directly responsible to him, the group was the largest property/casualty insurer in Puerto Rico. Now, with about \$110.6 million in revenues, it is the third largest in a field of approximately 109 property casualty companies. It also has a life insurance company.

In 1979, PRAICO was acquired by the Continental Insurance Company of New York. Five years later it entered into a partnership through a reinsurance pooling agreement with Pan American Insurance Co., thereby enabling Roca, who that year had acquired Pan American, to stay with the Group and aggressively grow the companies.

In 1991 Continental sold the PRAICO companies and Roca sold the Pan American companies to Mapfre Interna-

FAVORITE RESTAURANTS	
	Il Perugino Pikayo
✻	
Caribe Hilton Horned Dorset Primavera	
FAVORITE HOTELS	



cional, S.A., a subsidiary of the largest public insurance company in Spain. Under the terms of the deal, Roca stayed on as chairman and CEO until last

April. He is now chairman and chief investment officer.

Today, Roca and his wife are involved in a number of philanthropic ventures, including homeless shelters and the local Catholic university. He is particularly interested in music, and through his company has provided scholarships to Puerto Rican music students who wish to study in the U.S. He sits on 18 boards, seven of them outside Puerto Rico, including the board of trustees of the National Symphony Orchestra at the Kennedy Center in Washington, D.C. His brother, Gaspar, W'47, is currently head of El Vocero, the largest newspaper in Puerto Rico.

Roca says his business philosophy can be summed up by Winston Churchill's commencement speech at Oxford: "Never give up; never give up; never give up." His biggest challenges over the years have been very stiff competition from U.S. and foreign companies, adverse loss ratio periods when rates could not be raised due to political and other pressures, and the stress of hurricane seasons.

Although he has no immediate plans to move on from PRAICO, he does not discount the possibility of another venture. "One of these days there might be something else I would enjoy doing, maybe in the field of investments," he says.

MANUEL H. DUBÓN, W'63, L'66
PRESIDENT AND CEO, D GROUP EQUITIES

Manuel Dubón's immersion in Puerto Rico's economy and politics is impressive and it goes back a long way.

Dubón, who earned a JD degree from Penn in addition to his undergraduate business degree in accounting and finance, practiced law for almost two decades, with several short interruptions, including one year as executive officer and legal counsel to the Senate Finance Committee in Puerto Rico, two years as a captain in the U.S. Army in Europe and two years as the island's economic development administrator.

"In 1978 I was responsible for drafting the law and implementing the economic policy that made U.S. multinationals (936 companies) start paying corporate taxes to Puerto Rico," he says. "We changed the industrial incentive system from one of 100 percent tax exemption to one of partial taxation. I wasn't a very popular fellow."

The program also offered a deep discount of the tax if the 936 companies voluntarily elected to reinvest all or part of the annual profits in Puerto Rico. "It worked like a charm, helping to defray, in part, the cost of the modern educational, transportation and public utility infrastructure that Puerto Rico enjoys today," Dubón adds.

In 1986 Dubón stopped practicing law to concentrate his attention on business enterprises. He is president and CEO of the D Group Equities holding company and spends about

one half his time with D Group Commercial Equities Associates, a real estate partnership that does development, property management and construction. Through D Group Capital Corp. he is involved with the group's financial services and investments in the equity and financial markets. He is also chairman of The Bank and Trust of Puerto Rico, a private bank he helped create, and secretary of Mendez & Co., one of the largest food, liquor and beer wholesalers in Puerto Rico. He is involved with Mendez's affiliated Inter-ship and Intermarine groups, the largest stevedore and marine terminal operators of the Port of San Juan.

"We have professional management in all these entities; my job is to supervise performance and help set policy and goals. I also love to negotiate, structure complex business transactions ... and above all create institutions," he says.

Dubón is married and has five children, including a Wharton graduate and a current Wharton student. His brother Luis also went to Wharton, W'56, and is a lawyer.

Despite his business responsibilities, Dubón has been an active member of the New Progressive Party that advocates statehood for Puerto Rico. He was a delegate to the Republican National Convention in San Diego and counselor of the Dole campaign in Puerto Rico.

On the subject of President Clinton's repeal of Section 936 of the U.S. Tax Code, Dubón says he would have preferred a "period of transition rather than an immediate phase-out of the tax breaks, with some alternative relief in the form of a new wage-based tax credit incentive." But he doesn't think repeal will have the disastrous effects that some are predicting for Puerto Rican industry.

"Our industrial sector today is much more sophisticated and has a stronger capital base than before," Dubón says. "It would cost billions to replace that production capacity in addition to the lengthy environmental permit process that any new plant installation or relocation would have to undergo."



CARMEN A. CULPEPER, WG'68
PRESIDENT, FINAPRI, INC.

At the same time that Carmen Culpeper was developing financing alternatives for the public and private sectors at Clark Melvin Securities Corp. in San Juan, she was also doing independent management consulting for such clients as the P.R. Government Development Bank, the University of Puerto Rico, Grenadier Realty, the P.R. Buildings Authority and Triple S, the biggest health insurance company in Puerto Rico.

Today, Culpeper is president of Finapri, a subsidiary of Triple S, which finances the purchase of insurance policies in property, public liability and other areas.

"The company was on the books in May of 1996 but I really started operating it and hiring people last September.

We currently have five employees, a number that will probably double this year, and a million dollars in premium financing," says Culpeper who grew up on the island and graduated magna cum laude in finance from the University of Puerto Rico. The company eventually plans to expand into equipment leasing and other types of financing.

After Culpeper graduated from Wharton, she worked for Peat Marwick Mitchell as a consultant and then joined Volkswagen as their finance manager in Puerto Rico. From 1973 to 1977 she was a control unit manager for Citibank, N.A. in Puerto Rico before taking a year's leave of absence to be the financial and economic affairs aide to the Mayor of San Juan. From 1978 to 1981 she was executive aide to the Mayor, coordinating the personnel, finance and administrative units and directly supervising the risk management function for San Juan.

In 1981 she was appointed Secretary of the Treasury for Puerto Rico, and in 1985 rejoined Citibank as vice president, Latin American Bank Group, New York.

From 1988 to 1992 Culpeper was president and CEO of the State of New York Mortgage Agency. In 1992 she joined Donaldson, Lufkin & Jenrette as manager of DLJ's Puerto Rico account and oversaw a \$700 million tax revenue anticipation note issued for the Commonwealth.



She stayed at DLJ until 1995 when she moved to Clark Melvin Securities Corp. as senior vice president.

Culpeper is optimistic about the repeal of Section 936. Although the legislation last summer eliminated new tax

breaks retroactive to Jan. 1, 1996, it agreed to phase them out over 10 years for companies already in Puerto Rico. This 10-year grace period "provides time to create something new in the interim," she says, "such as incentives on the local tax level that would attract new corporations to the island."

VICTOR GONZALEZ, W'74
ENTREPRENEUR

Even while he was at Wharton, Victor Gonzalez took courses at Penn in biology as preparation for a master's degree in forestry from Yale.

Today, all his entrepreneurial business ventures share, to varying degrees, two goals: protecting the environment and making money. Or as Gonzalez puts it, "It's a matter of combining what I learned at Yale about ecology with what I learned at Wharton about finance."

Gonzalez' business ventures are grouped into three companies. Puerto Rico Land and Fruit Co. produces and sells organically grown coffee, manages ecological restoration projects and is involved in setting up a mitigation bank. The concept behind a mitigation bank, says Gonzalez, is to establish an inventory of restored and created wetlands which are

then sold as credits to developers whom regulatory agencies allow to impact environmentally sensitive areas.

"No one else in Puerto Rico is doing this, although it is becoming more common in the U.S.," he adds. "These mitigation banks are seen as a way of resolving the main conflict between the business and environmental communities by offering companies a way to both make money and protect our environment."

Gonzalez has two other firms, Mateco and Celta, which import lumber, plywood, steel, cement and related materials for the building and construction industries. Altogether he employs about 200 people.

"The theme behind everything I have done is that of the small- or medium-sized businessman taking the risks and getting the rewards, rather than working out the solutions to problems through a large corporate structure."

Born in Havana, Cuba, Gonzalez moved with his family to Puerto Rico in 1962 at age 10. He and his wife, Tania Serralles, C'78, have three boys. Gonzalez sits on the board of a non-profit conservation organization based in Philadelphia and serves as an adviser to Yale's School of Forestry in New Haven.

"I have been extremely happy living in Puerto Rico," he says. "I am very grateful for the way the Puerto Rican people freely and openly welcome foreigners like myself, and offer us the same opportunities as they have themselves. No other Caribbean or Latin American country is like this. It shows how big Puerto Rico's heart is."

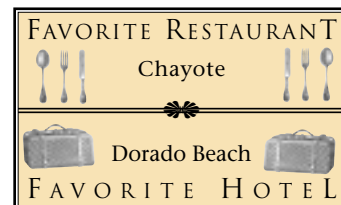
MANUEL R. DE JUAN, WG'86
DEPUTY EXECUTIVE DIRECTOR, MARKETING,
PUERTO RICO TOURISM CO.

In late 1992, Manuel De Juan was a brand manager in charge of all Procter & Gamble products sold in the Dominican Republic and Haiti. An old friend who happened to be executive director of the Puerto Rico Tourism Co. called him with an offer he couldn't refuse — to head up the tourism agency's worldwide marketing of Puerto Rico as a destination, primarily for vacationers but also for the group and convention market.

"I spent three weeks trying to convince myself not to take it, but in the end I decided it was too good an opportunity to pass up," says De Juan.

The Puerto Rico Tourism Co. is a public corporation of the Government of Puerto Rico, and as such has top-level backing to make tourism into the engine of economic growth for the whole island. It's a challenge that sends De Juan out on the road 50 percent of his time inviting the world to "discover the continent of Puerto Rico."

"'Continent' is a rather dramatic term, but we use it because there are so many experiences to be enjoyed here,"



says De Juan, going on to mention the island's 200 beaches, year-round average temperature in the 80s, rich culture and overnight options that range from luxury resorts to more affordable hotels and inns.

De Juan's responsibilities include infrastructure and public policy issues designed to promote tourism. In 1993, for example, "we created a law to provide incentives for hotel room development in Puerto Rico that has caused an explosion of rooms being constructed — and filled. This year we have about 10,200 rooms; next year we anticipate 13,000."

On the marketing side, "we recently did a quick inventory of our video production and realized that if you count the videos we have either produced directly or been a part of, it comes to 500 hours of programming that has been shown in a number of outlets, including national TV. 'General Hospital,' for example, came down here and filmed about a month's worth of episodes. The shows were stunning."

De Juan grew up in Puerto Rico and graduated cum laude from Yale University with a degree in economics. He and

his wife, a marketing research manager at P&G (where they met), have a year-old son.

"The current governor of Puerto Rico is a pediatric surgeon who brought with him into government a cadre of young professionals from the private

sector to accomplish a number of top-priority goals, including the development of tourism," says De Juan. "I knew when I took this job that I was coming into a situation where I was getting a lot of support and could truly make an impact on the future of Puerto Rico."

SILA GONZALEZ, W'87
LAWYER

Sila Gonzalez divided her time last fall between taking care of her infant son, working occasionally for a real estate developer and helping her mother, Sila Calderon, run for mayor of San Juan as the Commonwealth Party candidate. (She won.)

During the course of the campaign Gonzalez had an opportunity to meet many Puerto Ricans at rallies and fundraising events — an experience which she says kindled her interest in working in the government at some point in the future. "There is so much poverty still in Puerto Rico. You feel that perhaps if you had a position in government you could do something to help people out."

At the moment, though, Gonzalez has set aside several years to raise a family. She attended law school at Boston University after graduating from Wharton and then worked in the Boston regional office of the U.S. Environmental Protection Agency. While at BU, she met her husband, a doctoral student in physics who decided to switch to law. He earned his JD at Harvard Law School and now works for a law firm in San Juan.

Gonzalez and her husband — both of whom grew up in Puerto Rico — returned home in 1992. She worked for a small law firm and then a large one, O'Neill & Borges, until she took leave in October 1995 to start a family.

Gonzalez' affiliation with the Commonwealth Party — as opposed to the Statehood Party or the Independence Party — is rooted in the feeling that Puerto Ricans have "a different culture, history and language. I feel more Puerto Rican than American. On the other hand, I don't think independence would be economically feasible. We get a number of benefits from the U.S., although we reciprocate by paying some taxes, contributing to the armed forces and so forth."

As for her mother's election as mayor of San Juan, Gonzalez acknowledges that the family will have less privacy than before. "If I have to make a sacrifice in terms of our family relations, I do it gladly because I know she is going to do great work."

SALUSTIANO ALVAREZ, W'54
PRESIDENT, MENDEZ & CO.

A few years ago, says Salustiano ("Tito") Alvarez, his company — one of the top three food and liquor distributors in Puerto Rico — was able to import beers only in 10-ounce cans and in bottles that had to comply with a specific shape and color.

The Puerto Rican government, supported by the labor unions, did that "to protect local industry," says Alvarez. "But we lobbied hard to get those restrictions removed, even arguing at one point that they were unconstitutional." The lobbying paid off, and the company won a permit allowing greater flexibility with regard to beer containers.

Today Mendez & Co.'s most popular brand is Heinekens, offered in several different shapes and sizes, followed by Miller. The company also sells distilled spirits and wines and has a food division that offers such well-known brands as General Mills and Beechnut. Sales are in excess of \$200 million a year.

And should continue to grow. "The economic news seems to be very good," Alvarez says. "The repeal of Section 936 will be of minor consequence to our business. The only way it could affect us is in the cost of money. Right now 936 funds are obtained at very reasonable rates. Those rates will probably go up once the 936 funds disappear from Puerto Rico."

Mendez & Co. is a family business started in 1912 by two of Alvarez' uncles. His father was the third partner. Today the groceries division is headed by a vice president who is one of Alvarez' nephews. The

FAVORITE RESTAURANT
Augusto's
El Conquistador
FAVORITE HOTEL

FAVORITE RESTAURANTS
Augusto's
Yuquiyu
Horned Dorset
Primavera
FAVORITE HOTEL

FAVORITE RESTAURANT
Compostela
Caribe Hilton
FAVORITE HOTEL

Continued on page 28



PANGILINAN

MANUEL V. PANGILINAN, WG'68: THE "NEW ASIAN MANAGER"

To understand, on a somewhat philosophical level, why Hong Kong-based First Pacific Co. Ltd. has been successful, it helps to think in terms of paradoxes.

This \$7 billion Asian conglomerate, whose core businesses today include telecommunications, real estate, trading and banking, is "neither east nor west, but a blend of the two," says Managing Director Manny Pangilinan. West, in that it conforms to the financial discipline and accounting disclosure requirements fol-

lowed by most western countries, but east in that "we can be comfortable, if needed, with ambiguity in our business relationships. That is very Asian, and it's especially important when dealing with the political milieu in countries like Thailand or the Philippines."

First Pacific has also been called an "oxymoron," Pangilinan adds, "because we define ourselves as an investment and management company.

"Somebody once told me you can't do that. Either you are an investment company and should forget about managing, or you are a management company and should forget about investing. We said no. We should not only make good investments, but we should manage them as well. We at corporate don't pretend to run the companies we own but we *are* intrusive. We have to know what is going on, both strategically and financially."

Pangilinan's approach to management has clearly paid off. A recent *Business Week* magazine profile of First Pacific described the company as "one of Asia's most dynamic conglomerates" and Pangilinan as a model of "the new Asian manager." Given First Pacific's phenomenal success these days — earnings in 1996 were in excess of \$200 million and the stock has increased tenfold since 1991 — one wonders exactly what aspect of the First Pacific story is referred to: the company's adroit mix of management professionalism and entrepreneurship, or perhaps Pangilinan's own penchant for risk-taking and the connections he has established with some of Asia's most powerful political and corporate leaders.

In 1981, Pangilinan started First Pacific with the help of four Indonesian families, including the Salim Group, and public funds. The relationship with the Salim Group sprang from a friendship between Pangilinan, the son of a Manila

banker, and Anthony Salim, the son of Liem Sioe Liong, the Salim Group's founder.

The initial plan hatched between the two was to be "intermediaries of capital, sort of a financial supermarket where one could buy securities or get a loan or whatever," says Pangilinan, who is also a friend of Philippine President Fidel Ramos. "That was one leg. The other was to be an intermediary of goods."

Then in 1988, Pangilinan, over the objections of some of his closest advisers, invested in a Hong Kong cellular company called Chinatel. With about 2,500 subscribers and outmoded technology, Chinatel at that point was the smallest of three cellular operators in Hong Kong. "We invested

"WHAT COULD HAPPEN TO ASIA

MANY YEARS FROM NOW

IS WHAT IS HAPPENING TO COMPANIES

IN EUROPE AND THE U.S. TODAY."

\$50 million just to buy airwaves," says Pangilinan. "But I felt it was a good investment because the teledensity of Asia [the number of phones per capita] was very low and fixed wire operators didn't really appreciate the potential of wireless systems. Asia must rely on wireless technology to bring as many basic dial tones as it can to the population at the lowest possible cost."

Today First Pacific's wholly-owned sub-holding company for its many telecommunications businesses is called Asia Link. It's a thriving regional cellular communications company with more than 600,000 subscribers in six countries and a strong future as a savvy "niche player" in Asia.

In the trading area, First Pacific owns companies in more than 40 countries worldwide, selling everything from Bally shoes to food snacks to corrugated carton boxes. In banking, First Pacific is strengthening its banking operations in Hong Kong and expanding into China in partnership with one of China's state ministries, the Ministry of Foreign Trade and Economic Cooperation.

In the property area, First Pacific has been the leader of a consortium that last year spent \$1.6 billion on the redevelopment of the huge Fort Bonifacio military base in central Manila with plans to transform it into a modern, world-class office/residential city.

Even as First Pacific continues to earn accolades in the business community, Pangilinan is quick to note that the company has not been infallible. In 1990, for example, First

Continued on page 28



KATHLEEN A. O'NEIL, WG'76: BANKING AT THE FED

Kathleen A. O'Neil, executive vice president and head of the corporate group at the Federal Reserve Bank of New York, remembers interviewing at the bank 21 years ago for the job of information analyst.

"What I found appealing was the bank's role in the financial system," says O'Neil, who functions today as the bank's chief administrator, chief financial officer and chief credit/risk manager. "We are, on the one hand, an active participant in financial markets like the government securities market and the foreign exchange market, but we also are a standard setter both in the U.S. and abroad, not so much officially as by the weight of our influence ..."

"What I also found intriguing was working for an organization that deals with systemic risk, where you look beyond an event's impact on your own institution to the potential ripple effects that it would have on an entire market or on institutions beyond that initial market. It's basically a concept of relatedness. Financial markets and institutions are highly interrelated not just through their connections to each other but through technology, through the speed of information, and so forth."

O'Neil's decision to take the information analyst position launched her on the fast track at the New York Fed.

Today, as one of the top two women at the bank, she is in charge of credit and risk management, human resources, planning and control, public information, accounting and service functions, the office of corporate consultancy, the office of regional and community affairs and the secretary's office. She manages 579 employees and a budget of \$52 million.

It's an eclectic set of responsibilities. Her accounting function, for example, includes the development of new financial statements and footnotes that more closely reflect GAAP (generally accepted accounting principles). In the credit and risk management area, O'Neil has been studying how the federal reserve system organizes, on a system level, its approach to risk management, "from our lending functions to our credit functions to the management of reserve requirements and other risk related issues."

Continued on page 28



O'NEIL

ANTHONY HAMILTON-RUSSELL, WG'90: MAKING FINE WINE

Anthony Hamilton-Russell spends his evenings reading wine journals and his days worrying about everything from the stakes holding up his camphor trees to the types of products he should be selling in the year 2020.

He is the owner of a vineyard 70 miles southeast of Cape Town, South Africa, a boutique winery that his father started in 1975 and ran until Anthony returned in 1991. Hamilton Russell Vineyards employs 37 people, sells 30,000 cases per year of high-priced Pinot noir, Sauvignon blanc and Chardonnay in 15 different countries, and represents a sudden shift in career for its owner.

Hamilton-Russell was a financial analyst in corporate finance at Morgan Stanley in London during the late 1980s when he decided to switch to the field of consulting. After getting his MBA from Wharton, he landed a job with Bain & Co. in its London office.

"I was lucky enough to experience consulting at a peak and in a trough. I learned an enormous amount from working at Bain, but my medium-term goal of moving into venture capital as a principal seemed less viable in the climate prevailing at the time ... At the end of a year, I began reviewing my options."

Coincidentally, the family wine business was in need of hands-on management. "I picked up the phone, called my father and said I would like to get involved. He was delighted. I returned home on Friday, Sept. 13, 1991."

In running the business side of the vineyard, Hamilton-Russell focuses on hiring, motivating, setting budgets and standards and devising marketing strategy. Although he took wine courses and produced wine on a small scale in the early '90s, he leaves that part of the process to the winemaker. "Finding and developing the right people is my biggest challenge as owner," he notes. "In a small business you are especially sensitive to employee performance. We are in an environment where good people are very expensive and ordinary people are very damaging."

There is also the "constant agitation for improvement, for reinvestment of profits and for change," he notes. "Nothing is stable for very long."

Continued on page 51



HAMILTON-RUSSELL

TWO ANNIVERSARIES, BUT LITTLE TO CELEBRATE

By Kenneth L. Shropshire

1996 and 1997 mark two little noted 50th anniversaries: The first is the "reintegration" of the National Football League in 1946; the second is Jackie Robinson's integration of the Brooklyn Dodgers and Major League Baseball in 1947.

Generally, anniversaries are cause for celebration. But while much has changed on the field in these two sports, there has been little change in the owner's box. African-Americans occupy a hefty percentage of the positions on the field, but no African-American holds a controlling interest in a major league professional sports franchise. Professional sports franchise ownership will constitute the true measure of African-American success in the sports industry.

Like baseball, organized professional football was originally an integrated enterprise as early as 1904. Much like the rest of society, there was a brief pre-Jim Crow period of broad integration. Unlike baseball, however, the impact of Jim Crow did not end the African-American presence. Blacks played in organized professional football leagues until 1933, the year that an unofficial ban on blacks went into effect. Although no formal announcement was made, black athletes were simply not invited back to training camps and none were signed out of college. The last blacks to play in that season were Ray Kemp and Joe Lillard.

Most point to the move of the Boston Redskins football franchise to Washington, D.C. — below the Mason-Dixon line — as the reason. The Redskins became the first NFL franchise to be based in a southern city. Franchise owner George Preston Marshall apparently felt that southern fans wanted to cheer for an all-white team. Under Marshall's influence, blacks disappeared from the League.

Re-integration of the NFL occurred 13 years later in 1946, largely as the result of pressure from the black press of the day. The Cleveland Rams had just moved west to Los Angeles and wished to play their home games in the publicly-owned Los Angeles Memorial Coliseum. The black press, particularly the *Los Angeles Sentinel*, pointed out the potential illegality of the use of a public facility by a segregated team. The issue received widespread newspaper coverage.

Other fortuitous circumstances worked in favor of the Rams. Los Angeles franchises were uniquely suited for integration because of the local collegiate success of Rams players Kenny Washington and Woody Strode. Both were stars at UCLA and had proven marquee value. Washington was Jack-

ie Robinson's backfield mate at UCLA, Strode an end for the school's team. This reintegration preceded Robinson's much more widely celebrated debut with the Brooklyn Dodgers. The national focus, however, was on baseball. Baseball was the sacred national pastime, not football.

According to one 1995 study of nearly 300 individuals with any ownership interest in professional sports, fewer than ten were African-Americans and none owned or combined to own a controlling interest. The only substantial African-American ownership in a major professional sports league, outside of the Negro Leagues, was a brief period in 1989-1992 when businessmen Peter Bynoe and Bertram Lee owned a 37.5 percent share in the Denver Nuggets. During this period they acted as the managing partners (before eventually selling the Nuggets to majority partner COMSAT).

Why is this absence of African-American ownership so striking? One reason is that the people who play in games are predominantly black,

almost 90 percent in the National Basketball Association and 65 percent in the National Football League. Major League Baseball has a significantly lower percentage of African-Americans at approximately 18 percent. There are few areas in American society where such a racial underrepresentation in ownership exists. Major entertainment entities, such as Black Entertainment Television, are owned by African-Americans, as are large publishing entities such as Johnson Publishing. Even the multinational Beatrice International is owned by the family of the late African-American businessman Reginald Lewis. But not major league sports enterprises. Yet professional sports could certainly benefit from diversity at the ownership level in at least three ways.

First, there is clearly a value to society in having people of color in positions of power and serving as role models. Second, diversity can have a positive impact on previously homogenous groups, as evidenced by the change in the predominantly white male U.S. Senate after sexual harassment testimony during the Clarence Thomas hearings. In the business of sports, addressing the particular concerns of players and fans of color are issues which a more diverse ownership group could handle better than the current one. Finally, great wealth seems to accrue to owners who sell their teams. This wealth, in some form, could benefit minor-

Continued on page 26



SHROPSHIRE



TAKING STOCK OF OVERPRICED EQUITIES

Researchers have shown that many initial public offerings start out well, but then later stock prices slump once investors realize that the companies are weaker than they expected. A new study reveals that if stock offerings are overpriced, a major reason may be that sell-side analysts are too optimistic in their predictions about these companies' earnings growth.

When Yahoo!, an Internet search-engine company, went public this year, its stock at first seemed to live up to its name. The initial public offering (IPO), managed by Wall Street's well-known Goldman Sachs, did phenomenally well, and Yahoo!'s stock, priced at \$13, soared to \$43 on the first day of trading. Soon, though, Yahoo! lost its sheen. By August the stock had slumped to \$18; in early December, it was trading in the mid-20s. And Yahoo! is scarcely the only Internet company to have taken this roller-coaster ride.

Other Internet companies that went public during the past year have also seen their stocks shoot to dizzying heights before gravity yanked them back to earth.

If all this has a familiar ring, it is because Wall Street has been there, seen that, so to speak. Researchers who follow stock movements have shown that many IPOs start out well, but then later slump once investors realize that the companies are not as strong as they expected.

And the phenomenon seems to occur in waves. Today Internet companies are all the rage. Yesterday it was biotechnology firms. Tomorrow ... who knows? But you can bet there will be some company in some industry that will be on analysts' lists of tips.

NEW-ISSUE PUZZLE

Observers have tried to explain why this happens. In academia, they call it the so-called "new issue puzzle." If markets are efficient, as theory suggests they are—which means investors take all available information into account before they agree to pay a certain price for a stock — why should IPOs perform badly over time? Why do new offerings decline in value over the years and companies that once seemed promising lose millions of dollars in market capitalization?

Some people attribute the trend to normal market risk. Others suggest that perhaps the initial expectations were based on flawed research. At a gut level, though, many have suspected that IPOs get hyped because the analysts who present seemingly objective research about the offerings in fact

work for the very investment banks that are trying to market the stock to investors.

That gut feeling now has substance. In a recent paper, Wharton's Patricia M. Dechow, Anheuser-Busch Term Assistant Professor of Accounting, and Richard G. Sloan, assistant professor of accounting, and Harvard's Amy P. Sweeney, say that IPOs are overpriced mainly because sell-side analysts are too optimistic in their predictions about companies' earnings growth potential. And investors, rather than recognizing that sell-side analysts are part of a company's marketing effort for its stock offering, naively accept these projections, which pushes up the price of the stock.

Dechow, Sloan and Sweeney found that the earnings forecasts of so-called affiliated analysts — analysts who work for the investment bank underwriting the offering — are more biased than those of analysts who work for other investment banks. The researchers say these hyped-up expectations largely explain the long-run underperformance of IPOs.

The researchers based their study on data relating to 7,636 stock offerings made between 1981 and 1990. They obtained information about analysts long-term forecasts as well as the names of the analysts' employers. After eliminating companies about which they had incomplete information, they worked with a sample of 1,179 offerings.

Next, Dechow, Sloan and Sweeney separated the analysts into two groups: affiliated and non-affiliated. Finally, they compared the actual earnings growth in these companies over five years with the forecasts of the affiliated and non-affiliated analysts. They also adjusted their calculations to account for major market swings. For example, the impact of the 1987 crash that rocked the whole market was factored out of the reckoning.

WAGES OF BIAS

The results were illuminating. On average, the companies' earnings grew by 5.7 percent a year over five years. Contrast that with the fact that analysts had predicted growth of 16.2 percent a year. Dechow,

Sloan and Sweeney show that analysts over-estimated earnings growth by roughly 10 percent a year for the five years following the stock offerings.

The predictions of affiliated analysts were much further off the mark than those of unaffiliated analysts. For example, the forecast error for the entire sample was 10.6 percent—but while unaffiliated analysts erred by 10.3 per-

The predictions of affiliated analysts were much further off the mark than those of unaffiliated analysts.

cent in their predictions, the affiliated ones were off by 14.4 percent.

Disturbingly, these biases worked their way into the prices that investors paid for the stocks. The fact that initial price spurts were followed by slumps suggests that investors, at least at first, bought the analysts' pitch.

Dechow, Sloan and Sweeney say bluntly: "An important role of the underwriter is to manipulate investors' expectations of the future earnings prospects of their clients in order to secure a higher offer price."

What accounts for this bias among analysts? Dechow believes that both affiliated and unaffiliated analysts are reluctant to make negative forecasts because neither group benefits from asking investors to sell the stock. "If they did that, they might lose contact with management," she notes.

Affiliated analysts face much greater pressure than unaffiliated ones because the investment bank's underwriting side wants people to buy the stock. "From my understanding of the way these organizations work, the analysts often receive bonuses for bringing a client to the investment bank so that the corporate finance section can underwrite the stock offering," she says. As a result, affiliated analysts have more incentives not to reveal bad news.

Dechow says while she and her co-authors have not worked on data for the 1990s, she sees no reason why the trend should be any different today. "It's not as if the Securities and Exchange Commission has come in and said, 'This has to stop.' And I haven't heard any investment banks say they are cracking down on this practice. They have always said that there isn't a problem here. So I think the trend will continue, because this is where the investment banks make money."

MARKET IMPLICATIONS

While the paper does not make any specific recommendations about solving these problems, Dechow suggests a few steps. For one thing, since the forecasts of unaffiliated analysts are less optimistic than those of affiliated ones, it would help if more unaffiliated analysts gave out their forecasts.

Secondly, she recommends more public scrutiny of analysts, so that investors are left in little doubt about their affiliation. "I'd like investors to be aware of this problem, so that if an affiliated analyst is making very optimistic forecasts, they should be wary about believing it," she says. "I'd like more disclosure. You'd almost want to know if the analyst is getting a bonus or not, or if the analyst's compensation is somehow tied to how the issue goes off."

Another key step, Dechow says, would be to change the incentive structure for analysts, "which would mean their pay would be less dependent on investment banking underwriting deals." Before the 1970s, for example, analysts got most of their pay through the brokerage department's commissions. But in the 1970s, after the market was deregulated,

commissions became a small part of investment bankers' incomes. Now the money that pays for analysts' research often comes from the underwriting side of investment banks.

"The problem has become worse than it might have been in the 1970s because of this institutional change and deregulation," she says.

Dechow and her co-authors plan in the future to look at related issues. For example, they might study what happens if the company making the offering has big institutions among its stockholders. "A lot of companies like to have big institutional holders because it stabilizes their stock," Dechow says. "Big institutions are also good clients for investment banks, so the investment banks may have less incentive to make these big buyers bear the cost."

The Role of Affiliated Analysts' Long-term Earnings Forecasts in the Overpricing of Equity Offerings, Patricia M. Dechow, Richard G. Sloan, and Amy P. Sweeney. July 1996.

FACULTY OPINION *Continued from page 24* ity communities.

Today, the price of sports franchises, upwards of \$200 million, brings into question whether this is an appropriate time to enter the market, particularly for individuals. Financial returns are not likely to come until the franchise is sold, and the operational costs, particularly salaries, are immense. Corporate ownership of teams is certainly the emerging trend and African-Americans generally do not control the large corporations capable of making such forays into the sports franchise market.

Some are concerned that franchises are now overvalued. But where these transactions do make sense the current owners can mandate that people of color must be a part of any ownership group. They can also seek out people of color with the resources to purchase a team and give them the opportunity to review the investment.

There is not much celebrating this year for football—although there should be for the efforts of the individuals who made integration on the field happen. Washington, Strode and others struggled in much the same way that Jackie Robinson did. The true celebration should occur when there is African-American ownership in this highly visible industry. ▼

*Kenneth L. Shropshire is an associate professor of legal studies and real estate and author of **In Black and White: Race and Sports in America**, New York University Press, 1996.*

GARRETT *Continued from page 16*

If you are attached to the Bundesbank, you do not have high inflation. But you may well have to endure high unemployment for long periods of time. France's unemployment rate has been running at over 10 percent for a decade. But the French government is unwilling to do much about this because of its ties to Germany."

THE UK: A CONSERVATIVE APPROACH

"Once you get to Britain, the politics of European integration dominate the economics almost completely. Margaret Thatcher was a committed anti-European from the outset but she had powerful opponents within the Conservative party. When John Major came along, he inherited a very divisive issue. Europe was an important reason Thatcher was toppled by her own party. Major himself has a reasonably sensible attitude towards Europe, which is that the UK might not like the direction Europe is taking but it's better to be involved in the discussions than to be on the outside. Yet concerns about sovereignty are very powerful in Britain

The issue of monetary union is further complicated in the UK because London is the center of the European financial system. The bankers are very worried that if monetary union goes ahead and the UK isn't in it, they will lose their business. The center of European finance would most likely move to Frankfurt. So bankers want in, big time, and so do most competitive British manufacturers because of the stability in export markets this would bring.

The interesting question in Britain is, assuming the Conservative party gets defeated — which it will next year unless something unexpected happens — what will the Labour government will do? The Labour Party historically has been deeply anti-European, more so than the Conservatives. Britain only joined Europe in 1973, and two years later a Labour government held a referendum (which was narrowly defeated) on whether to leave.

Right now, government leaders on the continent are twiddling their thumbs and waiting until the British election that must take place by the middle of 1997. The Labour Party has made lots of pro-Europe noises while in opposition. Whether it delivers on this commitment will be a real test of whether it is in fact a "new Labour" Party, as its leader Tony Blair so vehemently maintains."

VIEW FROM THE BOARDROOM

"Anyone who manages a European multinational is likely to be in favor of EMU. The biggest benefit is that it stabilizes the European economy and makes investment decisions much easier. Plus you don't have to pay a commission every time you do a transaction in two currencies. Exporters in Europe should view this positively.

But business people in Japan and the U.S. have a different view. EMU will increase the clout of the DM-zone in

international markets, perhaps tipping the balance of power in the trilateral world economy in Europe's favor. The interesting point here is that when European integration started seriously in the mid-80s, business people and government officials in Tokyo and Washington were worried that this would create a 'Fortress Europe', locking out foreign producers. Fortress Europe didn't transpire, but this fear was the stimulus for enormous inflows of investment from outside Europe, particularly into Scotland and Ireland. American and Japanese multinationals wanted to get into Europe before external barriers were raised.

But now there is the possibility that a united Europe might start manipulating the exchange rate in ways that would be bad for the U.S. currency — for example devaluing the Euro against the dollar, which clearly would hurt American exporters. This relationship would resemble that between the U.S. and Japan, with a united Europe an equal player in the system.

If you were an entrepreneur looking to start up a company in Europe, the effects of EMU would very much depend on where you wanted to locate. The classic pattern in recent years for Japanese and American investors has been to go to low labor cost areas of Europe that nonetheless are part of this European market. But things might be very different under EMU, depending on who is in and who is out.

What would happen under EMU if, for example, Ireland and the UK weren't in the monetary union? You as an investor might be a little more reticent about setting up there. You might start to think more seriously about having a plant inside an EMU country because it should, all else being equal, have a smaller budget deficit and lower inflation rates.

But maybe England looks just as attractive because if you stay outside the system, you don't have to follow the same economic policies as the insiders. You might think there is an advantage to being in a country that doesn't follow German economic policy. After all, the monetary union works only as long as there is one economic policy that is good for all the countries.

Alternatively, if being outside EMU is an indication of second-class citizenship in Europe, perhaps investors will think twice before moving into such countries. For example, countries like Portugal, Spain, even Italy might become considerably less attractive to foreign investors if they are not in EMU. Investors might take this as a signal that the governments in these countries are not serious about creating 'market friendly' economic policies.

Thus, the potential ramifications of EMU are enormous, not only for European citizens, governments and companies but also for actors in the other two major economic blocs in the world economy. But when all is said and done, the economic effects of EMU will be determined by political decisions about the future of the European integration project. This is why studying the European Union is both fascinating from an intellectual standpoint and fundamental from the perspective of the business community." R.W.S. ▼

SAN JUAN *Continued from page 21*

liquor distribution division is headed by a vice president who is the second of his two sons. "Then I have a third nephew who takes care of the operational aspect of the company," says Alvarez, who has a daughter as well. "There are some outside people who are partners also but we consider all people working with us as members of the family." ▼

PANGILINAN *Continued from page 22*

Pacific made what initially looked like an unwise investment in an Australian IT company; invested in the second largest trading company in Holland before realizing that its foray would be stoutly resisted, and lost money on a processed meat factory in Thailand.

"It was a dark time for us," Pangilinan says. "But we pulled ourselves out and learned that you have to focus on your core businesses and manage those well. The transition was difficult because the thrill of the chase in doing deals can be very seductive."

Pangilinan was born in Manila and earned his BA in economics from Ateneo de Manila University, a Jesuit-run school with a strong reputation in the humanities. His favorite professor was in the philosophy department and indeed, Pangilinan credits the school with influencing his perspective of the world and of human relationships.

Today, he feels very strongly that the number one challenge facing Asia is people. "While Asia gives the impression of being vast and highly populated, we have a dearth of excellent managers and some countries can be xenophobic about foreigners. Yet part of Hong Kong's success as a financial center is that it has allowed, to a large degree, foreign professionals — from lawyers to investment bankers to publishers — to come in and do business there because it is not only the hardware of buildings, infrastructure and money that creates markets but the software of people. That's what makes Hong Kong so vibrant."

First Pacific, for example, is run by professional managers from many different countries, including Asia, America, Australian and Europe. Before starting the company, Pangilinan himself held executive positions with American Express International Banking Corp. and Philippine Investment Management Consultants, Inc.

As to Hong Kong's future under Chinese rule, Pangilinan is "an idealist without any illusions. Already, the Chinese influence is increasing and the British influence is waning," he says. "Politically and economically, everyone wants a smooth transition. We feel China's intentions are sincere and that the Chinese are serious about continuing, if not increasing, the prosperity of Hong Kong if only to prove, for themselves as well as others, that they can do a better job. It's a question of face. They want to see Hong Kong prosper more under their leadership than it did under the British.

"Beyond that, the situation will be influenced by politics. In China, as we all know, when sovereignty considerations

collide with commercial considerations, political objectives can sometimes be paramount."

In addition to the need for adequately trained and diverse people, Asia faces other challenges as well, Pangilinan says. High on the list is the need for homes. Securitization of mortgages would help. "Asia lacks the financing for houses and infrastructure, in part because banks and local governments have limited capabilities in this area," says Pangilinan. "And whatever funds might be available usually do not have the maturity profile required by the user of such funds. We should strive to create a secondary market for mortgages, like the one that exists in the U.S." Asia also needs a stronger bond market, he adds, noting that historically the stock market has been more robust because of the dominance of bank financing, the lack of bond market expertise and the negative effects of government policies such as the withholding tax on bond interest.

Pangilinan declines to speculate on the number of hours he works, although he does note that in addition to playing squash twice a week, he can sometimes be found at a gym located in his building. He arrives at 9 p.m., stays until closing time at 10 p.m. and then returns to his office until midnight. He works Sundays as well.

Perhaps his pace is an echo of Asia's own hell-bent push for growth and development. "What could happen to Asia many years from now is what is happening to companies in Europe and the U.S. today," he says. "As your domestic markets get saturated and as economies grow only two to three percent a year, you have to seek markets offshore ...

"First Pacific is serious about developing an intensive Asian presence ... We want to grow with Asia. That's how we see the future." ▼

O'NEIL *Continued from page 23*

In the human resources area, she has been evaluating experimentation with flexible work arrangements rolled out in early 1996. As overseer of the office of regional and community affairs, she recently headed up a technical assistance effort for the neighborhood housing service designed to help potential homeowners better understand the financial requirements of homeownership.

In the planning and control area, O'Neil is analyzing long-range office needs over the next five-to-ten years as well as trying to improve performance measurements and internal reporting systems. In the public information area, she is involved in evaluating the Fed's Internet home page, while in the internal communication and multimedia services area she has looked at increasing the level of presentations and use of multimedia tools.

During the last six years at the Fed, O'Neil has undertaken a number of special projects, including: designing and supervising a technical assistance mission for the Argentine Bank Supervisory Authority; serving as an adviser to the Governor of the Central Bank of Kuwait on a technical assistance

Continued on page 51

MANAGING YOUR CAREER: HOW WHARTON CAN HELP

For alumni interested in changing jobs, finding jobs or getting information on the job market in general, Wharton offers an array of career management resources both on and off-campus.

These programs are aimed not just at graduates who are conducting an active job search but are tailored to meet the needs of alumni throughout all stages of their professional lives.

In addition, Wharton Clubs offer a range of customized programs designed to aid alumni in their own communities. While services vary from city to city, career management assistance offered by Wharton clubs have included, for example:

- “how to” workshops on writing resumé’s, interviewing techniques, and using the Internet to aid in a job search
- day-long seminars on career management
- printed Career Management Resource Guides, tailored to the city in which the club is located
- peer counseling networks
- networking nights/business card exchanges.

A list of contact information for alumni clubs can be found in the back of every issue of the *Wharton Alumni Magazine*, as well as on Alumni Affairs’ World Wide Web site (<http://www.wharton.upenn.edu>). Alumni are encouraged to contact their local clubs to find out more about what is available in their area. The Web site also contains a club calendar of events.

On campus, career services for alumni are provided by two different offices. Career Planning and Placement Services (CPPS) does outreach for the undergraduate and doctoral alumni of the School, while Career Development and Placement (CD&P) works with MBA graduates. Both offices are located in the McNeil Building, 3718 Locust Walk. CPPS’s main phone number is 215-898-7531 and the fax number is 215-898-2687. CD&P’s main phone number is 215-898-4383 and the fax is 215-898-2598.

The following is a list of programs offered by both on-campus offices as well as Lippincott Library, the business library of the University.

WHARTON EXEC-YOU-FAX:

THE WHARTON ALUMNI JOB POSTING FAX SERVICE

EXEC-YOU-FAX has been designed to provide registered Wharton alumni with a full copy of the latest job postings received by Career Development & Placement.

EXEC-YOU-FAX allows you to:

- access the alumni job data base any time, day or night
- view the full copy of the job posting; you will read the entire text as received by CD&P
- respond to the job posting immediately; the job data base is updated each Friday
- select job posting for functional areas of your interest; the system will keep track of your requests and will not send you a posting twice.

The system allows you to choose from the following functional options: consulting, finance, control/accounting/treasury, management, human resource management, opera-

tions/product management, marketing, real estate, and strategic/corporate planning.

To subscribe to the service for six months, there is a fee of \$25. If you would like to subscribe, send your name, address, phone number, Social Security number, fax number, school and year of graduation and a check, made out to the Trustees of the University of Pennsylvania, to: Career Development & Placement, attn: James Sumner, 50 McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6209. For questions, contact 215-898-4383.

ONLINE SERVICES

CPPS and CD&P both utilize JOBTRAK, an on-line job-listing service. In partnership with 400+ college and university career centers across the nation, JOBTRAK provides over 2,100 new full- and part-time job openings each day. For undergrad alumni, the service is available by calling CPPS at 215-898-3208 to verify your alumni status and obtaining a password; for MBA alumni, call CD&P at 215-898-4383 for a password.

A wealth of job hunting information is available through the CPPS homepage on the Web (<http://www.upenn.edu/CPPS>), as well as CD&P’s Web site (<http://www.cdp.wharton.upenn.edu>). These homepages include links to employment resources on the Internet and includes sites with current on-line job listings. Lippincott Library’s homepage (<http://library.upenn.edu/lippincott>) also offers a variety of sources of career management information.

COUNSELING

Counselors are available to discuss alumni concerns regarding career planning, job hunting and placement, and applications to graduate schools. The offices offer appointments on-site or schedules telephone appointments for alumni who are unable to visit campus. Call Beverly Hamilton-Chandler at CPPS (215-898-7533) or Ursula Maul at CD&P (215-898-4383), for more information about one-on-one counseling.

Alumni can also participate in the Penn Career Network (PCN), a data base of Penn graduates who have volunteered to answer career-related questions for Penn students and alumni. Although it is not appropriate to ask PCN advisors for jobs, they can provide a wealth of information on career fields and employment outlooks. You may request up to six names at a time. To receive information about contacting the alumni advisers, call 215-898-7529.

LIBRARY SERVICES

All Wharton alumni are eligible to use the resources of the Lippincott Library, located in Van Pelt Library at 34th and Locust Walk. Lippincott is open to the public on weekdays; a photo ID is needed to enter the building. Alumni who wish to use the Library on weekends and other periods of restricted access should apply for a Penn Alumni Card (call 215-898-2646 for details and for a mail application form). For an annual fee, the Alumni Card can be activated to allow for borrowing circulat-

Continued on page 51

O'NEIL *Continued from page 28*

mission; and representing the bank on a committee to develop a code of conduct for the wholesale financial markets.

O'Neil went to high school in Akron, Ohio and graduated from John Carroll University in Cleveland. She and her husband, a lawyer for Texaco, live in Riverside, Conn., and have three children, ages 15, 13 and 9. The challenges of working full-time and raising a family have been eased by live-in nannies when her children were younger and by a husband who shares the family responsibilities and "is a terrific partner," she says.

"I have been lucky in having had a very broad range of assignments at the Fed," notes O'Neil. "As a result I have a perspective on the institution and its responsibilities that helps me appreciate it and be effective." ▼

HAMILTON-RUSSELL

Continued from page 23

Including the climate, he might add. "Although we have a cool maritime climate — which means we don't get washed-out vintages alternating with top notch ones, as some French regions do — there are still vintage variations. It lends an aura of risk to the operation every year because you never get complete consistency of character or quantity. But that also adds an element of excitement."

Hamilton-Russell was born in Cape Town, South Africa, earned a BS in zoology and genetics at the University of Witwatersrand and graduated from Oxford with honors in geography. His English-born wife is an artist and they have twin daughters, age 4.

Hamilton-Russell harbors no regrets about the course his career has taken. "I am self-employed and my options to maneuver are completely different than they were six years

ago. For example, I couldn't go back and work in a structured corporate environment unless I was running the company ...

"What interests me are the courses you are offering at Wharton on managing a family business, how to balance work and personal life and so forth. I suppose the trends driving the need for these courses have been driving me." ▼

MANAGING YOUR CAREER

Continued from page 29

ing library materials; call Van Pelt Circulation for information at 215-898-7566.

OTHER SERVICES

Alumni may put their resume on file with CPPS to be circulated as job opportunities become available. Resumes are circulated according to field, industry and geographic preference categories. CPPS also keeps letters of recommendation written by professors and former employers in a permanent file from which only the alum can forward materials. To open a file, call 215-898-4382.

CD&P publishes Career Resource Packets on a number of industry and career management topics ranging from how to make the transition to a new job to careers in public finance. Contact CD&P at 215-898-4383 to receive a list of available topics.

Alumni Affairs, in partnership with CD&P, CPPS, the Wharton Club Network, and the Alumni Association Executive Committee, will continue to expand the portfolio of career management services offered to alumni. Further information about new programs and services will be reported in upcoming editions of the *Wharton Alumni Magazine*. ▼