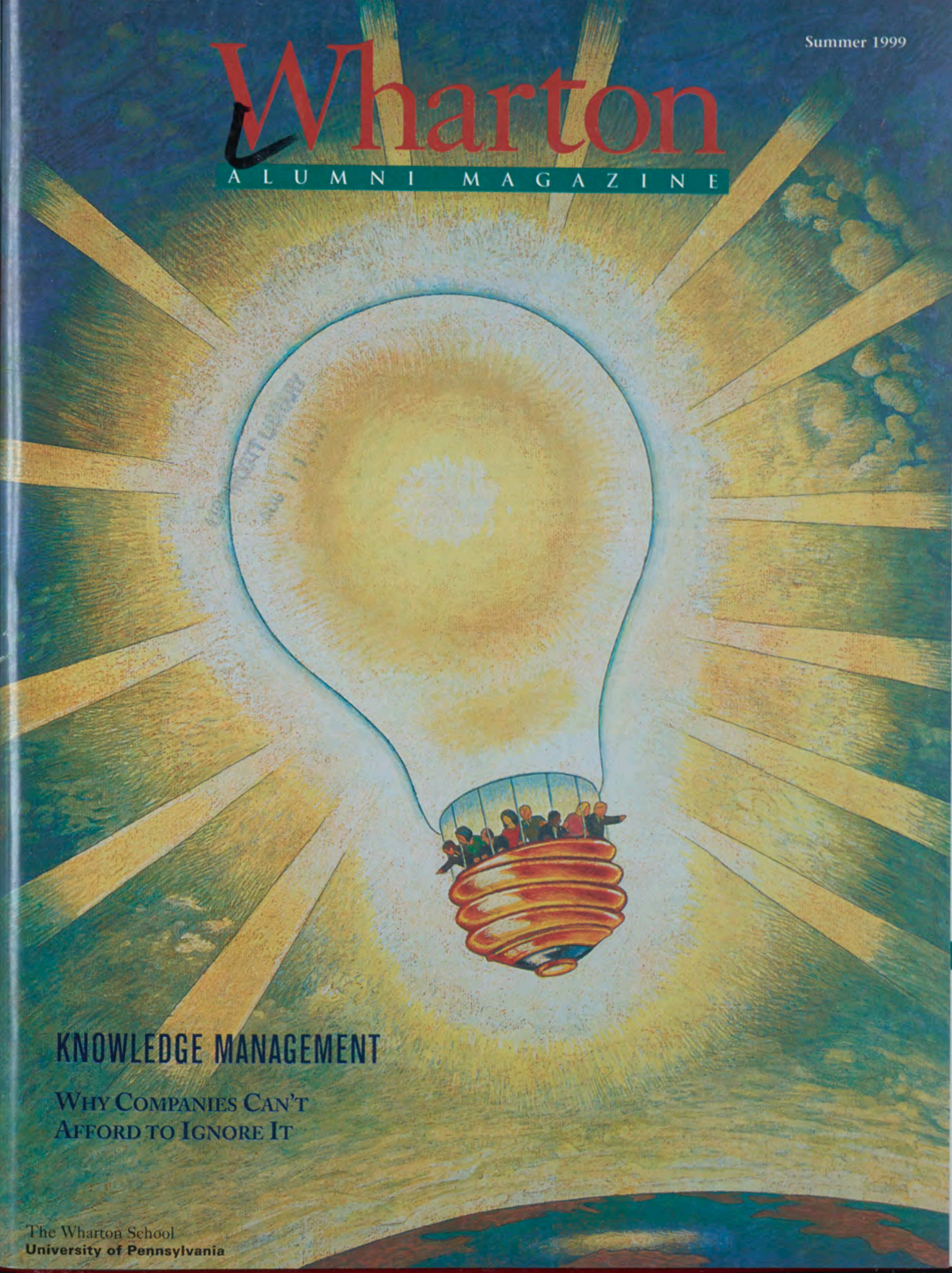
Summer 1999

Wharton

ALUMNI MAGAZINE



KNOWLEDGE MANAGEMENT

Why Companies Can't Afford to Ignore It

The Wharton School
University of Pennsylvania

Wharton

ALUMNI MAGAZINE

Summer 1999

Cover Article

The benefits to companies that successfully practice knowledge management are enormous, including the ability to save millions of dollars in reduced costs.

Illustration by John O'Leary 8

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AND THE WINNER IS ...
JUDGES SELECT BEST BUSINESS PLANS

RadioXchange, a business plan to facilitate the sale of remnant radio advertising inventory through an Internet-based, auction-driven platform, emerged as the grand prize winner of the first Wharton Business Plan Competition held this spring.

The winning team – Kevin Spain, WG'99, Maury Apple, W'98, WG'99, and Brian Richards, JD/WG'99 – earned a $25,000 prize ($15,000 in cash and a $10,000 investment in the company). The award was sponsored by Safeguard Scientifics, a Pennsylvania-based venture capital firm. Safeguard chairman and CEO Warren L. "Pete" Musser was a keynote speaker at the event.

The competition was sponsored by Wharton's Goergen Entrepreneurial Management Program. More than 350 students from the school submitted business concepts and competed for over $40,000 in awards and prizes. All of the winning teams were technology-based.

Three other business plans were recognized for excellence:

•Living Strategies, a web-based system designed to identify an elder's housing and care needs and match those needs with best-fit housing and care providers. Sandeep Wadhwa, WG'99, Christopher Gatti, WG'98, and Lynn Dwyer, WG'98, won the $10,000 Snider Seed Prize funded by the Snider Seed Capital fund of Wharton's Sol C. Snider Entrepeneurial Research center.

•SurgiSoft, a computer system and software intended to simplify surgical procedures as well as improve their cost, safety and efficiency. Dain DeGroff, WG'99, Jennifer Schneider, Rhea Tombropoulos, Scott Graves, WG'99, and Chris Latta, WG'99, won

Continued on page 26

JUDGES

AWARD SPONSOR

WINNERS

PHOTOGRAPHS/ TOMMY LEONARDI

BUILDING PROJECTS GET A LIFT

David Pottruck, C'70 and WG'72, president and co-chief executive officer of The Charles Schwab Corp., has made a $12 million gift to the University – $10 million to establish the David S. Pottruck Health and Fitness Center at Gimbel Gym and $2 million for Wharton's Jon M. Huntsman Hall.

The $10 million designated for the gym project by Pottruck, who oversees all businesses and strategic development worldwide at Schwab, will include renovation of existing space in Gimbel as well as new construction. Pottruck is a trustee of Penn and a member of the Athletics Advisory Board.

Huntsman Hall this spring also received a $1 million gift from Charles S. Sanford, Jr., WG'60, retired chairman and CEO of Bankers Trust Co. The new building, a 320,000-square-foot academic center with the most advanced networking and communications technologies for learning, is scheduled to open in 2002.

Harker Named Deputy Dean

Patrick Harker, formerly chair of the Operations and Information Management department, has been appointed Wharton's new deputy dean. In this position, Harker is the school's chief academic officer.

He succeeds Janice R. Bellace, Samuel A. Blank Professor of Legal Studies and professor of management. Bellace, who will continue as a member of Wharton's faculty, will become president of Singapore Management University, a new university being launched in partnership with Wharton.

Pat Harker

Harker, who recently created the new MBA major in technological innovation, served as chairperson of the Systems Department at Penn's School of Engineering and Applied Science and director of Wharton's Fishman-Davidson Center for the Study of the Service Sector. He was a White House Fellow in 1991. He is currently the UPS Transportation Professor for the Private Sector and professor of operations and information management and systems engineering.

In announcing Bellace's departure as deputy dean, Gerrity, who stepped down as dean this month, described her as being "instrumental in enhancing our leadership in the area of information technology ... and dramatically expanding globalization of the school. In addition, the strong growth in standing faculty can be directly attributeable to Janice and her efforts, as well as the internationalization of faculty through vehicles such as exchange programs and research relationships with universities around the world."

An Influential Tenure

When Janice Bellace stepped down on July 1 as deputy dean of Wharton, she left behind a legacy of accomplishments that has affected almost every area of school life.

The accomplishment that gives her the most pride, she says, was the creation of the Huntsman Program in International Studies & Business (IS&B), a joint undergraduate program between Wharton and Penn's School of Arts and Sciences (SAS) established in 1994. The degree program was only one in a series of innovations that stemmed from Bellace's strong commitment to the internationalization of the undergraduate program. As vice dean and director of the Wharton undergraduate division from 1990 to 1994, she instituted a foreign language requirement for all incoming students, internationalized the undergraduate curriculum and established the first study abroad programs for Wharton undergraduates.

Janice Bellace

Driving the effort to get IS&B up and running, Bellace researched the school's only other joint degree program

Continued on page 26

Thouron Scholars Head for the UK

Neiman and Huang

Two of this year's Thouron Awards – prestigious fellowships that allow Penn students to study and travel in the United Kingdom, and British students to study and travel in the U.S. – went to Wharton seniors.

Eugene Huang and Brent Neiman, both of whom graduated in May with degrees from Wharton and the School of Engineering and Applied Science, were chosen on the basis of their academic and personal qualifications, a meeting with members of the Thouron family and a presentation before the selection committee on a current events topic.

Huang, who is from Beverly Hills, Calif., will study at Oxford for a degree in philosophy, politics and economics. He is the creator of an "extended functionality remote control" device and founder of a company to market it; a former member of Philadelphia Mayor Ed Rendell's reelection campaign and Mark Warner's Virginia Senate campaign, and a member of USA Today's All-Academic Third Team, among other honors.

Neiman, a native of Highland Park, Ill., will work towards a degree in mathematical modeling and scientific computing from Oxford. He is a Benjamin Franklin Scholar, a Joseph Wharton Scholar, and a member of the varsity golf team.

PHOTOGRAPH/ JERRY MILLEVOI - STUDENTS

GROUNDBREAKING

TOM GERRITY, JON HUNTSMAN & JUDITH RODIN

MODEL OF HUNTSMAN HALL

JON HUNTSMAN

KAREN HUNTSMAN

CELIA MOH & LAURENCE ZA YU MOH, WG'53

PHYLLIS PALMER, FORMER WHARTON DEAN RUSSELL PALMER, MICKEY TARNOPOL, W'58, LYNNE TARNOPOL, WILLIAM L. MACK, W'61, PHYLLIS MACK, MARTHA SNIDER AND ED SNIDER

JON HUNTSMAN WITH ANNA GERRITY AND THE GERRITYS' FOUR CHILDREN

SAUL STEINBERG

STEPHEN J. HEYMAN, W'59, & RONALD D. BALSER, W'60

DINNER AT PHILADELPHIA MUSEUM OF ART

A Groundbreaking Day

Jon M. Huntsman, W'59, and Thomas P. Gerrity, Wharton's dean from 1990 until this past July 1, were both honored during two events April 16.

At noon, celebrants gathered for a groundbreaking ceremony for the Jon M. Huntsman Hall, Wharton's new state-of-the-art academic facility scheduled to open in 2002. The building will be located at the site of the old University Bookstore extending along 38th Street from Walnut Street to Locust Walk.

Huntsman, a member of Wharton's board of overseers, is a noted philanthropist and leader in the global business community. His unprecedented support for Wharton includes a $40 million gift made to the school last spring.

At the groundbreaking ceremony were Penn president Judith Rodin, Saul Steinberg, W'59, a Penn trustee and chair of Wharton's Board of Overseers, and members of Jon Huntsman's family, including his wife Karen and son Jon Huntsman, Jr., C'87, a Penn trustee.

Later that evening, a special tribute was held at the Philadelphia Museum of Art to honor both Huntsman's support for the school and Gerrity's nine years as dean of Wharton. The event included a reception, dinner and program of commemoration.

PHOTOGRAPHS/ JERRY MILLEVOI

Endowed Chairs Filled

Among the most recent endowed chairs filled at Wharton is the Edward H. Bowman Professorship, funded by Saul Steinberg, W'59, and named after a respected and popular management professor.

Ned Bowman, an expert in managerial decision making and corporate strategy, died last fall of complications from heart surgery. He was the Reginald H. Jones Professor of Corporate Management and director of the Reginald H. Jones Center for Management Policy, Strategy and Organization.

Harbir Singh, chair of the Management Department and member of a new generation of strategists, has been selected to fill the Bowman chair. Singh's research focuses on joint ventures, corporate acquisitions and corporate governance.

"Ned Bowman was a much loved and highly esteemed professor at Wharton," notes Thomas P. Gerrity, who stepped down as dean of the school on July 1. "Indeed, he was always appreciated for his wise counsel and his great integrity. He was also a superb academic leader, renowned around the world for his work in strategic management.

"It is wonderful that the Bowman chair is being funded by Saul Steinberg," adds Gerrity. "Saul is a great friend of Wharton and a great business leader. I want to thank him for his generosity to the school through his recognition of Ned Bowman."

Other chairs awarded as of July 1 include: The Robert B. Goergen Professorship filled by Raphael Amit, who joined Wharton this month and was formerly a professor at the University of British Columbia, School of Commerce and Business Administration; the Saul P. Steinberg Professorship filled by Jitendra Singh, professor of management and sociology and vice dean for international academic affairs; the Fred R. Sullivan Professorship filled by Ian C. MacMillan, professor of management and director of the Sol C. Snider Entrepreneurial Center; and the George W. Taylor Professorship filled by Peter Cappelli, professor of management and director of the Center for Human Resources. ▼

Campus NEWS

■ A new financing arrangement with Pittsburgh-based PNC Bank guarantees loan approval for all domestic and international Wharton MBA students.

The Wharton Loan Program allows the students to borrow up to the cost of attendance, less any other financial aid they receive. Eligible students must borrow the maximum Stafford Loan before applying for the Wharton Loan.

"This loan initiative is a dramatic step forward in creating a truly international MBA program," says Robert Alig, director of MBA admissions and financial aid. "For the first time, every student of every nationality will have equal access in the financing of an MBA at Wharton."

■ Edward E. Crutchfield, WG'65, chairman and CEO of First Union Corp., spoke at MBA commencement ceremonies on May 16. Crutchfield has been head of First Union since 1984. Outgoing Secretary of the Treasury Robert Rubin was the featured speaker at Penn's commencement exercises on May 17.

■ Arthur D. Collins, Jr., WG'73, president and COO of Minneapolis-based Medtronic, Inc., will be the MBA convocation speaker on Sept. 7. Collins is a member of Wharton's board of overseers.

■ Warren Buffett, chairman and CEO of Berkshire Hathaway, Inc., shared insights, experiences and philosophy with close to 1,000 members of the University community during a campus appearance in April. Buffett's visit was sponsored by Wharton's Musser-Schoemaker Leadership Lecture Series and the Zweig Executive Dinner Series.

■ Wharton's Financial Institutions Center received a $1 million grant from the Alfred P. Sloan Foundation in March. The grant brings the Foundation's total support of the Center to nearly $7 million over the past seven years.

"The renewal of the Sloan Foundation's generous support will allow us to continue to bring the insights of the world's best business school to bear on the crucial issues facing the financial services industry," says Anthony M. Santomero, director of the center.

■ Ian C. MacMillan, who holds the Fred R. Sullivan Professorship in Management and is director of the Sol C. Snider Entrepreneurial Center, received the 1999 International Award for Entrepreneurship and Small Business Research in February. The $50,000 award is presented by the Swedish Foundation for Small Business Research in collaboration with The Swedish Board for Industrial and Technical Development, among other sponsors.

It is presented annually to a person who has made scientific contributions to theory-building in the entrepreneurial field.

■ Richard Seavey Woods, emeritus professor and former chair of accounting at Wharton, died last March at age 80. He earned a BA in English from the University of Rochester, and his MBA and PhD in accounting from Wharton. He was a member of the faculty from 1947 to 1987. ▼

Wharton Direct: Local Access to World-Class Learning

4:00 p.m., Portland: Ned Ginter, manager of employee relations and development at Tektronix, a $1.9 billion firm with operations in 23 countries, left work an hour early to attend class. With 15 years in HR at Tektronix, he has recently been promoted to a leadership role, and is looking for ways to build successful employee development programs within the company.

5:00 p.m., Phoenix: Jeff Wosje, the father of five and a vice president at Wells Fargo, settled in to an evening class that he hopes will help him improve his ability to manage people during times of rapid change. A career employee of Norwest before its merger with Wells Fargo in November 1998, he manages a small business banking unit and is experiencing the challenges of working in an organization that is trying to integrate two cultures.

7:00 p.m., New York City: Rhonda Cox, a producer for MTV Animation, arrived for class after work. Her goal: to gain an edge in recruiting, retaining and motivating high-performance employees in an industry that is experiencing a booming business but a shortage of available talent.

All three were joining fellow classmates at locally-based learning centers for the concluding 3-hour session of a 6-week executive education course, *Managing the Workplace: People, Strategy and Leadership*. In fact, they were joining the same class as students in Wharton's new distributed learning initiative, Wharton Direct.

Since the program's launch in September, more than 800 students in 30 cities around the country have completed one of three courses designed and taught by Wharton faculty: *Building a Business Case, Managing the Workplace* and *Using Financial Statements*. This fall, Wharton finance professor Jeremy Siegel will lead a new 7-week course on *Understanding Economic Issues and Financial Markets*.

Just as if they were on a university campus, students in these courses spend several hours before class completing reading and case assignments.

During class they break into small discussion groups in order to share information, insights and frequently their own workplace experiences. They are also called on during class for their opinions on course material or other students' ideas. And it is all done without needing to travel across country or take extended time off from work and away from families.

Offered in conjunction with Caliber Learning Network, Inc. of Baltimore, Md., Wharton Direct combines elements of the live classroom experience with advanced satellite and on-line technologies.

Faculty leading the class are broadcast live via satellite from a studio near the University campus (for history buffs, the same site where American Bandstand originated). Through video-conferencing, instructors can talk directly with students at any site, and their exchanges are shared by the entire class. Yes, even cold-calling is possible.

In addition, students have the benefit of on-line teaching assistants (TAs) both during and between class sessions. A secured course web site provides additional access to course information, materials and networking between class sessions.

"The kinds of interactions that go back and forth between the students, or between the students and the TAs, can be as valuable as the course material itself," notes Alison McGrath Peirce, managing director for Wharton Direct.

The following e-mail exchange, she says, occurred recently between a student and a teaching assistant (TA) in *Using Financial Statements*:

Query from student in New York to TA in Philadelphia:

"I didn't get a chance to ask a question during class last night regarding why companies take huge restructuring charges. What are the implications of such charges and what are the benefits?"

Answer from TA:

"The huge restructuring charges companies often take these days are a strategy for managing investors' expectations. As [Wharton course leader] John Percival said several times in his lectures, you can look at the P/E ratio as the 'applause meter' – it is an indication of how investors feel about the company's future

Continued on page 28

ILLUSTRATION / TOM WHITE

Grade A Teaching

Every spring, both undergraduate and graduate students at Wharton take an opportunity to salute excellence in teaching.

Among the most prestigious honors is the David W. Hauck Award for Outstanding Teaching on the undergraduate level, given to two faculty members for their ability to stimulate and challenge students, knowledge of the latest research in the field and a commitment to educational leadership.

This year the recipients, each of whom receives $15,000, were Barbara E. Kahn, professor of marketing, and Lorin M. Hitt, assistant professor of operations and information management.

Barbara Kahn

Franklin Allen

On the graduate level, the Helen Kardon Moss Anvil Award, given for teaching quality and commitment to students, went to Franklin Allen, Nippon Life Professor of Finance and Economics.

Also on the graduate level, eight faculty won Excellence in Teaching awards on the basis of student course evaluations. The professor with the highest rating among the eight also receives the Class of 1984 award.

This year William Tyson, associate professor of legal studies, won the Class of 1984 award, for the seventh time. The other seven winners included: Franklin Allen (finance); Michael W. Brandt (finance); Thomas Donaldson (legal studies); David Reibstein (marketing); Jeremy Siegel (finance); Nicolaj Siggelkow (management) and Karl T. Ulrich (operations and information management).

On the undergraduate level, awards for teaching excellence went to Suleyman Basak (finance); Thomas Donaldson (legal studies); Jeffrey Dyer (management); Jamshed K.S. Ghandhi (finance); William Hamilton (management); William S. Laufer (legal studies); Philip Nichols (legal studies) and William Tyson (legal studies). ▼

Conference Call

Below is a list of upcoming student conferences scheduled for the fall. Additional conferences will be added during the summer and can be found at http://www.wharton.upenn.edu/wcs/index.html

The 20th Annual Wharton Women in Business Conference will be held Friday, October 8, 1999, from 8am to 5pm at the Hyatt Bellevue Hotel, Philadelphia

A Career Fair will be held Thursday, Oct. 7, at the same time and location.

The conference's theme is "New Directions: Redefining Business Leadership."

For more information contact:
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Cary Kinross-Wright,
caryk@wharton.upenn.edu
or visit
http://dolphin.upenn.edu/~wwib

Wharton Asian Finance Conference
Saturday, October 2, 1999

Investment Management Conference
Friday, November 5, 1999

European Conference
Friday, November 12, 1999

Entrepreneurial Conference
Friday, November 19, 1999

Wharton India Economic Forum
Friday, December 3, 1999

Whitney M. Young Jr. Career Fair
Friday, December 10, 1999

News flash!

On June 1, 1999, the *Wharton Alumni Magazine* launched its new website located at http://www.wharton.upenn.edu/alum_mag/

The quarterly publication is also accessible to alumni from Wharton's home page http://www.wharton.upenn.edu and from the Wharton Alumni Affairs page http://www.wharton.upenn.edu/alumni/

In addition to viewing the current issue, alumni will be able to read the two most recent back issues in both HTML and Adobe Acrobat. Issues going back to spring 1995 are available in Adobe Acrobat.

The magazine website also offers ways in which alumni can keep in touch with the school. We hope you will check it out. ▼

The EMERGING FIELD of Knowledge Management

Companies That Take on the Challenge of Capturing and Sharing Knowledge Find It Can Sharpen Their Competitive Edge

Some years ago executives at British Petroleum – now BP Amoco, a $5 billion oil giant – noticed an unusual fact. While studying the company's performance they discovered enormous disparities in the productivity of oil wells in different parts of the world. Intrigued by the discrepancy, John Browne, British Petroleum's CEO, asked his associates to find out what was going on. The team that investigated the phenomenon soon found the answer: It turned out that tiny, seemingly insignificant innovations that the workers practiced – for example, the method they used to remove barnacles from a ship's hull – cumulatively made a huge difference in results, and ultimately, in the oil well's

Enthused by this discovery, British Petroleum set about trying to introduce these high-yield work techniques at all company oil wells. The initiative should have led to a massive, across-the-board increase in productivity, right? Wrong. British Petroleum learned, to its dismay, that productivity did not rise at all. The reason was simple. The oil workers, who saw these changes as dictates imposed from above, resisted them. British Petroleum had to spend large sums educating the oil workers and persuading them of the need for change. This time, the effort paid off. The company slashed drilling costs by $47 million per oil well.

Lawrence Prusak, executive director of the IBM Institute of Knowledge Management, who worked with British Petroleum on the oil well exercise, told this story at an April 9 workshop on "Creativity and Knowledge Creation" organized by Wharton's Reginald H. Jones Center for Management Policy, Strategy and Organization and the SEI Center for Advanced Studies in Management.

ILLUSTRATION / JOHN O'LEARY

Like most parables, this one had a moral: Companies that capture knowledge about best practices and share it across the organization can sharpen their competitive edge.

That, essentially, is also the premise of knowledge management, an emerging discipline that has in recent years attracted as much interest in corporate America as did past trends like re-engineering and total quality management. Some skeptics regard knowledge management as a passing fad. Still, as Prusak's British Petroleum example shows, successfully practicing knowledge management can reduce costs by millions of dollars.

Knowledge management has evolved out of information management. The increase in computerization since the 1970s has made it easier to capture data such as records of transactions, dates when employees are hired or terminated, names and addresses of customers or prospects, and so on. Also, as more companies have introduced sophisticated databases to store and analyze data, increasingly large numbers of people are better able to share information. (Peter Drucker describes information as "data endowed with relevance and purpose.") Knowledge, however, is more abstract than either data or information. It consists not just of simple analysis, but of crucial insights that combine information with context. Knowledge, in short, is the most precious kind of information.

Few can doubt that knowledge has immense value. A senior investment banker's insights into how to make a deal work, for instance, may never show up on a firm's balance sheet but still have obvious worth. If the executive leaves to join a rival firm, that knowledge leaves with her. For companies seeking to compete in today's business world, capturing and sharing knowledge has thus become an enormous challenge – and an expensive one. As Thomas H. Davenport, a leading knowledge management expert who has co-authored books with Prusak, observes, "While knowledge management is expensive ... not managing knowledge is even more so. What is the cost of ignorance and stupidity?"

In recent years, consulting firms and information technology companies have invested heavily in knowledge management systems – for obvious reasons. Consulting firms, more than most, derive revenues from their people's knowledge and

Few can doubt that knowledge has immense value. A senior investment banker's insights into how to make a deal work, for instance, may never show up on a firm's balance sheet but still have obvious worth.

expertise in a wide range of areas. As a result, firms like McKinsey & Co., Boston Consulting Group, Arthur Andersen and others have developed knowledge management systems to summarize what their consultants know and distribute knowledge across the firm. High-tech companies are into knowledge management for similar reasons. Since knowledge management systems use complex databases and computer networks to capture and distribute knowledge, this field clearly plays to the high-tech industry's strength. Hewlett-Packard and IBM are among those at the forefront of setting up such systems.

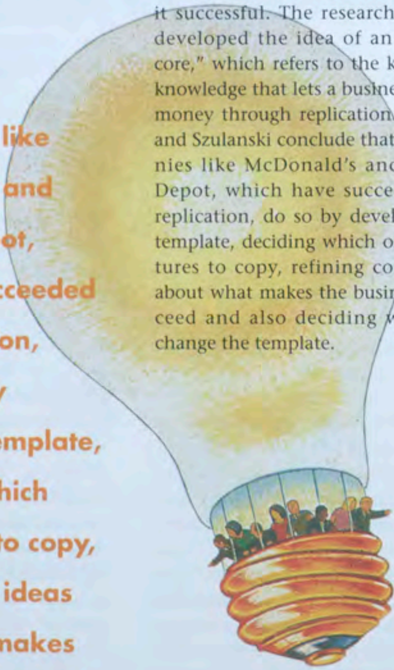
Faculty members at Wharton studied knowledge management long before its current surge in popularity. In the mid-1980s, Sidney G. Winter, Deloitte and Touche Professor of Management and co-director of the Jones Center, wrote a chapter called "Knowledge and Competence as Strategic Assets" in a book titled *The Competitive Challenge: Strategies for Industrial Innovation and Renewal*. More recently, Winter and Gabriel Szulanski, an assistant professor of management at Wharton, have been studying knowledge transfer in companies that practice replication – for example, franchisers like McDonald's or Starbucks. In addition, Szulanski has analyzed barriers to the transfer of best practices within firms and is also studying the need for "disciplined imagination" in knowledge creation.

Bruce Kogut, the Felix Zandman Professor of International Management and co-director of the Reginald H. Jones Center, has worked with Udo Zander of the Stockholm School of Economics in Sweden on issues of how firms create new knowledge and how it gets embedded in their organizing principles. More recently Kogut and Anca Turcanu, a PhD student, have been studying knowledge creation and distribution in the software industry. Anne Cummings, an assistant professor of management at Wharton, has explored issues in employee creativity, a theme she revisited during a presentation at the April conference.

Unlike many studies of knowledge management which focus on the transfer of ideas within organizations, Winter's recent work with Szulanski looks at companies that "grow by creating and operating highly similar outlets at a large number of localities." Companies like McDonald's, Home Depot or H&R Block, which replicate their business models over and over again in new regions and countries, have grown rapidly and been financially successful.

How do these companies decide what to copy so that a McDonald's in Boston is as lucrative as one in, say, Beijing? Winter and Szulanski say that such companies treat knowledge transfer not as a one-time act but as a process in which ideas are constantly adapted and refined. In addition, companies that replicate their business models make learning an important part of their business, down to the smallest detail. Example: before Ray Kroc bought the fast-food chain from the McDonald brothers, the restaurants already had fast service, cleanliness and even the ubiquitous golden arches. Kroc, however, raised organizational learning to an art by setting up Hamburger U., and by making recipe instructions as precise as: "Cook the french fries until the oil temperature has climbed three degrees above the low temperature reached when the potatoes are put in the oil." That is one of McDonald's recipes for success.

Winter and Szulanski developed a concept they call "the template" to describe how such companies replicate their business models. A template is an existing outlet that offers some hints about what makes it successful. The researchers also developed the idea of an "arrow core," which refers to the kernel of knowledge that lets a business make money through replication. Winter and Szulanski conclude that companies like McDonald's and Home Depot, which have succeeded in replication, do so by developing a template, deciding which of its features to copy, refining core ideas about what makes the business succeed and also deciding when to change the template.



Companies like McDonald's and Home Depot, which have succeeded in replication, do so by developing a template, deciding which of its features to copy, refining core ideas about what makes the business succeed and also deciding when to change the template.

In addition to his work with Winter, Szulanski has studied the difficulties of knowledge transfer within organizations. As British Petroleum discovered with its oil drillers, people are often unwilling to accept ideas generated elsewhere. Another problem is that those who create successful ideas may be unwilling to share knowledge for fear of losing their competitive edge. This problem afflicts companies in all industries. General Motors had a tough time getting its managers to share manufacturing practices across divisions. IBM had problems transferring hardware design processes between its business units.

What can companies do to deal with such issues? Conventional wisdom suggests that difficulties in transferring knowledge – sometimes called "stickiness" – can be resolved by giving people incentives that motivate them to share ideas. That is not entirely true, argues Szulankski in a paper titled "Exploring Internal Stickiness: Impediments to the Transfer of Best Practice Within the Firm."

Szulanski studied 122 best-practice transfers in eight companies and concluded: "contrary to conventional wisdom that blames primarily motivational factors… the major barriers to internal knowledge transfer [are] knowledge-related factors." For example, the recipient's ability to absorb forms an important barrier to learning, as do conflicts between teachers and learners.

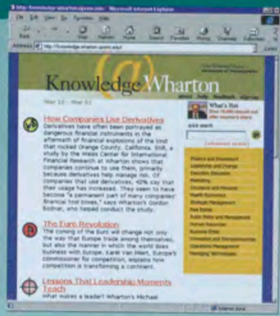
Szulanski writes: "When best practice does not transfer, a gap develops between what an organization knows and what is actually put to use. The findings of the study suggest that it may be less because organizations do not want to learn what they know, but rather because they do not know how to." This implies that if some drillers at British Petroleum refuse to accept the best practices generated at other oil wells, the reason lies not so much in lack of incentives but in lack of the ability to learn. The managerial response thus should aim at socialization and education, rather than tinkering with incentive schemes.

In their own studies of knowledge management, Kogut and Zander have argued that though knowledge in a firm resides in individuals, it also exists as part of the organization in the form of information (who knows what) and know-how (e.g., how to organize a research team). This implies that even though individuals may leave an organization, the company still has a body of knowledge, contained in its operating principles, which allows its work to continue with little disruption.

"Consider a company in a high-tech region such as Silicon Valley, where employee turnover is very high," explains Kogut. "The firm must have operating principles that allow it to integrate new people into its work processes. This implies that a company is more than what is inside its people's heads. The company's knowledge is also embedded in its organizing principles."

Kogut and Zander developed these ideas further in a later paper titled "Knowledge and the Speed of Transfer and Imitation of Organizational Capabilities: An Empirical Test." They focused largely on how knowledge is transferred from one manufacturing facility to another – for example, how a high-productivity GM plant transfers its auto-making expertise to other

The Best of Business, Online



Just as companies today are looking for systems to manage knowledge, so too are universities seeking ways to gather, interpret and present the enormous amounts of information generated within their organizations.

At a place like Wharton, knowledge comes from a variety of sources: research conducted by world class faculty in 11 different academic departments; the presentations of panelists at conferences and forums; analyses of business and industry trends from the school's 19 research centers; and reports on the campus visits of CEOs and business/government/academic leaders, to name some.

To share this intellectual capital, Wharton recently launched a new online business publication called Knowledge@Wharton. The publication is aimed primarily at corporate executives, entrepreneurs, policy makers, academics, journalists and business students, although the site is free and available to anyone with Internet access. The site's web address is http://knowledge.wharton.upenn.edu.

Knowledge@Wharton, which has been in the works for more than a year, is as unusual as it is informative. Readers can tap into a wide array of business articles, research papers, conference reports, business profiles, business commentary, news and industry analyses and book reviews. The site is updated every two weeks.

As a web-based resource, the information contained in Knowledge@Wharton is both sign-posted and layered. The home page includes short summaries of current articles, while a series of identifiable icons links these summaries to 14 different sections ranging from business/finance, health economics and strategic management to marketing, human resources, insurance/pensions and leadership/entrepreneurship.

Knowledge@Wharton
http://knowledge.wharton.upenn.edu

Clicking through to the second level allows users to view longer summaries based on research papers. These articles, written by professional business writers for an executive audience, highlight managerial insights offered in the research.

Readers who desire even more in-depth information can click through to the next level to find the original papers on which the research reports are based.

Finally, Knowledge@Wharton lets readers link to other business-oriented web sites, creating in effect their own digital path into the power of the world wide web.

The test issue of Knowledge@Wharton produced last spring included the following editorial articles: "Can Number Crunchers Become Geeks?"; "Should Managed Health Care Be Regulated?"; "Lessons That Leadership Moments Teach"; "How and When Advertising Works"; "The Little (Search) Engines That Could," and "The Euro Revolution". The publication also included reports on the campus visits of Jack Welch, CEO of General Electric Co., and Warren Buffet, CEO of Berkshire Hathaway, and stock market analysis by finance professor Jeremy Siegel, author of *Stocks for the Long Run*. In addition, Knowledge@Wharton has begun to add abstracts and electronic copies of the 2,000 working papers archived at Wharton's Lippincott Library. And the web site offers a wide array of links to Internet sites, divided by category.

Mukul Pandya, Knowledge@Wharton's editor, suggests that the web site is "an excellent way for alumni to keep in touch with the school. They can, for example, access their former professors' research, get timely information on business trends or 'listen in' on a visiting CEO's talk to students. Alumni can continue to learn from Wharton no matter where they are."

They focused largely on how knowledge is transferred from one manufacturing facility to another – for example, how a high-productivity GM plant transfers its auto-making expertise to other factories whose performance may not measure up.

factories whose performance may not measure up. One of the study's key conclusions is that "the transfer of manufacturing capabilities is influenced by the degree to which they may be codified and taught."

Explaining the study's results, Kogut notes that researchers have always known that companies transfer knowledge about manufacturing practices among their various units. The question is, how easily can companies communicate such knowledge? The key, according to Kogut, depends on whether such knowledge can be easily written down or codified. "If something is easily written down, it can be easily transferred," he notes. "Firms that are best at writing down are good at transferring knowledge." A case in point: McDonald's detailed instructions about the temperature of oil for its french fries.

Kogut's recent research with Anca Turcanu focuses on knowledge creation in the software industry. That business has lately witnessed a seeming paradox. Since digital information is inexpensive to transfer (travelling as it does over phone lines or by satellite) the software industry has exploded in low-cost centers such as Bangalore, India, or Dublin, Ireland. Indian software exports, for example, have grown at a rate of 50 percent a year during the past decade. At the same time, however, software developers must work closely with one another and with their clients to create innovative software programs. At the April conference, Kogut demonstrated a series of images that showed how face-to-face communication is very important in knowledge creation.

So how can companies resolve this paradox? The April conference featured executives from two companies – Trintech and Hewlett-Packard – who are dealing with these issues in unusual ways. Trintech, a software maker headquartered in Dublin, has a virtual organization in which software developed in Dublin is tested in Princeton, N.J., and employees communicate with one another over the Internet. Hewlett-Packard uses a system called the CubeCam – a camera that photographs employees working at their desk every 30 seconds – to develop a sense of physical closeness among people who work together but are located in distant offices.

Another theme at the conference involved the creation of innovative ideas. In her presentation, Cummings, who has studied employee creativity, presented a hypothesis: She argued that if companies want creativity that results not just in incremental but in radical change, a confining and restrictive environment can be as conducive as a nurturing and supportive one. "If you restrict people, they go off and do new things," she says. In that sense, a stifling environment can spark the creation of new knowledge. Cummings posed her hypothesis as a companion view to an earlier presentation by Szulanski, in which he argued that knowledge creation requires exercising "disciplined imagination."

These ideas and more will be studied and debated as the global economy continues to evolve. If knowledge is a source of competitive advantage, managing it will remain a crucial task for academics and executives alike in the next millennium. Finding solutions to the countless dilemmas that managing knowledge poses, however, is hardly easy.

Yoram (Jerry) Wind, director of Wharton's SEI Center for Advanced Studies in Management, highlights this reality by pointing to a Charles Schultz "Peanuts" cartoon in which Charlie Brown tells Lucy in great technical detail how a kite flies. In her inimitable way, Lucy asks: "Charlie Brown, why is your kite down the sewer?"

Every company will have to answer that question in its own field. If it gets the answer right, it could well be as successful as British Petroleum and its oil drillers. ▼

Mukul Pandya

REQUIRED READING:

THREE NEW BOOKS BY WHARTON FACULTY OFFER INSIGHTS

INTO NEGOTIATION, THE GLOBAL WORKPLACE-AND ETHICS

Twelve years ago Wharton had no courses on negotiation and few faculty doing research in the area. There was no Center for Human Resources and business ethics was offered to only a few students in elective courses.

All that has changed. The evolution over the past decade of an innovative, team-oriented curriculum in both the graduate and undergraduate programs has inspired a new emphasis on excellent teaching and new directions in scholarly research. Both trends have prompted a fresh wave of faculty-authored business-oriented books in areas ranging from finance to leadership. Two examples include the influential *Stocks for the Long Run* (McGraw-Hill, 2nd ed., 1998) by finance professor Jeremy Siegel, and last year's *The Leadership Moment: Nine True Stories of Triumph and Disaster and Their Lessons for Us All* by management professor Michael Useem (Random House, 1998).

And the publication pace seems to be picking up. In the past four months alone, Wharton faculty members have published books on negotiation, workforce dynamics and ethics. On the following pages we talk to the authors of *Bargaining for Advantage: Negotiation Strategies for Reasonable People* (Viking/Penguin, 1999) by legal studies department chairperson G. Richard Shell; *The New Deal at Work: Managing the Market-Driven Workforce* (Harvard Business School Press, 1999) by Peter Cappelli, director of the Center for Human Resources, and *Ties That Bind: A Social Contracts Approach to Business Ethics* (Harvard Business School Press, 1999) by Wharton's leading ethics professors, Thomas W. Dunfee and Thomas Donaldson.

WHAT'S YOUR BEST OFFER?

Since its introduction in 1988, Wharton's course on negotiation has been one of the most popular electives in both the MBA and undergraduate curricula. Each semester more than 350 students learn about negotiation in multiple small sections, taught by faculty from four different departments including legal studies, management, operations and information management, and marketing. In addition, the week-long Wharton Executive Negotiation Workshop, sponsored by the Aresty Institute of Executive Education, teaches negotiation to senior managers from all over the world.

Legal Studies Professor G. Richard Shell was instrumental in helping establish both the MBA and undergraduate courses and was a key player in creating the executive negotiation program. Now Shell has published Wharton's first book on the subject: *Bargaining for Advantage: Negotiation Strategies for Reasonable People.*

"I wanted to write a book that would be reliable and research-based but would also be fun to read," Shell says. "In our teaching, we found there was no book that filled this need. So I decided to write one myself."

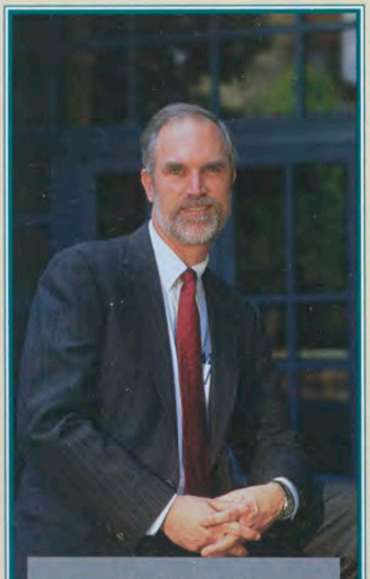
Shell notes that most popular negotiation books are based solely on the personal "war stories" of the author – typically a sports or entertainment agent. At the other end of the spectrum are academic treatments of bargaining from scholars in psychology, economics or anthropology. "Neither of these approaches works well for an audience of intelligent business and professional readers," notes Shell. "Our students and executives demand more than war stories, but they don't have any patience with academic jargon. As someone doing my own research, I already knew the negotiation literature. So I concentrated on reading business and social history to find examples from the lives of extraordinary people that would illustrate the bargaining principles I wanted to discuss."

Among the illustrations Shell uses are stories from the lives of Wharton alumni, including First Union Corp. CEO Ed Crutchfield, WG'65, and business mogul Donald Trump, W'68, both of whom are well known for their negotiation skills.

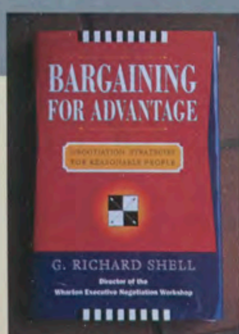
One of the most important lessons Shell has learned from years of research and teaching is that virtually everyone has the tools it takes to be an effective negotiator. The key, he says, is to build on the skills you already possess rather than trying to become a hyper-aggressive, take-no-prisoners type like the character Gordon Gekko in the movie *Wall Street*. "Aggressive people can be excellent negotiators," says Shell, "but only if that is their natural style."

Shell uses the term "information-based bargaining" to describe his approach to negotiation. It focuses on acquiring information in three ways: solid preparation before bargaining begins, careful listening to

"COMPETITIVE PEOPLE OFTEN HAVE THE UPPER HAND, AT LEAST INITIALLY, AGAINST OTHER, LESS AGGRESSIVE PERSONALITY TYPES."



G. RICHARD SHELL
CHAIR, LEGAL STUDIES DEPARTMENT



discern what the other party wants, and attention to the "signals" that the other party sends out through his or her conduct during the process. It's also important to note that information-based bargaining stresses the use of strategies tailored to the actual situation one is facing, rather than a one-size-fits-all approach.

Shell emphasizes four key personal effectiveness factors that can improve your results, regardless of whether you are a basically cooperative or competitive person. These factors are: a willingness to prepare (something most people know they should do, but don't); high expectations (because people who expect more usually get it); the patience to listen (because this allows you to learn what the other side wants, which can be used as leverage); and a commitment to personal integrity (which gains you credibility as well as self respect).

So, what kind of person is the best negotiator? There is no simple answer, as Shell has learned over the years. "Competitive people often have the upper hand, at least initially, against other, less aggressive personality types," notes Shell. "Because competitive people don't mind interpersonal friction, they have an advantage over someone with no appetite for it.

"But competitive people often lack skills in managing relationships. This gives cooperative people an advantage in any situation where interpersonal trust over the long term is important.

"In general, you're always better off negotiating against someone who is like yourself," he adds. "People who have the same personality type trust each other. It's when different personality types mix that things get dicey."

And what does Shell recommend to improve your results? Practice. "That is what makes taking a negotiation course such a powerful

PHOTOGRAPHS/ JERRY MILLEVOI

experience,' he says. "You get a chance to practice something most people feel anxious about, and do it in a learning environment."

The New Deal at Work

In the old *Father Knows Best* TV series, Robert Young's character had, to all appearances, a terrific job. He never seemed to work long hours, never seemed stressed out, no doubt received regular promotions and raises, and could expect to have a job at the same company for life.

This kind of employer-employee relationship is, of course, as dead as black-and-white TV sets with rabbit ears. Today employees face a new, more freewheeling kind of workplace that Peter Cappelli, the George W. Taylor Professor of Management, describes in his book, *The New Deal at Work: Managing the Market-Driven Workforce.*

New management practices have pushed aside such traditional principles as long-term commitment and internal promotion, says Cappelli, replacing them with relationships in which power moves back and forth from employer to employee depending on labor-market conditions.

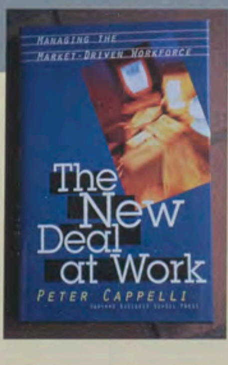
He describes the transformation as "a cultural change" brought about in part by recession and downsizing. These days, companies "don't want or need employees to be with them for life, and employees don't necessarily want to be there for life."

Another factor in the creation of the new work model is the arrival of more competitive product markets which have increased the pressure to cut costs and reduce time to market, Cappelli notes. Those sectors of the economy that have experienced the greatest need to shorten product life cycles, such as high-technology and financial services, have also experienced the most turmoil in their labor markets.

Consider New York City, the nation's financial center, and Silicon Valley, which has a large concentration of computer-related companies. In both locations, it's easy for employees to change companies without changing industries. "People want to move from company to company but they don't want to move from region to region," Cappelli says. "That's why it's hard to start a high-tech company if you're not in Silicon Valley."

> "Firms must recognize that compensation needs to reflect the new, more tenuous relationship between employer and employee."

Peter Capelli
Director, Center for Human Resources



The New Deal at Work recounts an anecdotal example of how employees appear to be changing employers more frequently but are staying in the same occupations longer than their parents or grandparents. A veteran of Chemical Bank, which is now merged with Chase Manhattan, told Cappelli: "I always thought of myself as a Chemical Bank manager who happened to be in human resources. The new generation of managers think of themselves as human resource managers who happen to be at Chemical."

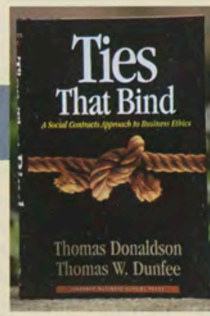
The new deal has been slower to establish itself in sectors that have long product life cycles, such as the oil industry. Exxon, like other companies, needs key workers to stick around until jobs are finished, which in the oil business may take 20 years, Cappelli says.

His book comes on the heels of an earlier study on workplace trends that he completed for the National Policy Association, a Washington-based union-management group. The study reached several conclusions: that the burden of corporate restructuring had fallen squarely on employees' shoulders and that there was greater uncertainty in employment. But that didn't seem to tell the whole story.

"The question we were left with at the end of that study was: What does this new model look like?" Cappelli explains. "The argument that we're now all temps didn't seem to be exactly right. Another question was: What else was changing? Not just the growing insecurity of employment, but how pay was being determined and how opportunities were being allocated and work was being organized. The third issue was: What do you do about this if you're a company?"

For example, firms must recognize that compensation needs to reflect the new, more tenuous relationship between employer and employee, Cappelli says. The chance of being promoted can no longer serve as an incentive. Instead, compensation strategies must be clear in delineating exactly what results will be rewarded in what way.

THOMAS W. DUNFEE (LEFT) & THOMAS DONALDSON



Cappelli sees no quick end to the transformation now taking place and no quick resolution to the challenges employers face in dealing with a brave new world.

"One of the harder issues to face is that companies don't necessarily control employee attrition," he says. "Sometimes employees are not pushed out of their companies, they're pulled. It's like managing the flow of a river. You're not going to keep the water from flowing out, but you can manage where and when it goes. It's the same with employees. That's a fundamental culture change."

AN INTEGRATIVE APPROACH TO BUSINESS ETHICS

What can happen when a company makes ethical missteps? Consider two disasters that befell Royal Dutch Shell in the mid-1990s, both of which are recounted in *Ties That Bind: A Social Contracts Approach to Business Ethics* by Thomas Donaldson and Thomas Dunfee.

In Nigeria, after environmental activists protested Shell's plan for a $3.6 billion gas-development project, nine of the activists were hanged by the military government. Critics alleged that the executions would not have occurred had Shell, Nigeria's largest oil producer, intervened. The company stayed out of the controversy, however, arguing that it was a private company with no role to play in politics. Its defense: large multinationals should avoid pushing their weight around in local affairs.

In another case, Shell announced plans to sink a large oil storage facility called the Brent Spar in the North Sea. Environmental activists protested. Some Greenpeace boats that tried to halt the sinking of the Brent Spar by maneuvering to intercept the Shell rig were nearly sunk by Shell's ships. Angry Europeans boycotted Shell products. Under pressure, the company decided not to deep-six the rig.

At the time, Shell was widely recognized as a company committed to ethical principles. What went wrong? According to Donaldson and Dunfee, Shell failed to recognize in both cases that the ethical expectations of the people where these events took place conflicted with the standard set of business norms Shell was using to make decisions. It may have been perfectly legal to stay out of Nigerian politics and to sink the Brent Spar. Indeed, Shell thought those actions were arguably ethical, too, under Shell's own internal analysis. But Shell's was not the only relevant ethical frame.

"Nigerians were looking at Shell as part of the community," with certain responsibilities to that community, says Donaldson, Mark O. Winkelman Professor of legal studies and director of the Wharton Ethics Program. In the oil-rig case, he adds, Shell learned that "you just can't act with a lot of hubris, following what you think is right."

Across the globe, many companies face problems like the ones Shell confronted. As they wrestle with ethical decisions, companies may rightly ask what standards they should use to make those decisions. Should they adhere to a fixed set of universal ethical principles that can be applied everywhere?

Or should they readily bend principles of right and wrong to fit the peculiar circumstances encountered in each case?

Taken alone, Dunfee and Donaldson say, neither approach is enough. Instead, the best framework is a combination of the two approaches, which the researchers have labeled Integrative Social Contracts Theory (ISCT).

To understand the Dunfee/Donaldson approach to business ethics, you must first get an idea of what they mean by the term "social contract." A social contract is an agreement, usually unwritten, specifying the mutual obligations of people who form various types of communities.

Social contracts can take two forms – macro and micro, the authors say. Macro social contracts are intended to set universal, objective standards for behavior among people and organizations. These contracts give people the implied duties they all must adhere to as human beings living in social relationships. An example would be a basic duty to condemn the torture of prisoners.

"ETHICS IS MORE THAN JUST AVOIDING LAWSUITS AND THE PUBLIC RELATIONS PROBLEMS THAT CAN HAPPEN IF YOU RUN AFOUL OF PUBLIC MORALITY."

Micro social contracts involve specific ethical rights and obligations that exist in a variety of smaller, more local circumstances. The norms in micro social contracts are flexible and can differ from community to community. The norms of the macro social contract do not change.

For example, the macro social contract may require people to tell the truth, to respect the environment and to be fair to others. Nonetheless, there may be differences from community to community as to how these moral precepts are actually put into practice in everyday life.

Suppose XYZ Corp. has a policy forbidding its managers to accept bribes. One of its executives, while on a business trip, is offered a fairly expensive gift by a Japanese supplier. What should she do? One option is to adhere to XYZ's policy to the letter and refuse the gift. But that may insult the gift-giver, since a deeply rooted micro social contract among Japanese encourages gift-giving, including gifts that are costly.

One solution to this dilemma, Donaldson says, would be for XYZ to do what other companies have done and adjust its gift-giving policy for Japanese circumstances. Using the ISCT approach, XYZ would recognize that not all gifts should be interpreted as bribes. XYZ could spell out for managers when it is proper and improper to accept gifts in the special circumstances posed by the Japanese business culture.

There are times, however, when the mandatory rules of the macro social contract override any micro social contracts that may exist. For instance, even if apartheid policies mandate that companies racially segregate their washrooms, as once was the case in South Africa, it would still be wrong for a multinational firm to comply with the policy. "On some things," Donaldson says, "you don't give an inch."

The authors say their approach represents a radical departure from those of other business-ethics researchers who traditionally have emphasized universal norms out of fear that any weight given to micro social contracts could lead to relativism, with companies making up codes of right and wrong as they go along.

But Donaldson and Dunfee stress that ISCT is not relativistic. "Some philosophers bend over backwards not to pay attention to [micro] professional practices, norms and experiences [in real life]," says Dunfee, Joseph Kolodny Professor of Social Responsibility in Business and director of the Zicklin Center for Business Ethics Research. "They approach the subject in the abstract, without much context. We have worked mightily to give [micro social contracts] the appropriate relevance" without slipping into ethical relativism.

ISCT, the authors say, avoids the traditional weakness of macro contracts (their vagueness) as well as the weakness of micro contracts (that they can lead to morally repugnant behavior). ISCT avoids relativism by insisting that any micro contracts be in accordance with moral limits established by a macro contract.

In a personal way, ISCT represents a merging of the authors' own ethical predilections. Donaldson, a philosopher who joined Wharton in 1996 after teaching at Georgetown University, is inclined to take a macro view of business ethics. He has spent his career focusing primarily on universal principles posited by seminal thinkers like Plato and Kant. Dunfee, an attorney who has taught ethics at Wharton since 1974, is more apt to take a micro view. He has largely focused on difficult ethical problems that crop up in everyday business dealings.

Says Dunfee: "Ethics is more than just avoiding lawsuits and the public relations problems that can happen if you run afoul of public morality. There are also positive opportunities. People may choose to do business with you if you are aligned with public morality as opposed to buying from a company that is less aligned. And there may be greater public forgiveness of your firm if [an ethical] problem does occur." ▼

This story was written by Stephen J. Morgan, a Philadelphia area freelance journalist and a frequent contributor to the magazine.

1999 REUNIONS

Who: Wharton alumni

What: Alumni Weekend

Where: Wharton and environs

When: May 14-16, all hours of the day and night

Why: To see friends and classmates, socialize, network, attend workshops and alumni/faculty panels, dance, picnic, catch up on school news ...

And more. Wharton Alumni Weekend 1999 brought together close to 700 graduates and their guests from the classes of WG'94, WG'89, WG'84, WG'79, WG'74 WG'69, WG'64, WG'59, WG'54 and WG'49 – the first time 10 MBA reunion years have been celebrated at once.

Jill Kanin-Lovers **WG' 74**

Inside the Action at Avon

Jill Kanin-Lovers is very forgiving when you refer to her as the "Head Avon Lady."

"We refer to them as sales representatives now. It's a more global and, to be frank, a more modern kind of term," says Kanin-Lovers who, since last year, has been senior vice president of human resources for New York-based Avon Products, Inc. The company, with $5.1 billion in annual revenues, 35,000 employees and nearly three million sales representatives in 135 countries, is the world's leading direct seller of cosmetics and personal care products.

"This is a truly global company, one with a very identifiable brand name, and that makes every day a real challenge," says Kanin-Lovers. She came to Avon after heading the global human resource operations for IBM, where she had worked since 1995. Prior to that she was senior vice president, worldwide compensation and benefits, at American Express, and head of global consulting and support activities at Towers Perrin.

Those who still consider human resources as a weak-sister department – one where papers are shuffled and resumes are routinely trashed – have the wrong image, says Kanin-Lovers. "It is much more than that now. We are the company consultants when it comes to things like where to put a manufacturing plant, how to adapt to new environments of all sorts, how and where to attract new employees at all levels, how to keep them, what compensation to offer and so forth. It is really the human relations team that becomes the glue." When companies experience cultural change, she says, "we are the enablers."

When Kanin-Lovers graduated from Wharton, consulting and Wall Street were "the cool professions to try," she adds. "Now the action is inside the company and we in human resources get involved in workforce strategy and its implementation."

Kanin-Lovers, who has written several dozen articles on employee compensation, says that stock and monetary compensation is only half the battle these days in attracting and keeping good employees.

"The big issue now is work-life balance," she says. "Employees want to manage the way they run their lives.

Continued on page 27

Not only were there more reunion years than ever, but 1999 also saw Wharton's first "course" reunion – a gathering of recent alumni who took assistant management professor Gabriel Szulanski's class on strategy-making while they were students. The group met on Saturday at the Steinberg Conference Center.

For other returning alumni, the weekend offered three beautiful sunny days in which to reestablish contact in a variety of venues. These included alumni/faculty exchanges on "The Changing Economics of the Health Care System" and "Making the Break from Employment to Entrepreneurship;" a roundtable discussion on the Wharton curriculum; and an executive education session with finance professor Jeremy Siegel titled "Perspectives on the Market: Are Stocks Still a Buy?"

There was also a Class of WG'54 alumni/student exchange, a class of WG'74 presentation on international finance, a town meeting with Penn president Judith Rodin and outgoing dean Thomas P. Gerrity; an alumni workshop on "Career Transition" and a Class of WG'89 video, "The Wharton Years."

On the following pages we highlight some of the activities of Reunion Weekend and profile six Reunion year graduates.

CLASS ACT: Szulanski (fourth from right) and alumni

PHOTOGRAPHS/ JERRY MILLEVOI

Laurance Narbut **W' 94**

Rolling Up His Sleeves in Russia

In 1998, Laurance Narbut had three job offers from companies in Russia. He chose Moscow-based SUN Capital Partners, a private equity fund run by Wharton alumnus Shiv Vikram Khemka, WG'90.

It was a good choice. SUN Capital is the only one of the three companies still solvent.

"Making investment decisions in a climate of uncertainty is one of the biggest challenges of the job," says Narbut, in what may be an understatement. Take regulatory issues. "Regulations change day to day," he notes. "For example, a reduction in the Value Added Tax was passed at the beginning of 1999 which would have significantly reduced the final cost of our products to Russian consumers, theoretically increasing demand. To compensate for this decrease, regional governments were permitted to institute a sales tax. Unfortunately, the decrease in the Value Added Tax never materialized and now consumers are faced with the additional sales tax, making our products more expensive for the end consumer."

Or consider management issues. "Finding market-oriented managers is extremely difficult," Narbut says. "Previously, company managers were rewarded for meeting planned production levels set for them by the Central Planning Agency." Sales, marketing, product quality, distribution, operational efficiency, cash flow and profitability were not major managerial concerns.

Today it is different. "Our companies' products have to be able to compete in foreign markets and defend against multinationals in the domestic market. Often we must work with managers on a daily basis for extended periods of time to teach them western business principles."

That said, Narbut and SUN Capital appear to be doing well. The company, with eight professionals, 30 employees and a $155 million investment fund, focuses primarily on the food processing, lodging and oil and gas sectors. Narbut's exposure to different companies has been varied. He sits on the board of a $25 million chocolate company, Voronezh Confectionery, located in a town 300 miles south of Moscow; has evaluated various potential investments, including a satellite telecommunications company in Kyrgystan, one of the

Continued on page 27

Michael J. Kowalski W' 74

Diamonds Are Forever at Tiffany

"If there is a common denominator among the people who work here, it is an intense passion and love for the product. We are in the business of creating beautiful objects for everyday use."

If you guessed that the company described above is Tiffany, you are correct. And while "the product" referred to includes such items as sterling silverware, china, crystal, watches and stationery, the "heart of the business" remains the diamond engagement ring, says Michael J. Kowalski, president and CEO. "We are an authority on gem stones, whether the ring costs $950 or $950,000. At our core we are jewelers. That is the foundation of our competitive advantage."

Kowalski's devotion to Tiffany is evident both in his rise through the company, where he has been since 1983, and his strong belief in Tiffany's high-quality merchandise, people and reputation. It is, indeed, an unusual company.

For example, perhaps the most critical qualification for a Tiffany manager is "product expertise," says Kowalski, noting that the senior vice president of merchandising is a gemologist with a background in investment banking. "We are very much a design-driven company. As long as we do not compromise our product and service standards we feel we can manage growth in a way that doesn't hurt the Tiffany image."

The company, with worldwide sales of $1.2 billion, net earnings of $90 million and 4,800 employees, owns and operates the vast majority of its more than 100 stores and boutiques. "We have never licensed the Tiffany name nor have intentions to do so," Kowalski says. The company's biggest market is the U.S., its second biggest Japan. Earnings have grown 32 percent per year on average over the past five years, with jewelry making up 74 percent of Tiffany's worldwide sales.

After graduating from Wharton, Kowalski spent a year as a credit analyst at Bankers Trust, earned his MBA from Harvard, worked as a consultant for six months and then joined Avon Products in 1978. While he was there, Avon acquired Tiffany and in 1983, Kowalski became Tiffany's director of planning. In late 1984, after Avon had announced its intention to sell the jewelry retailer, Kowalski was a "junior member" of a management group that led a successful buyout effort. Kowalski moved up to become group vice

Continued on page 27

WG' 59 **J.D. Power**

Driving Customer Satisfaction

J.D. Power III has owned some real lemons in his time.

"I bought the Oldsmobile Diesel in 1978 and that was a disaster," says Power. "I drove a Jaguar when they were not very good. After that, it was an Audi 5000, the alleged unintentional acceleration vehicle. I currently drive an Impala SS and that is out of production now. I got one of the last ones off the line."

Now, we've all had a bad experience or two with cars, but Power is the one guy whom you'd think would be exempt from all that. He is, after all, that J.D. Power, founder and chairman of J.D. Power and Associates, the firm that made its name rating customer satisfaction of automobiles.

"Yes, that's the first question people ask me when they find out there really is a J.D. Power: What kind of car do you drive?" chuckles Power, who prefers to be called by his middle name, David. "But I've made it a policy not to drive the cars that rate very highly in our surveys, just so we wouldn't be accused of favoring a particular make."

Though his company is most well-known for the car satisfaction surveys, Power has expanded the business to include travel surveys, particularly of airlines and hotels, as well as surveys of industries like health care and telecommunications.

But Power might never have been at the top of his particular game were it not for an unlikely product: chain-saws.

Power was working for a market research firm in 1967 when he helped the McCullough Corp., an L.A.-based engine maker, bring its chain saws from professional users to a consumer market. McCullough asked him to come on board as director of corporate planning. A year later, in 1968, when Power decided he wanted to start a market-research business on his own, McCullough graciously signed on as his first client.

"I was working out of the kitchen of my house in suburban Los Angeles. It was a little scary," notes Power. Soon, however, a friend called and told Power that a Japanese car company named Toyota was interested in the U.S. and needed some market research. Power had worked as a financial analyst for Ford and as a consultant for General Motors after graduating from Wharton. He took on Toyota as a client.

Eventually, he says, Toyota became a much bigger company with American staff and "stopped listening to our

Continued on page 28

Shaz Kahng WG' 89

High-Energy Consulting

Spend some time with her and there can be little doubt about Shaz Kahng's energy level.

She has logged several million miles over the last several years as a consultant for Kurt Salmon Associates, the global management consulting firm that specializes in consumer products and retail industries. Kahng is the company's first female minority partner.

Her exercise schedule includes running, jazz dance and boxing workouts at a Wall Street gym. Her vacations are spent skydiving or scuba diving. Her latest trip: looking for hammerhead sharks off the coast of Papua New Guinea.

There are past achievements as well. In her pre-Wharton days, as a research scientist at General Foods, she invented a synthetic blueberry that could be easily digested, cooked and preserved in baked goods. And two years ago, persuaded by a director friend to invest in a film, Kahng became the co-executive producer of *Sunday,* which won the 1997 Sundance Film Festival Award.

Yet none of this seems to have gone to her head.

"When I look around at my friends, especially my Wharton classmates, I see them doing such interesting things. They are changing careers in midstream and the like. And that is what is inspiring," says Kahng. "And I look at my father, who came to the United States from Korea at age 19. He didn't know a word of English and he ended up as a professor of labor law. Now that is an unbelievable achievement."

Kahng grew up in Morristown, N.J., and went to Cornell University where she got her bachelor's degree in chemistry and food science. While doing such work as the invention of that artificial blueberry in the research labs of General Foods, Kahng wondered about some of the management decisions that were being made above her.

"In the lab, we would be trying to adapt new technologies and apply them to products," she says. "We would present them to marketing and they would decide what to fund. I often wondered why they would select what they did because some of the projects they chose didn't seem to be consumer focused. I went to business school to understand the decisions they were making."

After Wharton, Kahng worked at Towers Perrin and Gemini Consulting before joining Kurt Salmon in 1994. She was made a partner there in 1996.

Kahng is concerned that many companies have resisted

Continued on page 28









WG' 94 **Claudio Goldbarg**

Showtime at DreamWorks

It's the detours Claudio Goldbarg took along the way that led him to his current job at DreamWorks SKG.

These include a year working in a book store/coffee shop in New York City (1994-95) while consulting in the telecommunications and financial services industries, and a year with Activision (1995-96), a video game company in Los Angeles where he helped adapt particular products for sale in foreign countries, including Earthworm Jim, MechWarrior II and Spycraft.

The bookstore, Goldbarg explains, was a Barnes & Noble on the upper West side of Manhattan where he worked "for spending money and health benefits" while looking for a job in interactive entertainment. "Occasionally a bunch of Wharton people would come in, see me and wonder if maybe I was on a consulting job to reengineer the company. They were a little shocked to learn that I was just a regular employee," says Goldbarg, who graduated with a degree in economics from MIT and worked for three years at Kidder Peabody before getting his MBA. "But I was one of those people at Wharton who knew that when I finished business school I didn't want to do something typical like banking or consulting. I wanted to do something unique."

In 1996 he landed his current job in finance at Los Angeles-based DreamWorks, the broad-based entertainment studio with feature film, animated film, television, music and interactive game divisions, headed up by Steven Spielberg, Jeffery Katzenberg and David Geffen. Goldbarg is in charge of strategic planning for the television division.

"We're up and running but our goal is to get more successful shows on the air that are high quality and add to our profitability," he says. DreamWorks currently has "Spin City" and a midseason series called "It's Like, You Know…," both on ABC. By high quality, Goldbarg means "well-written as opposed to mass-appeal, low-common-denominator sort of stuff. We don't want to produce junk."

Television is a "different medium," Goldbarg adds. "You aren't master of your own destiny. Movies you can make and release. In television, our primary customer is the network. Given what's happening in the business, there is less and less risk being taken by networks in their programming. Choices aren't always based on the creativity or the quality of the program…

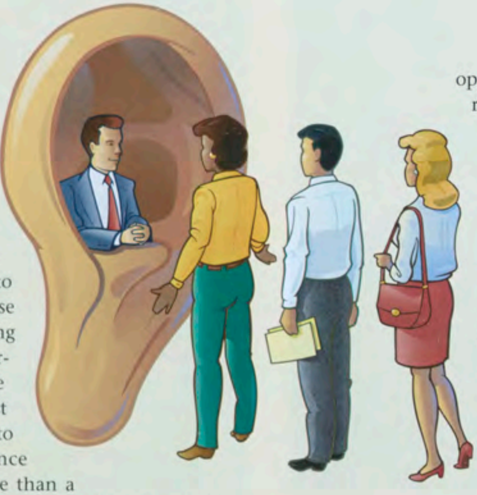
Continued on page 27

The Return of the Shrimp

or

Listening to Your Customers and Hearing Their Silence

By David Larcker and Pamela Cohen



How much is customer satisfaction worth? A lot. Just look at two communications industries: telephones and the Internet.

In spite of the new era of open competition, some phone companies have taken a don't-call-us, we'll-call-you approach to customers, many of whom refuse to sit idly by the phone, waiting for more customer-friendly service. Instead, long-distance customers are migrating in a quest for better service. From 1996 to 1998, 35.3 million long-distance customers — representing more than a third of the nation's 100 million households — switched long-distance carriers at least once partly due to customer dissatisfaction, according to industry sources. Internet service provider customers are even more dissatisfied. An estimated 40 percent of customers who change Internet service providers do so because of "poor service."

Every manager knows contented customers influence purchasing behavior and customer growth. And now there's a measure of how customer satisfaction affects stock price as well. Using data from the American Customer Satisfaction Index, researchers at Wharton found that a one-unit rise or fall in customer satisfaction ratings, measured on a 1-100 scale, translated to a $250 million rise or fall in stock market value.

This stunning bit of news may press every manager to master the tools of good listening in a hurry. Because when it comes to their customers, too many managers don't seem to hear very well. They make serious mistakes in how they conduct and analyze marketing research. They overlook simple solutions to customer issues because they can't and don't hear what customers would tell them, given the right opportunity, the right setting and the right questions.

Further, most executives are baffled by the information collected from focus groups, highly structured one-on-one interviews and other qualitative research methods. As a result, few are able to translate research results into effective corporate strategy.

After studying problems experienced by managers in various industries, we have formulated five ground rules executives can use to improve their customer-listening skills.

1 *You already know 85 percent; the other 15 percent is the "ah-ha factor."* Experience matters. It enables executives to take as much action as is dictated by the knowledge they possess. But what is really needed is the extra 15 percent of information that sophisticated qualitative research and analysis provides. Customers of an industrial manufacturer, for example, said they wanted a "partnering relationship." Management assumed this meant "give the customer a good deal" and "know what they want when they want it." Only when asked to define "partnering relationship" did their customers explain they wanted a sales representative who "understands their business and provides advice on how best to operate the industrial equipment." By making changes in how its sales force is trained, the company saw a tremendous increase in long-term customers and substantial improvements in market share as well.

2 *Don't believe the results of every focus group.* Actual customer purchasing decisions are not made

ILLUSTRATION / MICHAEL ROGALSKI

in the laboratory setting of a focus group. Despite their best efforts, focus group moderators introduce their own biases or respond more positively to those who give the most data. Participants are inhibited by other members of the group, or by the knowledge that company representatives may be watching behind one-way glass. Groups tend to drift toward the strongest voice despite moderators' attempts to involve everyone. Thus, results can be misleading. When a focus group at a financial services firm yielded no new information other than a discussion about a problem encountered by a single participant, only later examination of the transcript revealed that the moderator exacerbated the situation by asking more questions about the problem. Additional surveys showed that the problem raised had been an anomaly affecting only a handful of customers.

3 *Don't be fooled just because you have quantitative data.* A survey that asks poor questions yields equally poor results. Executives at a leasing company, for example, in survey after survey found no evidence that customers were unhappy with the billing system. However, billing complaints were the norm. Secure in the survey results, the company did nothing to change the system. Over time, when other initiatives failed to make a significant difference in customer satisfaction and the company began to lose regular customers to competitors, comprehensive qualitative interviewing showed why. Customers, unprompted, overwhelmingly said the billing system was "one of the worst." They elaborated on the system's faults and were specific about problems. They even made suggestions for improvements. These were complaints management couldn't hear in the original survey, a canned questionnaire for businesses. It had asked the wrong questions, probing for billing "timeliness" and "regularity," issues customers had not perceived as problems. In correcting its billing system, the company saw a substantial increase in customer satisfaction and, more importantly, it gained an increased amount of business from customers who had been taking their business elsewhere.

4 *What may go unsaid is often critical information.* Even when companies do perform qualitative research, the interviews themselves are often so highly structured that they do not always allow customers to raise issues. A large hotel and casino chain, for example, noticed that daytime gambling by retirees had sharply declined over a period of four months. Slot machine and restaurant usage had hit an all-time seasonal low. Surveys were used to detect discontent, but were unable to identify its cause. In open-ended, qualitative interviews, however, customers discussed what they had not been asked to address before: anger over the removal of shrimp from the daily, all-you-can-eat buffet in the chain's restaurant. Customers viewed the menu change as an effort to boost profits at the expense of customer service. The customers reported they had not stopped coming to the establishment entirely, but they had gone elsewhere in search of a better buffet. Since casino customers — particularly older people — often play where they eat, slot machine usage saw a sharp decline. When executives realized their mistake, the shrimp was reinstated, customer satisfaction scores rose and bottom-line results in both the casino and restaurants showed impressive gains.

Despite their best efforts, focus group moderators introduce their own biases or respond more positively to those who give the most data.

5 *The ways in which customers state things are as important as the words they use.* When qualitative research is not analyzed properly, the real substance of the interview — the actual words, phrases and metaphors that customers use — can get lost. Messages can be missed. In qualitative research developed for an investment firm, for example, customers consistently speak of their satisfaction in terms of the overall relationship they have with the people in the company. They view the relationship on a personal level. It is intimate. Like a personal relationship, it evolves over time. Potential customers view this progression as critical to choosing and establishing long-term relationships. Knowledge of the current stage of the relationship and identification of the information needs of the customers could then be used by representatives of this firm to make more tailored and, thus, more effective sales calls to their customers. Without sophisticated qualitative analysis that identified and preserved the language of the customer, this information would have been lost.

The lessons are clear for those who will listen and hear: Qualitative research and analysis of what customers say generates real economic value. ▼

David Larcker is the Ernst & Young LLP Professor of Accounting. Pamela Cohen is affiliated with The Ernst & Young Center for Business Innovations.

BUSINESS PLANS *Continued from page 2*

the Arthur Andersen Technology Prize of $5,000 for the best technology-based business concept.

•QLINX.COM, an Internet platform and suite of applications designed to revolutionize service delivery in case management systems by enhancing service quality, accessibility and cost effectiveness. Eric Fishman, Matthew Storm, WG'00, Ira Schwartz, David Schwartz, Jimmy Bosse, Michael Hurwitz and Anuj Gupta won a $1,000 prize for the most socially responsible business, sponsored partly by The Wharton Journal.

On April 27, eight finalists in the business plan competition had 12 minutes each to present their business plans to a panel of judges, who then had eight minutes to ask questions of the presenters. The judges, among them entrepreneurs, investment bankers and venture capitalists, included Mark Winkelman, WG'73, Limited Partner, Goldman, Sachs & Co.; Michael Bolton, PA Early Stage Partners/Safeguard Scientifics; Ash Lilani, senior vice president, Silicon Valley Bank; David Schlessinger, founder, Zany Brainy and Encore books; Peter Sears, retired president, SROne; Marvin Weinberger, Innovation Factory; Bruce Luehrs, general partner, Edison Venture Fund, and Bernard David, the Breakthrough Group.

Other business plan finalists in "The Great Eight" included Adhere Technologies, a manufacturer and distributor of portable patient interfaces that dispense medications and allow the tracing of patient medication usage; Nails on the Fly, a nail care service provider for women traveling through airports; MyFlyMiles.com, an air travel web-site; PayMyBills.com, a subscription-based bill management service; and Pinpoint Training, a developer of high-end customized business training.

Competition sponsors included gold sponsor Arthur Andersen, LLP; and silver sponsors Silicon Valley Bank, Ben Franklin Technology Center of Southeast Pennsylvania; Ralph Mack Private Investments, Venture Bank@PNC and Ketchum.

"Building on the school's long-standing commitment to the study of entrepreneurship," notes Mark Fraga, managing director of the Wharton Entrepreneurial Programs, "this competition provides students with greater access to financial capital and to the intellectual capital of business advisers and seasoned entrepreneurs."

Fraga says he hopes to publish a "venture book" this summer with information on teams that participated in the competition's semifinals and intend to move forward with their plans. The idea he adds, is to help these teams locate funding for their ventures from interested investors.

TENURE *Continued from page 4*

(management and technology), initiated discussions with SAS on curriculum, budgetary, personnel and marketing issues, hired the program's director and participated in fundraising."We went from concept to implementation in record time," she says. "We had not just a new curriculum but a totally new academic experience integrating broad social, cultural, political and business components. The program is very rigorous academically, challenging the small number [40] of highly motivated and outstanding students accepted each year."

Bellace's legacy also includes the establishment of Management 100, the required freshman undergraduate leadership course. With the mission of the undergraduate division to educate global business leaders of the 21st century, Bellace felt that the newly-approved curriculum lacked a critical requirement: leadership. She designed the course based on an experiential learning approach to teaching leadership, communication and teamwork. "We had the most incredible opportunity, the ability to take persons at one of the most formative periods of their lives, eighteen-year-olds starting college, and to have them grow personally and professionally by experimenting with different leadership styles."

Bellace notes that Management 100 provides an additional benefit to Wharton. "Back in 1990, Wharton freshmen had no classes together and we were losing the chance to foster a sense of cohesion and class spirit." Management 100 "has created a wonderful sense of community among these students" and has also resulted in a number of remarkable community service projects organized by Management 100 teams, she adds.

Bellace says a third major accomplishment of her tenure as deputy dean relates to building and strengthening Wharton's world-class faculty, a role in which she worked closely with the chairs of Wharton's 11 departments. "We attracted a certain number of 'stars' but just as importantly, we also identified extremely fine junior faculty and have sustained them through to promotion," she says. "In the past five years, very, very few professors have chosen to leave Wharton even in the face of extremely competitive offers."

As deputy dean, Bellace focused on expanding Wharton's reach in Asia and negotiated academic alliances with the Indian School of Business, Singapore Management University and Chinese University of Hong Kong. To encourage faculty to undertake global research, she initiated the International Research Grants program.

Bellace is the first to note the quality of all those she has interacted with at Wharton, including faculty, staff and students. "Everyone here is committed to high performance and the highest quality," she says. "It is an incredible place to work."

KANIN-LOVERS *Continued from page 18*

They want to have the chance to take a half-day to see their kids at a baseball game. They want to work at home. And they want to know about opportunity. People want to feel they are growing."

Another major issue is job security. "Guaranteed employment is definitely over," she says. "People are now loyal to a profession, rather than a company. So you need to have a company where people feel good about their profession."

In her first year at Avon, Kanin-Lovers has traveled to more than 20 countries where the company either has manufacturing or distributing operations. Most of the time she is accompanied by Avon CEO Charles Perrin.

"He calls himself the chief HR officer, because that is what a company is all about," she says. "There is a war out there for talent in every country. In China, for example, there may be a shortage of managers, since they are not yet used to the capitalist system. In California, the labor market may just be tight. I have to depend on a team in all these places, but going [there myself] is important. There is nothing like knowing the [environment in which] people will actually work."

Kanin-Lovers travels on her own time as well. She and her veterinarian husband are hikers and this year's vacation is to Argentina's Patagonia for hiking in the high plateau. At home in Connecticut, it's mostly curled up in a chair with a book.

"Murder mysteries. What can I say?" Kanin-Lovers says. "I just love figuring out the puzzle. It's what I do at work, so at home I do it with a little less at stake than people's work lives." ▼ *Robert Strauss*

GOLDBARG *Continued from page 23*

"A lot of the problems are structural to the industry. And with the increasing popularity of the Internet and the growing number of cable channels, network viewership has been declining and will continue to decline. That means we need to explore what other distribution avenues are available, like cable, international markets, video and possibly TV shows on the Internet."

Working for DreamWorks is, well, a dream, Goldbarg says. "The material you are dealing with is talent driven ... At the end of the day you are working on shows and ideas that reflect trends in culture and society. When DreamWorks' *Saving Private Ryan* was released, it was an exciting time around here because we work for a company that produced a very revolutionary picture and changed the whole war movie genre."

Goldbarg, who lives in Beverly Hills, says he might some day want to get more involved with the production side of television. And maybe even get back to his favorite place, New York City. "But for now," he says, "I'm learning a lot about the industry in a company that is well-run by quality people." ▼

NARBUT *Continued from page 19*

former Soviet Republics; and last April helped close a deal between SUN Brewing, another company of the Khemka family, and Belgium-based Interbrew SA, the fourth largest brewery in the world.

Narbut, who grew up in New Hope, Pa., joined Credit Suisse First Boston in New York after graduating with a dual degree from Wharton and the College of Arts and Sciences. He went to Harvard Business School from 1996 to 1998, and then took an intensive two-month Russian language course at Middlebury College in Vermont. "Essentially I see the entire Russian market as a big restructuring project," he says. "The mass privatization of companies that has occurred in Russia over the last few years comprises what will probably be the largest transfer of assets from government to private ownership that I will see in my lifetime."

Narbut plans to begin researching investment potential in export-oriented companies as well as the software and computer technology industries this summer. "When I arrived, the effects of the August 1998 devaluation were already apparent: foreign investors had lost faith in Russia, the banking system was in shambles, and the government was struggling to fill the power vacuum left by Yeltsin's prolonged absence," he says. "I felt it was going to be a 'roll up your sleeves' type of opportunity. It certainly has been." ▼

KOWALSKI *Continued from page 20*

president of merchandising in 1986, executive vice president of marketing and merchandising in 1992, president in 1996, president and chief operating officer in 1997, and on February 1, president and CEO.

A major challenge for Tiffany over the past decade has been "communicating the fact that there is broadly affordable product here and at the same time that there is wonderfully luxurious product available as well," Kowalski says. In other words, making Tiffany's luxury items both accessible and "aspirational." "We have also worked hard to educate our customers as to the various types of diamonds, not just the size, but the cut, clarity and color, and the long-term value we believe they carry."

Another challenge, a perennial one, is ensuring access to the "perpetually short supply of quality diamonds," Kowalski notes. While Africa and Russia are the major sources of diamonds, jewelers are now looking to a new diamond mine that opened late last year in Canada's Northwest Territory. "Although diamonds were discovered there a decade ago, it has taken 10 years to confirm that they were present in economically mineable quantities," says Kowalski.

"The creation of fine jewelry is an art," he adds. "It doesn't lend itself to machine-produceable techniques." ▼

KAHNG *Continued from page 22*

attracting female and minority managers.

"I think it is evolving, but it is extremely slow. I'm still meeting senior executives and not seeing a lot of women or minorities," she says. "Companies that are going to be successful in these competitive times are those that recognize diversity. We tell companies that they are going to have to understand their customers better and one good way of doing that is to have a better ethnic and gender mix in management."

Kahng admits that American companies are better in this regard than most she has seen in her Asian travels. One time in particular, while doing a presentation in Japan, she entered a room with 40 male executives and a female translator about her age.

"The project manager introduced me as Shaz Kahng and the executives all started laughing and pointing at me. They must have thought they were being fooled, that I was another translator," says Kahng. "They expected Shaz Kahng to be a white man."

Kahng says that the big issue for retailers right now is to figure out how Internet sales are going to fit into their businesses.

"You have consumers shopping across multiple channels. The Internet, the old brick-and-mortar store and catalogues are all going to have to be seamless for the consumer," she says. "The truly successful companies will be those that integrate these channels better and better. In the future, what consumers will be looking for in brick-and-mortar stores will be more entertainment and more service. This change will, in the end, be good for everyone." ▼

Robert Strauss

WHARTON DIRECT *Continued from 6*

prospects: the higher the P/E, the better, of course.

"Taking restructuring charges is like taking a bandaid off. If you do it slowly it hurts over a longer period of time. But if you pull it off very quickly (i.e. take a huge 'one-time' restructuring charge) it may hurt a little more but the pain probably won't last very long. Given human psychology and therefore investor behavior, many companies feel it's better to experience a lot of pain for a relatively short period of time."

Reply from student:

"Thanks for the prompt response ... I was curious because one of our competitors just did that and from their market presence I always thought they were doing well. Hah! Now that I can analyze their annual report I feel pretty good about what we are doing in our business." ▼

J.D. POWER *Continued from page 21*

findings" as they created their own internal research group. That's when Power decided to do his independent ratings survey of customer car satisfaction.

One of his first insights was that consumers expected different things from different cars. The person driving a Mercedes had greater expectations of the car and the salesperson than a person driving an inexpensive compact.

"The advantage we had in 1971 was the flood of Japanese imports coming in – Honda, Isuzu, Datsun, Mazda, Subaru, Mitsubishi, Toyota," he says. "They wanted a part of the market and were interested in the types of studies we were doing. We were able to sell them our independent surveys. In the past, this kind of thing was always done on a commissioned basis by an individual corporation or by a syndicate of corporations. No one had done it on an independently funded basis where we owned the data. This permitted us to talk publicly about the results. Of course, that made the press interested and the press delivered the message to the CEOs."

Power grew up in Worcester, Mass., attended the College of the Holy Cross and served for four years as a line officer on a Coast Guard icebreaker before coming to Wharton. After 36 years in Los Angeles, "I feel like a native. Three of my four children were born here, and I've learned to drive the freeways," he says from his company's Agoura Hills headquarters.

"On the other hand, I am now traveling about 80 percent of the time. Our clients work globally which means we need to service them globally. We have offices in Tokyo, London, Singapore and Australia."

Since the J.D. Power and Associates surveys now include hotels and airlines, Power is careful about how he signs his name. "I register as J. David Power and that throws people off," he says. "People are startled for the most part when they see my name," he adds with a laugh. "I guess they think it's computer-generated instead of a real person."

Of course, J.D. Power and Associates is more than just one person. At last count, it's 500 of them. "From my kitchen table to 500 employees. Whew!" he says. "It's been a wonderful ride." ▼ *Robert Strauss*