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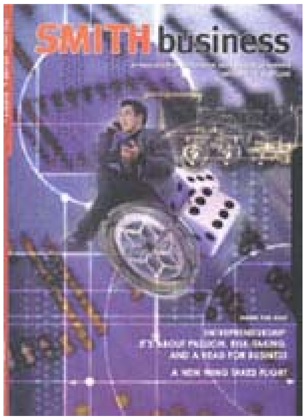

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Passion, Luck, and a Lot of Business Sense

by Rosemary Faya Prola

Is there a formula for entrepreneurial success?

If you're running the show, it's waking up every day excited about your job. It's living or dying based on the reaction of a VC (venture capitalist) to your business plan. It's learning from mistakes, rolling with the punches, and knowing when to pack it in. If you're on the sidelines, it's watching fabulous fortunes being made and wondering, should I take the plunge?

It's an entrepreneurial world and welcome to it.

There are more U.S. companies today than at any time since the mid-1800s, according to Scott Shane, associate professor of entrepreneurship and director of research at the Dingman Center for Entrepreneurship in the Smith School of Business. "Historically, economic growth always has been driven by a major technological change," Shane says. "One era had the steam engine, another had railroads, another had electricity, and another had the microchip. Ours has the Internet."

"The study of entrepreneurship is actually the study of how economies evolve and societies change," he continues. "People starting companies create wealth, and that process changes society."

The development of the Internet and advances in information technology have created new business opportunities and spurred business creation in the last decade. But it's not the new technology alone that's stimulated entrepreneurial fever.

"For 20 years, entrepreneurship has been identified with the 'sexy' image of a creative, risk-taking dynamo," says Robert Baum (left), director of academic programs at the Dingman Center. "In the last five years, its attraction has been enhanced by the incredible stock market profits gained by Internet company owners."

Technology has not only created business opportunities, it has eased entry, notes Baum, who founded two, and purchased five, businesses. "It is possible to found a technologically innovative business in a dorm room with personal knowledge and a computer rather than purchase expensive machinery and buildings. Technology also has given entrepreneurs better tools in the last 10 to 15 years to optimize small business operations, especially in the areas of communications and data analysis."

Another contributing factor to the entrepreneurial phenomenon is the corporate restructuring that began in the late '80s. "People began to see entrepreneurship as an endeavor not much more risky than working for a company," Shane explains. Instead of heading for the corporate cubicle, newly minted engineers, scientists, and managers now are considering the greener fields of entrepreneurship. It's become a crowded space.

"There are a lot of bright, talented people in the marketplace," states Don Spero, director of the Dingman Center for Entrepreneurship, who started his first venture, Fusion Systems Corporation, after receiving a Ph.D. in physics from Columbia University and a post-doctoral fellowship at the University of Maryland. "Today every college student is computer literate and can learn to identify business opportunities and generate solutions," he says.

A significant change in investment patterns has also fueled the entrepreneurial boon, Spero says. "The overall robustness of the economy has increased discretionary income that has driven investment. More than half of all Americans are invested in the equity market and investments are growing at a much greater rate than 10 years ago," he says. "Venture capitalists are just deluging entrepreneurs with money. From 65 to 85 percent of venture capital at this time is going into dot-coms."

Is it possible to identify the key element in this dynamic mix that will guarantee business success? It's not likely, according to Shane. "For many years, researchers spent too much time in search of the 'Holy Grail' of entrepreneurship, the elusive e-gene," he asserts. "In the last 10 years, researchers have had more success in explaining the entrepreneurial process."

"You can't predict what business or which entrepreneur is going to be a success," he continues. "There's a lot of luck involved. But you can identify significant patterns in entrepreneurship."

Shane's research has looked at a variety of areas, including what types of technology are more likely to lead to the founding of new companies; what types of structures of new companies enhance survival; and which types of people are more likely to be faced with technological opportunity and start a company. "Certainly research can be applied to develop guidelines," he says, "but one can talk about probabilities without giving 'how-tos.'" For example, he can explain why it's the entrepreneurs with engineering and scientific backgrounds who seem to be more successful. "It's not easier for them," Shane states. It's just because they tend to encounter more valuable opportunities as opposed to people who identify service needs."

Spero, a successful businessman who also has been an "angel" investor in 10 companies, points out the importance of the human resource in the success equation. "Entrepreneurship is a people-driven issue," he says. "A lot of things - capital, personal contacts, and education - are critical, but in a new business it's the passion, energy, and competence of the people involved that are most important. It's not about being the company with the best technology or being in the fastest growing market. But if you have these too," Spero notes, "you'll hit a home run."

"When you look at the factors contributing to a company's success, an entrepreneur's personal characteristics are important, but not sufficient for business success," Baum states. "His or her passion, proactivity, and self-confidence matter; and personal competencies - technical knowledge, management skills, the kinds of things you can learn in school - are important. However, business strategies, resources, and serendipity or luck matter as well."

The Smith School's courses in entrepreneurship really have multiple goals, according to Baum. "It's true, we are trying to help individuals start companies, and to be knowledgeable capital providers for new ventures; but we are also providing them with the skills to be valuable employees in big companies."

"It's possible to learn from the behavior of real entrepreneurs and match those styles in large organizations to help create competitive advantage," he says. "So we teach behaviors such as trial-and-error implementation, fast decision-making, use of compensation systems with extreme rewards for high performance, and action in the face of scarce resources."

The Smith School launched its entrepreneurship academic program in the mid-80s. The first MBA courses in entrepreneurship were offered at about the same time as the founding of the school's Michael A. Dingman Center for Entrepreneurship in 1986. Now MBA students have more than 12 courses to choose from, and can build a concentration in the area. The program also has consistently garnered national recognition: in 1998, Success magazine ranked Smith's MBA entrepreneurship curriculum the third best in the nation.

The entrepreneurship courses deliver important knowledge not only for launching a new venture, but also for obtaining positions with firms that provide capital and with other emerging companies. "Many of the New Venture Financing students don't intend to start a company," Baum relates. "They want to work for a venture capital firm or an investment bank, manage an angel network, or go into consulting."

In addition to offering course work, the Dingman Center provides working and learning opportunities that enhance the aspiring entrepreneur's preparation. The center annually sponsors a team in the National Venture Capital Investment business plan competition and offers a series of workshops by venture capitalists to prepare MBAs for the event. MBA students can take full advantage of the center's resources as Lamone and James E. Dingman Entrepreneur scholars. The scholarships include a stipend and graduate assistantship staffing the center's programs in mentoring, business plan review, networking meetings, and educational seminars in the Washington, D.C./Maryland/Northern Virginia region.

For three years, the Dingman Center also has sponsored a summer entrepreneurial internship program, initiated with the support of the Kauffman Foundation's Center for Entrepreneurial Leadership. Students are placed with new technology firms and Internet start-ups, usually in the

Washington metropolitan region. Smith MBA interns help move the companies forward with their marketing, financial, IT, and management expertise and gain experience that can pay off in the job search or in their own new ventures.

The Smith School created undergraduate offerings in entrepreneurship in response to student demand. "Maryland's undergraduates are creative, free spirited, bright, and highly energetic," says Rudy Lamone, former Smith School dean and founder of the Dingman Center. "In some sense, they're better building material for entrepreneurs than MBAs. Even though MBA students can be very interested in starting their own companies, they often have responsibilities that preclude them from taking risks. And one of the great lessons of entrepreneurship is failure." Lamone is now serving as chair of the school's new academic concentration in entrepreneurship.

In spring 2000, the business school began offering an undergraduate citation program in entrepreneurship. Participation in the citation program is not limited to business students: undergraduates from all of the University of Maryland, College Park's 13 colleges and schools are encouraged to apply. "When you combine students from different disciplines, they bring different perspectives to the process of creating a company and developing a business plan," says Lamone. "It creates a chemistry that benefits the process." The first group of 37 students began the citation program in spring 2000, and some of them are already on the fast track to starting companies.

Furthering opportunities for undergraduate entrepreneurs, the University of Maryland established the Hinman Campus Entrepreneurship Opportunities Program this year. The program has been developed by the Dingman Center for Entrepreneurship and the A. James Clark School of Engineering's Engineering Research Center. Begun in fall semester 2000, it offers a unique campus residential setting for a select group of upper-class students who plan to start their own businesses.

Hinman Scholars attend workshops and seminars focused on critical entrepreneurial issues. They live in Garrett Hall, which has been equipped with offices, conference facilities, computers, and a state-of-the-art communications infrastructure provided by Lucent Technologies Enterprise Networks. Highlights of the program include guest lectures by regional entrepreneurs, opportunities for mentoring by Smith MBAs and Dingman Center faculty and associates, summer internships with companies in the University of Maryland technology-based incubator, attendance at the Dingman Center's networking conferences and seminars, and the opportunity to participate in a $50,000 business plan competition. The 63 students who comprise the first group of Hinman Scholars come from more than nine academic areas on the College Park campus, including computer science, criminology, business, engineering, and psychology.

Where will this new generation of entrepreneurs make their mark? Smith faculty members have differing opinions on the next best opportunities for entrepreneurs, although they agree that technology rules.

"Right now, the Internet is the transformational technology, but I don't know what the next great technological development is that will make the world more productive, " Shane states. "Will the next one be advances in information technology, or will it perhaps be genetic engineering?"

"Internet opportunities are still available; however, a prospective entrepreneur in this area needs to do a deeper analysis of profit, structure, and markets," Baum states. "While this window of opportunity may be narrowing, another may open in regard to intermediate technologies." For example, software development companies are applying recently developed technology to solve basic problems in old economy companies in the manufacturing, distribution, and retail industries.

Lamone hasn't yet given up on dot-coms. "The dramatic devaluation of some Internet companies last spring was the result of a natural cleansing that takes place in every wave of new business creation," he says. "We are still at the start of the current technological revolution that will change the world we live in."

Spero concurs with Lamone's assessment. "There's still a huge, almost unlimited market for Internet, telecommunications, and communications technologies," he says.

"Successful entrepreneurs in the next few years will combine these technologies to satisfy real market needs with high quality products and services."

Building for a Networked Future

Van Munching Hall Expansion is Under Way

Site preparation for the 103,300-square foot addition to Van Munching Hall, home of the Robert H. Smith School of Business, is in full swing. Visible signs of the work by Whiting-Turner Contracting Company and the architectural firm of Ellerbe Becket began in June.

The existing Van Munching Hall, first occupied in 1993, will be refurbished, providing enhanced facilities for classrooms and academic program offices. The construction and renovation, once complete in 2002, will double the Smith School's square footage.

Perhaps the most satisfying result of the construction process is that the school will be able to offer most of its classes under one roof, helping to build a stronger sense of community among students. Both the new wing and the renovated space will house new and refurbished classrooms. The facility also will enable distance delivery of its graduate, undergraduate, and executive programs, as well as provide ubiquitous computing access.

Here are some of the exciting features of this $33 million-plus project. The new wing will house the:

- Graduate Career Management Center and the Van Munching Undergraduate Business Career Center, complete with a career library, interview rooms with video conferencing capabilities, and a recruiting lounge for employers and students;
- Center for Knowledge and Information Management--which focuses on the transformation of business practices through information technology--, including networked computer labs, conference room, and offices;
- Supply Chain Management Center--which is defining 21st-century best practices related to the efficient production and delivery of products and services--, including offices and a shared conference room;
- Center for Global Business--which integrates a global dimension into Smith School activities--,including offices and a share conference room
- Office of Corporate Programs & Services--which provides executive and management education to a wide range of business and government clients--, including teaching theaters, a seminar/conference room, and a dining pavilion;
- Office of Undergraduate Studies, with more space for student advising and services, and a conference room;
- expanded offices for faculty, staff, and administrators;
- a dining facility.

The renovation of the existing Van Munching Hall facility will provide new or expanded space for the:

- Netcentric Business Laboratory, a seamless networked environment encompassing supply chain management, financial trading, electronic commerce, and applications and research in the behavioral aspects of netcentricity;
- Office of MBA and MS Programs;
- Dingman Center for Entrepreneurship, which facilitates and supports entrepreneurship and new enterprise growth in the mid-Atlantic region.

Trekking to the Top

by Lisa Gregory

Lee Nadler is not only president and CEO of Digital Pulp, which builds and brands Web-based businesses, but also its self-described lead Sherpa. That part of his title comes from an Outward Bound trip to Nepal a couple of years ago that greatly impacted Nadler's life.

"The Sherpas provide a great balance of strength, vision, focus, confidence, and kindness," explains Nadler of the skilled mountain climbers of the Himalayas. "I strive to have these in my personal and professional life.

"The Sherpa metaphor in my title at Digital Pulp is meant to symbolize the quest for the summit, which many of our clients are shooting for. We help them navigate the uncharted path."

More specifically, Digital Pulp enables start-ups and companies to make a transition to the Web, emphasizing "convergence marketing" or the evolution of integrated marketing.

"We utilize all media and work together with the businesses that we build on the Web," says Nadler, who received his bachelor's degree in marketing from the Smith School of Business in 1989. This includes online marketing, traditional marketing, Web site design and technical development, and media placement.

Nadler was working for DoubleClick, which describes itself as "The Internet Advertising Solutions Company," when he decided to make the switch to Digital Pulp. "At DoubleClick I recognized the profound effect the Internet was having and continues to have on businesses around the world," says Nadler, who helped establish DoubleClick in 1996 and was the 17th employee of what is now a global, public company of more than a thousand people.

At DoubleClick, Nadler served more than two years as DoubleClick's first director of global marketing and its only "marketing Sherpa." He spent nearly a year overseas launching DoubleClick's operations in Japan and Australia.

"Marketing is a key component for realizing the potential of the Internet," he says. "But this kind of marketing requires a new kind of agency: one that helps clients connect with consumers on a much more personal level and understands how to use the technological tools to meet goals such as online sales or leads. DoubleClick offered some of the technology tools to achieve this. But, I was longing to get back involved in the creative development aspect, which Digital Pulp specializes in."

Today he oversees a team of 40 in New York, tackling the needs of such clients as 1800FLOWERS.com, Adidas International, AltaVista, DoubleClick, LivePerson.com, and Wine Spectator Online, among others. One of Digital Pulp's most well-known clients is no doubt Egghead.com, the software retailer that now exists solely online, thanks in part to the guidance and expertise of Digital Pulp.

Working with these types of businesses "requires a partnership mentality and a dedication beyond a typical agency/client relationship," he says.

Clients, he continues, often provide Digital Pulp with business plans rather than advertising briefs. "We help build our client's businesses, often from the ground up, both on and off the Web, by overseeing technology and each touch point of communication. As such, "I get to be an entrepreneur every day," he says.

According to Nadler, this is not always easily done. "The new type of entrepreneur needs to be much more flexible since technology changes and business models evolve every time you log onto the Web," he says. "With today's technological advancements, you can't stay ahead of it. You need to focus on what's important, get great people around you who know about things you don't, and share ideas often."

And, hopefully, carry a tune. At Digital Pulp the last employee to make it through the door at 9 a.m. on Monday for the team meeting must sing a song in front of the entire group.

Nadler's own first job out of college was working at a small direct marketing and sales promotion agency called Einson-Freeman. "Everyone thought I was nuts," he says.

"I turned away jobs at more established, larger agencies." But, it was a decision he made intentionally. "I was fortunate to be in an environment that forced me to do, as well as think, and get results for clients," he says. "And, my first account, back in 1989, was to help introduce Prodigy. This gave me very early foresight into the power of technology and marketing."

From there, he moved on to Kirshenbaum, Bond & Partners helping to form their integrated marketing and interactive divisions. He handled such high-profile accounts as Citibank, CNBC, Columbia House, and Snapple.

As he leads Digital Pulp, he still possesses the same drive and dedication from his earliest professional days. There are no nine-to-five days for Lee Nadler. "There are no typical days, per say," he emphasizes.

No regrets either. "The best part of this industry is that it's not fully invented yet," he says. "We are developing careers at a time of amazing opportunity."

In many ways Nadler, though a young man, has already made his mark. He is the first recipient of the Jack Avrett Volunteer Spirit Award for his work with nonprofit organizations and has been inducted into the American Advertising Federation Hall of Achievement. In addition, *Advertising Age* magazine recently named Nadler as one of the top 21 people to watch in the 21st century.

He sums up his ability to not only survive, but succeed, in a constantly changing market this way: "It takes endurance, a bit of risk taking, connections with people, passion, and of course some talent," he says.

And, a willingness--no--an eagerness, to lead the way to the summit.

Corporate Partnerships in the Dot-com Era (or, how I sealed a deal in a bar)

by Robert McGovern '83

In April of 1998, I found myself sitting in a tacky bar just off Columbus Circle in Manhattan sharing a booth with a senior executive from ADP Corporation. ADP is the largest payroll provider in the United States, generating $6 billion per year. I was there to convince the ADP executive to do a partnership with CareerBuilder, Inc., my one-year-old, dot-com company with 25 employees and $3 million in annual revenue.

The contrast couldn't have been more apparent: a 50-something Fortune 500 executive and a 36-year-old Internet guy drinking beers together in a crummy booth. His mission was to let me down easy; mine was to convince him to do a "company maker" partnership with my firm.

We had initiated conversations with ADP to gain access to its 2,500-person sales force. We were pretty sure that we had a great product concept (Internet recruiting solutions), but we were concerned that the time and capital required to build a sales channel would cause us to miss the market window. We had to get big fast, and ADP's sales force was key.

My booth mate started the conversation by saying something like this: "Rob, I am aware of your previous conversations with ADP, and realize this is an important deal, but I just can't get comfortable with the concept."

I couldn't believe it: I had worked my way through the organization, and I was about to get stopped at this guy's desk. (Later, I'll tell you what I said to set up the deal.)

I once heard Tim Koogle, CEO of Yahoo, say "Yahoo isn't a company; we're 1,000 partnerships." Like many other companies, Yahoo has learned that meaningful partnerships can create "greater-than-the-sum-of-the-parts" synergies for the participants. Some of these partnerships have become so ingrained that we have given them formal names like Wintel, the 18-year partnership between Microsoft and Intel; or Sabre, the reservations partnership of more than 600 travel companies.

At CareerBuilder, we have signed more than 30 partnerships with companies significantly larger than ours. These include deals with *USA Today*, ADP, Microsoft, GE, NBC, McGraw-Hill, and Thomson Corporation. Collectively our partners have invested more than $30 million in our business, and contribute more than half our revenues. Like Yahoo, we wouldn't be here today if it weren't for our partners. Our partnership machinery is a critical element of our business. In fact, we've developed a sort of partnership doctrine, which guides are efforts.

What are the critical elements that can make or break a partnership strategy? Chutzpah. Remember that cute girl or guy in your high school class who never went out on dates because everyone always thought he/she was taken? I find that the biggest partnership targets are often the easiest to reach, given that everyone always thinks they are too busy to respond. I suggest starting at the top; it's usually the CEO who is often the most responsive (and worried that his or her company is missing out).

Fear. In developing partnerships, it's human nature to balance two fears: the fear of doing a bad deal against the fear of missing out. It's your job to instill fear that you'll end up doing the deal with their competitor, mucking up their market, or committing other such evil acts, while offering assurances that this will be a good deal.

Win-win. Don't bother with partnerships that won't result in a win-win relationship. A day rarely goes by that I don't receive an e-mail message proposing a partnership that would be great for the sender, but of little value to CareerBuilder.

Velocity. I have seen more great partnership ideas die, than live to see a definitive agreement. Most often, they die from something I call "a death of a thousand cuts." What starts out as a great idea can get beaten down as more people get involved in the decision. Let's face it: it's much easier for newcomers to offer criticism than simply give their support. I suggest viewing a new partnership opportunity as a foot race. Can you get it done before the deal killers doom it?

Now back to that Manhattan bar. When my booth mate told me he couldn't get comfortable with the deal, I asked for an opportunity to offer an opposing view. I said something like this: "Charlie, it's my belief that the Internet will change your business in ways that you can't possibly imagine. I'm offering you a front-row seat at soon-to-be one of the hottest Internet companies in the country. While I am confident that this will be a great financial deal, I am even surer that your management team will learn and develop along with us.

"And Charlie," I concluded, "You are my preferred partner, but I have to tell you, we've had a lot of interest from others within your sector."

In the end, a great deal was had by all. Since 1998, ADP has invested $10 million dollars in CareerBuilder, sold $15 million of our products, and gained a seat on my board of directors.

I love happy endings, don't you?

Government Taps Smith MBAs' E-commerce Expertise

When the U.S. Office of Electronic Commerce needed advice on how the federal government can take better advantage of e-commerce to deliver information and services, it turned to an MBA consulting team from the Robert H. Smith School of Business. After all, the office, part of the General Services Administration, had hired a Smith team before, with good results.

"This is the second time we've used the Smith School to focus on a problem we were facing," said Mary Mitchell, deputy associate administrator of the Office of Electronic Commerce. "The first time, we were looking for best performance measures for across-government IT applications. The team came up with wonderful responses."

The second time around, the Office of Electronic Commerce contracted with a Smith team to identify and evaluate funding strategies for government-wide, e-commerce projects. As the team's consulting report explains: "Funding has remained one of the most important impediments to implementing federal government electronic commerce projects. The conventional funding mechanisms, like the budget appropriation process, move very slowly compared to the pace of rapidly changing technology.

"Consequently, agencies have resorted to creating innovative funding approaches in order to 'work around' the existing funding process."

The six-member Smith team took on this latest consulting assignment during spring semester 2000. Jonathan Palmer, assistant professor of decision and information technologies and an expert in e-commerce, served as the team's advisor.

The Smith team presented its final report in May at the White House Conference Center in Washington, D.C. During the presentation, team member Kristi Miller, MBA '00, explained that the team interviewed more than 30 people in the private and public sectors to gain knowledge of e-commerce funding practices. "The private sector is moving ahead of the public sector," she said. "The digital divide is more than between populations. It's (also) between the public and private sectors."

Team member Amit Chandok, MBA '00, discussed the various e-commerce funding strategies in detail, including budget appropriation, public-private partnerships, and fee for service.

Among the key problems defined by the team were the varying levels of infrastructure maturity among federal agencies and the lack of built-in incentives for agencies to work together, team member Erich Parker, MBA '00, noted. "What's needed is a unified approach to fund e-commerce and IT projects," he said. "A common theme that we identified is that a number of agencies have been able to find funding for pilot projects, but not production-level funding."

"We've concluded that the whole funding process is inefficient and unreliable," said Miller. "It's like saving your lunch money to build an e-commerce infrastructure." In response to the identified problems and needs, the Smith team made two key recommendations.

"First, all agencies must quickly be brought to a base level of infrastructure maturity so that all stand to benefit from, and contribute to, commonly developed systems," the consulting report says. "Second, the federal government should design a process which encourages and rewards agencies for recognizing the common elements that their IT and electronic commerce objectives share with other agencies."

The Smith team recommended the establishment of an over-arching, decision-making process, one that considers the e-commerce requirements of all agencies. This should include the appointment of an independent national CIO (chief information officer) and an advisory panel to make both technical and funding recommendations, the team suggested.

"By seizing this opportunity, government can greatly improve efficiency and convenience in the delivery of information and services, and, perhaps more importantly, it can dramatically improve the public's perception of government," the report concludes.

Following the May presentation, team member Tira Robinson, MBA '00, presented the findings to the White House Working Group on Electronic Commerce and at a U.S. Department of Justice meeting on e-government held in Dallas. Smith MBAs this fall began a follow-up consulting assignment for the U.S. Office of Electronic Commerce to build the case for the funding, implementation, management, and evaluation of e-commerce projects.

Access the complete consulting report at: http://ec.fed.gov/documents/ec_fundingfinal.doc. For information about the Smith School's MBA Consulting Program, call 301.405.2034.

Smith MBA Consulting Clients (1999-2000 academic year)

Allegis Group (formerly Aerotek)
Bell Atlantic
BusinessEdge Solutions
DuPont Capital Management Corporation
Ernst & Young LLP
Freddie Mac
Giant Foods
Global Learning Systems
Honeywell (formerly AlliedSignal)
Hughes Network Systems

Landsat (NASA)
Lockheed Martin
Lockheed Martin Mission Systems
Marriott International
National Academy Press
Northrop Grumman
Otis Elevator
Oxford Associates
PACE/Frontline
PepsiCo
Procter & Gamble
Proxicom
SAIC
Sheetmusic.com
Sylvan
University of Maryland Biotechnology Institute
U.S. Coast Guard
U.S. Office of Electronic Commerce
USA Today
Washington Homes
XFI

A Prison Stay for MBAs

by Anne J. Moultrie

There are the team-building exercises during orientation, the classes, the consulting project, and the case competition. And then, just a couple of weeks or so before graduation, there's one last requirement before final exams: the trip to prison.

The Robert H. Smith School of Business requires its full-time MBA students to go to prison as part of an innovative Business Ethics Experiential Learning Module (ELM). The ELM gives students a hard-hitting look at business ethics issues. In addition to the prison visit, students interact with ethics experts and do role plays in which they grapple with issues such as discrimination and whistle blowing.

"We want our students to have as much direct experience with ethical questions as possible," says Stephen Loeb, Ernst & Young Alumni Professor of Auditing at the Smith School, who created and coordinates the Business Ethics ELM. "It is important that they thoroughly understand the ethical implications of their business decisions."

Among those direct experiences is a half-day in prison, where Smith MBAs see and hear about the consequences of unethical--and illegal--decisions firsthand. The prison visits began at the Allenwood Federal Prison Camp in Montgomery, Pa., with the launch of the Business Ethics ELM in 1996. Later, as the number of full-time MBAs increased, the Smith School added visits to the Federal Correctional Institution at Cumberland, Md., in 1998.

The visits include presentations by inmates, a question-and-answer session, and a tour. During last May's visit to Cumberland, Smith MBAs heard from three inmates: one with an MBA, convicted of theft and mail fraud; a former business executive convicted of embezzlement; and a third, with a law degree and a master's in European history, serving a sentence for money laundering, drug distribution, theft, and forgery.

"Four years ago, I was having lunch in Maui," said Scott Mathisen, the former travel and industry businessman with the MBA. "Three years ago, I was having lunch in Monte Carlo and Nice. You know where I had lunch today.

"I made a series of bad choices, bad judgements. I thought I was Superman, that I could do anything. Here, you have no choices, no decisions. My life is run by (others)."

Inmate James Nesser talked about his bad choices, too. After earning his law degree, he says he prosecuted drug dealers as a member of a Pennsylvania district attorney's staff. At the same time, he told the students, he was driven by an "intense desire to get ahead. I took in all that evil. I couldn't get enough of it. And I wasn't taking time to think."

Nesser went into private practice and started representing drug organizations, he said. The cash they brought in, "in suitcases and in bags," fueled his desire for nice clothes, fancy cars, and exotic vacations. In the end, he went to trial with nine of his clients and after conviction, landed in jail with criminals he had prosecuted.

"This is what my reality is now," he told the students. "Ethics is critical. Love the opportunity you'll be given when you graduate."

The academic and career credentials of the inmates were not lost on the students. "These are men who could easily be our peers and co-workers," says Erich Parker, MBA '00, who joined PricewaterhouseCoopers as a performance improvement consultant in July. "Yet, decisions that they made, and that we may soon be faced with making, resulted in their imprisonment and have changed their lives forever."

And even though the prison visit is just one component of the Business Ethics ELM, it's certainly the most memorable.

"The most useful part is the prison visit," says Jeffrey LoSapio, MBA '00, who works in business development for NetCredit, a start-up company in Annapolis. "I think a lot of people don't understand how easy it is to make unethical and illegal decisions in the course of doing business.

"The right decision is not always evident, nor is it always profitable. At the prison, students get to see the harsh reality of making bad decisions."

After hearing from the three inmates, the students toured the minimum and medium security facilities at Cumberland. Walking through the living and working quarters, the students got a crash course in the restrictive and dependent nature of prison life. They also gained a sense of the inmates' total lack of privacy.

Discussions led by experts in ethics also are a critical part of the Business Ethics ELM. This past spring, attorney Gary Reger challenged students to understand how a company's standards for ethical decisions can conflict with the public's standards as reflected in the legal system. And Roger Boisjoly, who gave testimony before a presidential commission investigating the Challenger space shuttle tragedy, discussed the ethical aspects of that disaster. Boisjoly has participated in the ELM since its inception. Role plays add yet another dimension to this exploration of ethics. The students perform skits in which they deal with issues such as age and gender discrimination, whistle blowing, and corporate downsizing.

"The speakers, role plays, and prison visit gave us a balanced view of many ethical decisions and provided a much more impacting and enriching experience than straight lectures and discussion," says Noelle Watson, MBA '00, who joined Arthur Andersen Business Consulting in Vienna, Va., following graduation.

In planning the ELM's prison component, Loeb works closely with Dennis Faulk, unit manager and public information officer at Allenwood, and Stephen Finger, executive assistant to the warden at Cumberland.

Faulk points out that the students are not the only ones who benefit from the business ethics ELM. "Since the beginning, we've had three to five inmates who have continued to make presentations because they say it gives them more and more insight into what they did." He adds that, once released, one of the inmates hopes to continue such presentations on his own.

Jenelle Walthour, MBA '00, views the Business Ethics ELM as one of her most worthwhile experiential learning experiences at the Smith School. The testimonies from the experts and the prisoners left her with a clear message: "Although going against the crowd can bring about serious repercussions, making the ethical choice is the best decision long term."

The Power of Corporate Branding

Do you buy them because they're Dockers® or because Levi's® makes them? Does knowing 3M manufactures Post-it® notes make them more valuable to your workplace? Did Johnson & Johnson's forthright handling of the Tylenol® tampering case lead you to purchase more J&J products?

Think about the products you buy and recommend to others. Is it the product or the corporation that's influencing your behavior? For many, it's the product. But two Smith School of Business researchers say that companies also need to understand better how corporate brand marketing can add value to products and affect customer behavior. "The links between corporate and product branding are not very well understood," says Gabriel Biehal, associate professor of marketing.

And, adds Daniel Sheinin, assistant professor of marketing, "there is little or no understanding of how a corporate brand's position influences customer perceptions of the company's product portfolio."

With a grant from the Marketing Science Institute (MSI) and building on their earlier research, Biehal and Sheinin are starting to fill the knowledge gap. They recently completed the first phase of their MSI-supported study of corporate branding. During the past year, they interviewed 55 managers of 11 Fortune 100 companies representing the financial services, chemical, consumer products, and automobile industries. Interviewed were marketing executives, corporate brand managers, product managers, and research managers.

"We wanted to find out if and how companies use and develop their corporate brands with the objective of influencing customer behavior," says Biehal.

As expected, interview responses varied widely. Based on the responses, the two researchers identified several strategic considerations made by companies when building corporate brands with customers. For example, some managers explained that their companies build the corporate brand by using a top-down process via corporate communications. Said one respondent: "What we're really trying to do with the (corporate advertising) campaign is . . . give employees a sense of focus and clarity about what the organization is all about . . . a second goal is to really bring some strength and equity to (our corporate) logo and give some meaning to it. So, when we sell a new product and (customers) see that it's from (us), that gives that new product some sort of instant credibility."

Others put more emphasis on building the corporate brand from the bottom up via product marketing. "I think that the experience of a product . . . and what customers say about the product to each other is much more significant than what a company says about itself in corporate advertising," said another respondent. "The presence of the corporate brand (in the product marketing) can influence these product experiences."

Based on the interviews, Biehal and Sheinin have identified situations in which marketing the corporate brand directly to customers--a corporate brand-to-consumer (CBC) strategy--can be beneficial. For example, a CBC strategy can help when customers are confused about the corporate brand's position. This can happen after:

- aggressive new product proliferation
- inconsistent use of the corporate brand by business units and product managers
- negative publicity
- the targeting of new customer segments
- recent mergers & acquisitions activity.

Furthermore, say the researchers, when managers implement a CBC strategy, they should look for synergies between corporate and product marketing. For example, they can use corporate logos and slogans in product communications.

Biehal and Sheinin shared their research results in June at a presentation titled *Unlocking the Power of Your Corporate Brand with Customers* to the Marketing Science Institute's Conference on Global Branding in Milan. This fall, they are launching phase two of their MSI-sponsored project, using a Web-based survey to gather quantitative insights.

"Through our research, we are offering a guide to building the corporate brand," says Sheinin.

"In addition, it's clear that our research has global relevance," asserts Biehal. "As companies move into new markets, like China, the relevance of corporate branding increases significantly."

A few companies have begun to market their corporate brand more strategically and aggressively. For example, faced with difficult challenges of competition, Hewlett-Packard launched its "Invent" campaign. And in the midst of its legal battle with the U.S. Department of Justice, Microsoft rolled out its "The best is yet to come" ads.

These efforts are significant, say Biehal and Sheinin, but they represent only a small fraction of the power of corporate branding to customers.

To learn more about this study, e-mail: gbiehal@rhsmith.umd.edu or dsheinin@rhsmith.umd.edu.

Do M&As Increase Productivity?

Mergers, acquisitions, and asset sales often result in increased share prices for the target firms. This occurs because the acquiring firms typically pay a premium for assets purchased.

For the acquiring firms, however, stock market returns are generally zero or slightly negative. So why do acquiring firms purchase assets? Do the assets purchased experience real gains in productivity or are firms merely engaging in transactions for non-economic reasons? These are some of the questions that Vojislav Maksimovic and Gordon Phillips wanted to answer when they began their two-year research project focused on mergers, acquisitions, and asset sales.

The two Smith School finance professors examined some 20,000 transactions--mergers, acquisitions, and asset sales--that took place from 1974 to 1992 among manufacturing plants in the United States. Supported by a National Science Foundation grant and based on data from the U.S. Department of Commerce's Center of Economic Studies, their research looked at what factors favor the transfer of the ownership of a firm's assets. It also included an analysis of the performance of purchased assets once these transactions were completed.

"Our research is based on the only data source that allows researchers to look within large firms and obtain data on the performance, efficiency, and investment flows of each of the firms' components," says Maksimovic. "We at the Smith School are among the pioneers using this data in finance research."

Maksimovic and Phillips also examined plant-level productivity of purchased assets for up to two years after the assets were acquired. They define productivity as the amount of output produced relative to the inputs used in production. Therefore, their measurement of productivity focuses on real gains in assets purchased, not on financial or accounting changes from these transactions.

"A major question we wanted to answer was 'do these transactions result in real economic gains, or are they merely a trading of assets with no gain for the economy,'" says Phillips. "Through our studies, we've established that there is a direct benefit. Productivity of purchased assets increases following the majority of these transactions."

Key research conclusions related to transferring the ownership of assets include the following:

- A multi-division firm is less likely to sell assets if its productivity is high;
- It's more likely that a single-segment firm will be bought if its productivity is high; (In other words, productive small firms get bought out.)

Related directly to productivity after transactions, the research shows that:

- the gain in productivity of assets under new ownership is higher when the selling firm's productivity is low and the buying firm's productivity is high;
- plants show significant gains in productivity when the main division of a firm acquires plants from another multi-segment firm.

"Taken together," the researchers write, "our results suggest that most transactions in the market for assets result in an increase in efficiency. We conclude that the market for corporate assets (mergers, acquisitions, and asset sales) facilitates the redeployment of assets from firms with a lower ability to exploit them to firms with higher ability."

Maksimovic and Phillips have presented their research at faculty workshops across the country. They also have presented different aspects of their study at meetings of the American Finance Association, Western Finance Association, and the National Bureau of Economic Research.

To learn more, access www.mbs.edu/finance/gphillips/papers/market_assets.pdf or e-mail: vmaksimovic@rhsmith.umd.edu or gphillips@rhsmith.umd.edu.

The Prime Movers

What do Mary Kay Ash, Andrew Carnegie, Michael Dell, Walt Disney, Bill Gates, and Cornelius Vanderbilt have in common? According to Edwin Locke, holder of the Dean's Chair in Motivation and Leadership at the Smith School, they all "moved society forward by the force of their own creative imagination, their own energy, and their own productivity capacity."

Locke discusses these movers and shakers in his new book titled *The Prime Movers* (AMACO, 2000). He focuses only on those "prime movers" who created wealth on a large scale.

The book devotes a chapter to each of the seven traits Locke says led to their great wealth: independent vision, an active mind, competence and confidence, the drive to action, egoistic passion, love of ability in others, and virtue.

About vision, he writes: "The creation of wealth starts with vision. Vision is . . . seeing the potential of some product or service or technology or market: Henry Ford saw the potential of a low-priced automobile; Bill Gates foresaw the value of computer software; Howard Schultz (Starbucks) saw that people would buy coffee that was made as if it were a type of gourmet cooking."

Prime movers have always had their detractors, says Locke. They have been "denounced, caricatured, belittled, smeared, and denied in every possible way," he writes. "For example, it is argued that they were lucky because there was a brief window of opportunity, and they happened to be there in time to step through it. It is never explained why hundreds of thousands of other people who were at the same place at the same time failed to step through the same window."

To illustrate this point, Locke zeroes in on Bill Gates: "Hidden behind all the whining of his competitors and their constant demands that the government protect them from

Microsoft is the unacknowledged admission that Gates is simply smarter than they are." What's the prime mover's most important tool? Locke says it's an "active mind," which "constantly asks questions and questions assumptions. Based on what it knows, it makes new connections, projects the future, and imagines possibilities."

For more information about *The Prime Movers,* visit edwinlocke.com on the Web.

A Spicy Send-off

The Smith School of Business honored the MBA Class of 2000 and their families May 20 at a crab feast on the Van Munching Hall lawn. Board members of the school's alumni chapter, faculty, staff, and members of the MBA Class of 1999 attended.

Danita Nias '81, executive director of the University of Maryland Alumni Association, welcomed the graduating class to the alumni family. Norm Oremland '71, president-elect of the business school's alumni chapter, promoted membership in the association.

Scott Perlman, MBA '00, received the Youngest Alumni Award for his outstanding work in the Smith School alumni office, dedication as a student liaison, and help in growing alumni/student programs.

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The Smith School is offering e-mail for life to all 2000 graduates. The new alumni will be reachable via their @rhsmith.umd.edu e-mail address. Messages sent to this permanent address will be routed automatically to the forwarding address specified in the graduate's profile document.

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