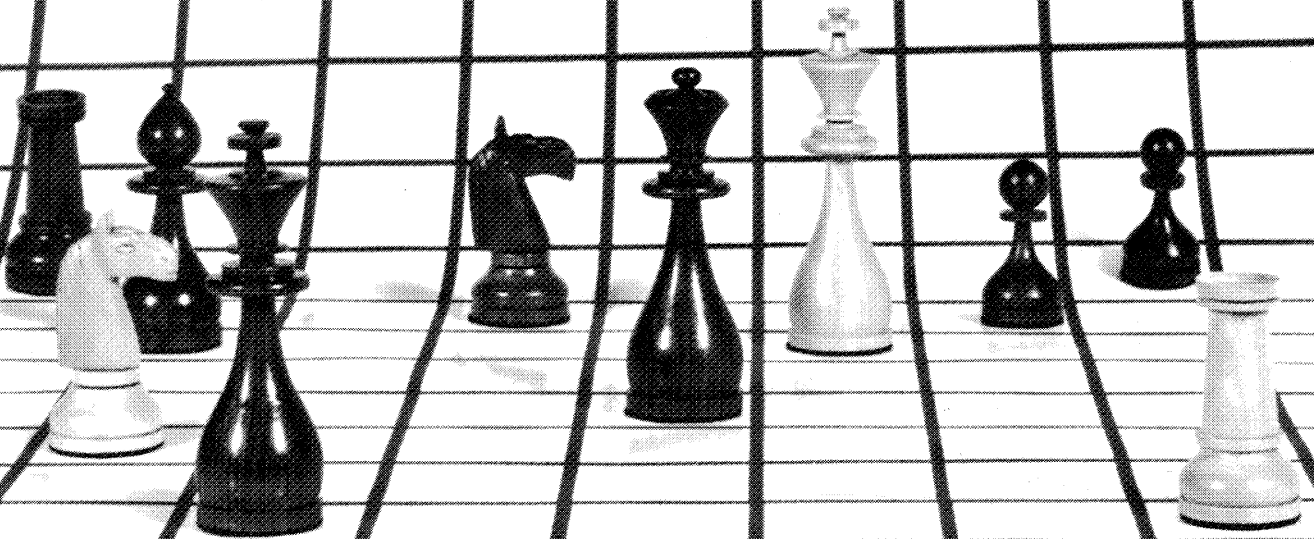


Dividend

The Magazine of the Graduate School of Business Administration • University of Michigan • Winter 1984



Chess and the Science (Art?) of Research into Corporate Strategy

Burroughs Corporation & the School Agree on \$12 Million

Burroughs Corporation and the Graduate School of Business Administration have announced an agreement in principle to install a highly sophisticated computer network at the Business School.

The multimillion-dollar cooperative program will help to establish the Business School as the premier institution in the United States for studying methods of integrating computing into all aspects of business education.

W. Michael Blumenthal, Burroughs chairman and chief executive officer, and Gilbert R. Whitaker, dean of the Business School, said the computer network will effectively link all of the school's teaching, research and administrative activities.

"This project represents an important partnership between business and the academic community," said Dean Whitaker. "Because of it, our Business School probably will be the first in the world to offer such an extensive state-of-the-art computer linkup designed to enhance our approach to educating not only the future decision makers who now are enrolled in our graduate degree program, but also current business leaders who come to us to continue their executive education."

The network will serve the school's

2,200 students, more than 150 of its faculty and staff, and over 4,500 business executives who annually participate in its management training program.

"This network will be a tremendously efficient tool for modeling and simulating business and industrial activities, developing and managing data resources, and designing and constructing computer-based information systems," Blumenthal said. "I'm pleased that Burroughs is working with the university to find solutions to its information-management needs."

Plans call for interfacing this new computer network with the university's two existing computer networks, which are used for administrative and academic/general-purpose applications.

Computer hardware to be used initially for the network will include up to 500 of Burroughs' most advanced microcomputer workstations and three of the company's innovative, downsized central processing units, which will function as network controllers and file servers for the workstations.

Each workstation will offer up to one-million bytes of main memory and up to 40 megabytes of hard-disk storage.

The microcomputers and compact mainframes are designed to run multiple operating systems, including BTOS, the Burroughs proprietary operating system, CPM, UNIX and MS/DOS, the last two allowing compatibility with the IBM personal computer.

Integral to this design are advanced communication capabilities, which make it possible to connect hundreds of these microcomputers in a network while, if desired, simultaneously linking them with other vendors' networks via communication lines.

During the first phase of the program, Burroughs will provide approximately \$6 million in computer hardware, software, support and services. The Business School will contribute another \$6 million in new facilities and equipment, and in research and operating personnel.

As a part of the program, Burroughs also has agreed to sell its latest microcomputer workstations at substantially reduced prices to university faculty, staff and students, as well as to business executives and others who take courses offered by the university's Department of Management Education.

"Our goal is to make certain that those associated with the Business

Business Program

School — particularly students — are not just passively aware of computers, but intimately involved with them,” Dean Whitaker said.

New facilities under construction to accommodate phase one of the computing installations include a 25-thousand-square-foot computer center, a library and executive-education facilities.

The new buildings and the initial computing installations are expected to be operational by September, 1984. To meet that deadline, Burroughs will be providing installation services and conducting intensive training programs at the school for faculty and staff, who, in turn, will orient students to the new equipment and facilities.

A steering committee consisting of members from Burroughs and the university has been formed to develop, direct and monitor the program, and to ensure that the computer network keeps pace with technological advances and product innovations.

The new partners also have agreed to jointly develop the program’s specialized software requirements. Burroughs will market software emanating from this joint venture that has general-market applicability under an agreement with the university. ■

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Strategy is a topic that most managers, consultants, and academics have exuberantly embraced while simultaneously accepting that the topic is unresearchable. As in a chess game, every move can change the entire “gestalt” and there seems to be almost an infinite variety of possible moves. How does one get a handle on such multi-dimensional questions?

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As the School’s Capital Campaign edges closer to the \$15 million goal, two buildings funded by the Campaign are taking final shape.

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John Finerty, BBA ’64, MBA ’65, owns Foster’s Hollywood Cafe in Madrid, Spain. Here he tells about the joys and uncertainties of managing the only restaurants in Spain that serve Reuben sandwiches.

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Alumni can be highly effective public relations ambassadors for the Business School. Here are some suggestions on ways alumni can help.

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Chess and the Science (Art?) of

Editor's Note: Portions of this article were excerpted from a forthcoming paper on strategy research and concepts of strategy by Cynthia Montgomery, a member of our policy and control faculty.

“All men can see the tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved,” wrote Sun Tzu in *The Art of War* (360 B.C.). Here he pinpointed two aspects of strategy: its overriding significance and its elusive nature. These characteristics make the study of strategy both important and difficult.

Strategy is a topic that most managers, consultants and academics have exuberantly embraced while simultaneously accepting that the topic is unresearchable. How, indeed, does one get a handle on the “strategy out of which victory is evolved?” Research into such complex, multi-dimensional questions presents difficult challenges. As in a chess game, every move can change the entire “gestalt” and there seems to be almost an infinite variety of possible moves. There are 318,979,654,000 ways to play the first four moves in a game of chess. By the time we get to the problem of how many different ways to play the first *ten* moves, the number has risen to the

staggering figure of 169,518,829,-100,544,000,000,000,000,000.¹ If each move affects the entire environment, how is it possible to isolate any one aspect and make judgments about its particular effectiveness? Or is it even desirable to isolate one aspect? Perhaps one should only study the whole with all its complicated interconnectedness.

However, as one moves from studying parts to studying “wholes,” the sharpness of the focus declines. The researcher’s tolerance for ambiguity and acceptance of imprecision must increase. One’s task becomes the description and identification of patterns, guided by a caution against inventing or imposing order where order is neither present nor intended. At this juncture it becomes clear that research questions are not starkly defined. Issues overlap abundantly and it is often not possible to target discrete, “clean” research questions.

Those who study chess have found it instructive to separate the game into various parts — the opening moves, the endgame, tactical motifs, an analysis of the values and characteristics of the pieces, and the relative value shifts of the pieces when they are placed in combination with other pieces. Those researching

corporate strategy have also found ways to separate different aspects in order to get a handle on what is happening. Members of our faculty are approaching some of the complex questions in different ways, as we describe in the next several pages.

C. K. Prahalad, associate professor of policy and control, is working on the problems of strategic choice in multinational corporations — asking such questions as, How do top managers change strategic focus? How is a shift of power from subsidiary to headquarters control in a multinational corporation accomplished? What are the managerial mechanisms that alter power relationships within a firm? How do you identify an entrepreneur within a large bureaucracy? We describe some of his work and its results on page 7.

Business policy assistant professors Aneel Karnani, Cynthia Montgomery and Birger Wernerfelt are studying the relationship between corporate strategy and the creation of shareholder wealth. Their research is being done in conjunction with Ann Thomas, assistant professor of business economics, and several doctoral students. At heart these disciplines have much in common: both are concerned with the economic outcomes of managerial action. While the policy area has focused on management action

¹From *The Macmillan Handbook of Chess* by I. A. Horowitz and Fred Reinfeld, The Macmillan Co., New York, 1956.

Research into Corporate Strategy

and implied economic return, the business economics and finance areas have focused on economic return and alluded to management action. The research being done here into the linkage among these fields is focusing on questions such as: Do the financial markets value different kinds of divestitures differently? How and when is strategy valued by the financial markets? Is market share itself of intrinsic value to investors, or do other variables influence the perceived value of market share?

In exploring the implied but unexplained interaction between corporate strategy and stock market valuation, the researchers must consider the research design and the questions themselves: What are the appropriate questions to ask about this interaction? In what hierarchy can those questions be addressed? What are the conceptual and empirical stumbling blocks that must be faced? For a description of this research, see page 10.

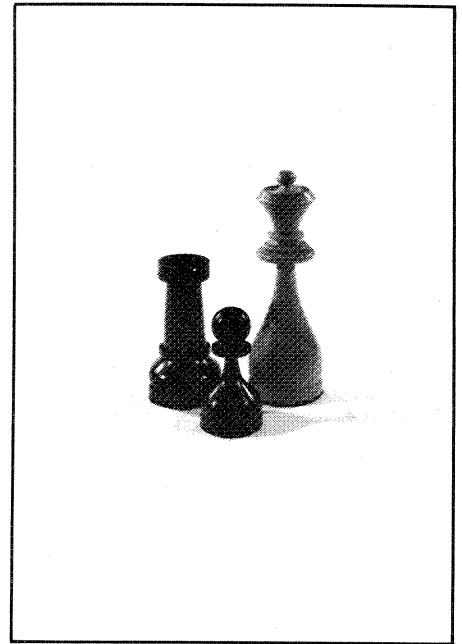
Rob Kazanjian, assistant professor of policy and control, is using both case analysis and empirical studies to investigate such questions as: What is the best way for large, established firms to manage innovation from within? What are the problems that arise in the management of rapidly growing high technology firms? How can large companies increase the prospect of successful internally

developed diversification? A discussion of this research can be found on page 12.

In attempting to unravel the questions connected with strategy, it is important to underscore that strategy is essentially a thought, an idea, a concept which exists in the human mind.

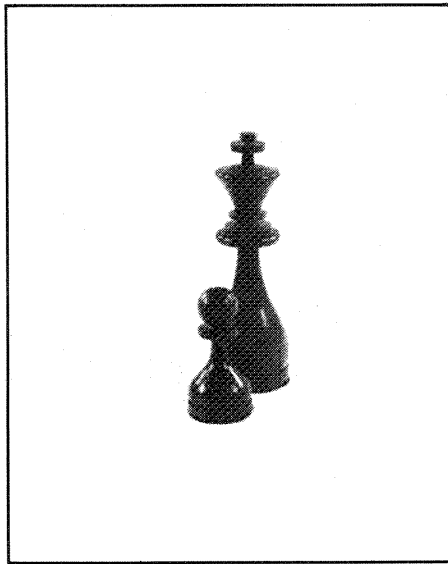
First used in a military context in Alexander's time (330 B.C.), strategos (stratos, army; -ag, to lead) referred to "the skill of employing forces to overcome opposition and to create a unified system of global governance." (Evered, p. 59) Clausewitz (1918) defined strategy as "the art of the employment of battles to gain the object of war." This view is consistent with what Evered terms the traditional distinctions between strategy and tactics — strategy dealing with: a) deployments, b) over wide spaces, long times, and large movements, and c) before contact with the enemy; and tactics dealing with actions on the battlefield itself. (Roger Evered, "So What is Strategy?" *Long Range Planning*, June 1983, pp. 57-72).

When one tries to put together a definition of strategy, two views emerge. One view sees strategy as a "grand plan" rationally and analytically arrived at, which is explicit at the start. The other view sees strategy gradually evolving over time as events unfold.



Of the formative business writers on strategy, Kenneth Andrews has probably been the most important proponent of the rational/analytical view. According to Andrews, "Corporate strategy is the pattern of decision in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it

When one tries to put together a definition of strategy, two views emerge. One sees strategy as a “grand plan” rationally and analytically arrived at, which is explicit at the start. The other sees strategy gradually evolving over time as events unfold.



intends to make to its shareholders, employees, customers, and communities.” (K. R. Andrews, *The Concept of Corporate Strategy*. Dow Jones-Irwin, 1970, p. 18).

The evolutionary approach to studying strategy and strategy-making within firms was described by James B. Quinn when he observed:

“When well managed major organizations make significant changes in strategy, the approaches they use frequently bear little resemblance to the rational-analytical systems so often touted in the planning literature. The full strategy is rarely written down in any one place. The processes used to arrive at the total strategy are typically fragmented, evolutionary, and largely intuitive. Although one can usually find embedded in these fragments some very refined pieces of formal strategic analysis, the real strategy tends to evolve as internal decisions and external events flow together to create a new, widely shared consensus for action among key members of the top management team.” (p. 7) J. B. Quinn, “Strategic Change: Logical Incrementalism,” *Sloan Management Review*, Fall, 1978, pp. 7-21.

Further developing the notion of emergent strategies, Mintzberg and

Waters (1983) identified eight types of strategies, only one of which is deliberately ‘planned’ in the traditional formal sense. For the most part these strategy types reflect the behavioral elements in firms’ decision making and the changing nature of firms’ external environments.

According to these authors:

“the fundamental difference between deliberate and emergent strategy is that while the former focuses on control and direction — getting desired things done — the latter opens up the notion of strategic learning. Defining strategy only as intended and conceiving it only as deliberate, as has traditionally been done, effectively precludes the notion of strategic learning. Once the intentions have been set, attention is riveted on realizing them, not on adapting them. Messages from the environment get blocked out. Adding the concept of emergent strategy, based on the definition of strategy as realized, opens the process of strategy making up to the notion of learning.” Henry Mintzberg and James A. Waters, “Of Strategies, Deliberate and Emergent,” working paper, McGill University, Faculty of Management, January, 1983.

Based on their observational research in organizations, Mintzberg and Waters have come to define strategy as “a pattern in a stream of

actions.” This definition is broad enough to include “proactive” and “emergent” activity, as well as “analytical” and “behavioral” processes. What the authors do require is that a sense of order and consistency be evident before a collection of actions is called a strategy.

Alongside the rise of strategy as a popular management concept, came corporate management’s attempts to employ the idea in their business. In medium and large companies this usually was done, or attempted, through the establishment of more-or-less comprehensive strategic planning systems. These multi-tiered planning systems formalized and coordinated the process of strategy making within firms. However, many times formal plans were not followed, often because they were the products of mechanical and simplistic attempts to institutionalize a subtle way of thinking. Thus the periodic outputs of these routine, synchronized systems were not always the best indicators of whether (or how) a firm was thinking and acting “strategically.”

As the above review suggests, the concept of strategy is evolving through a process of empirical observation and continued conceptual clarification. At this stage, however, there is general agreement in the field that the concept is complex, important, and imprecise. Continued conceptual refinements will undoubtedly sharpen our understanding of strategy, yet the nature of the phenomenon itself suggests that crisp and unambiguous definitions and descriptions will not be forthcoming.

Where does this leave the researcher who is interested in observing correlates of business strategy? One can try to study the “whole,” the gestalt, and make comparisons between different firms adopting different strategies. Or one can elect to study parts, not “wholes,” and try to break down particular characteristics of strategy and study them. Both kinds of research are described in the following pages, as our faculty seeks to come to grips with the complex, multidimensional questions the study of strategy entails. ■

Managing Tensions in the Multinational Corporation

To make explicit the nuances of the work of top management in large, complex, multi-business, multinational corporations is the focus of the research being done by C. K. Prahalad, associate professor of policy and control, and Yves L. Doz of INSEAD. They are concerned in their research not just with the activities of top managers, or how they spend their time, but with how they provide direction to businesses and motivate the organization toward achievement of strategic goals.

Writers on the general topic of strategic management and the role of top management in strategy, have often emphasized either the analytical aspects of the job (Porter), or the organization building aspects (Peter and Waterman). One aspect is emphasized to the exclusion of the other. While both aspects are critical and deserve academic and managerial attention, the traditional approaches do not reflect the reality of the work of top management.

The dilemma of top management, as the researchers see it, is to be sensitive to the global imperatives of businesses (its economic, technological, competitive, and political dimensions), *and at the same time*, to steer the organization (often several levels of managers), towards desired goals. For top managers, the distinction that is often made between strategy formulation and implementation, is not real. What interests the researchers is the



linkage between the analytical and the organizational. Their work attempts to explain the *logic of action* and the *meaning of implementation* from the perspective of top managers in very large and complex multinational corporations.

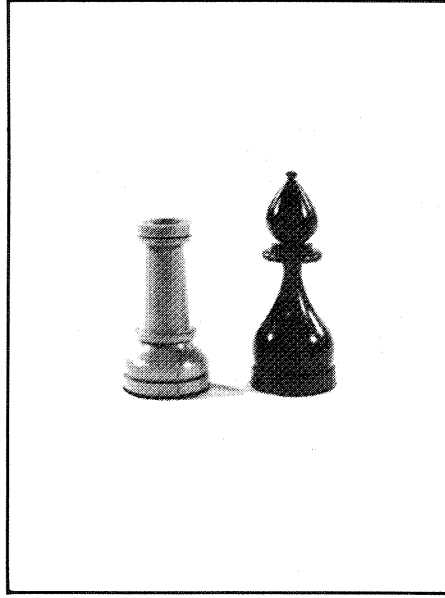
The researchers have explored such issues as the tradeoffs between global competitive pressures and host country demands in multinational corporations; headquarters influence and strategic control in MNCs; how MNCs cope with host government intervention, and strategic choices in MNCs. Their work has involved more than six years of in-depth research on a dozen MNCs in the petrochemical, computer, electronics, automobile, electric

equipment, and telecommunications industries. Each company study took between three and six months, and was divided among interviews with the top 20 to 100 managers, discussions with relevant government officials, and extensive consultation of internal documents. The companies studied were in the process of shifting from subsidiary autonomy to headquarters control, and centralized strategy making was studied in detail. In some cases events were followed as they unfolded, since the researchers got involved before the shift was actually completed.

Detailed descriptions of the various evolutions were then written and checked with managers in the particular company for accuracy and completeness. More than 10 articles have been published in various journals such as the *Harvard Business Review*, *Sloan Management Review*, *California Management Review*, *Strategic Management Journal*, *Columbia Journal of Management*, and the *Journal of International Business Studies*, highlighting some aspect of the research. The research has also yielded over 10 case studies — widely used at leading business schools such as Harvard, Michigan, INSEAD, London Business School and in executive programs.

In one study, done by Professor Prahalad, the pattern of strategic choices in six areas was studied, using the example of one company. The areas were: investment, control

“Strategic change — from national to global strategy, can take effect only through the acquisition of headquarters control over subsidiaries. Power change, in the cases we observed, is not a sudden upheaval; it is achieved through apparently minor authority changes in the making of specific decisions, starting with the changes most easily acceptable to subsidiaries.”



systems, joint-venture stability, manager mobility and development, acquisitions and mergers, and financial strategy. “The task of top managers,” says Professor Prahalad, “is to manage the focus of power so that it corresponds to a pattern of strategic choices that they consider appropriate. In the multinational corporation, the shift from an area emphasis to a business emphasis means a shift in relative power and a consequent change in orientation. An ability to effect such shifts is crucial to managing a diversified MNC. Some of the organizational mechanisms our research showed were most commonly used included: the moving of key individuals to achieve power shifts: standardization of technology and of plants; changing the patterns of communication flow through standardized procedures and language systems; and changes in reporting relationships.”

Another aspect of a power balance is the problem of maintaining control over subsidiaries in a multinational firm. In an article published in the *Sloan Management Review* in 1981, Prahalad and Doz discuss how headquarters can gain control over its foreign subsidiaries by skillful use

of various administrative control mechanisms, giving examples of companies that have used these techniques successfully and unsuccessfully. The researchers found that the following mechanisms help in the acquisition of headquarters control: (1) data management mechanisms that structure and provide data that are pertinent to the global performance of the company; (2) managers’ management mechanisms that shift the expectations of managers and their perceptions of self-interest from subsidiary autonomy to international business performance; (3) conflict resolution mechanisms that resolve the conflicts triggered by the necessary tradeoffs among national subsidiaries which must be made, since effective global strategies usually mean that some subsidiaries are likely to benefit more than others.

“Strategic change — from national to global strategy,” says Prahalad, “can take effect only through the acquisition of headquarters control over subsidiary operations. Power change, in the cases we observed, is not a sudden upheaval; it is achieved through apparently minor authority changes in the making of specific

decisions, starting with the changes most easily acceptable to subsidiaries. It’s also important to realize that an intellectual understanding of strategy (shifts in cognitive and strategic orientations) does not necessarily lead to action. To result in action, this understanding must be translated into managerial mechanisms that change the power relationships within the firm. This may be achieved by the cumulative impact of minor reallocations of responsibility and authority that cumulatively change the pattern of dependence relationships within the firm. As a result, the distinction between strategy formulation and strategy implementation is not very useful for a manager in a complex organization. What can be accomplished organizationally sets limits on what is feasible as a strategy.”

In another study, the researchers looked at managing tensions in multinational corporations where the drive for international competitive advantage is tempered by the needs and wishes of host nations. The question was how to structure the company’s internal decision-making process to allow the organization to sense, interpret, and respond to tensions, and how to resolve the often contradictory demands for global competitiveness and national responsiveness?

What the researchers found was that when both a consistent global strategy is needed and host country demands are strong and far-reaching, the strategic decision making process within the multinational corporation needs to provide for several characteristics: that conflicting views be imbedded in organizational subunits; that those views be effectively represented at the corporate level by managers from the subunit; and that top management can select one or the other conflicting view according to the specifics of the decision at hand. Multi-dimensionality and flexibility were the key requirements of the desired strategic decision process.

"The companies we studied that had developed flexible decision processes, adjusted to both local national demands and global competitive pressures, had not relied on traditional organizational structures or rigid rules and procedures," says Prahalad. "We classified four modes of administrative solutions to managing tensions. In the first and simplest mode, top management simply ensured that the management groups representing each of the critical decision perspectives was strong enough to develop and advocate its particular viewpoint. In the second mode, the important balancing responsibility was delegated to trusted arbitrators. In the third mode, top management had to retreat from direct involvement in the numerous critical decisions and manage the *process* by which such decisions were made. This could be done through the use of temporary bodies such as task forces, committees, and special teams. In the fourth and most complex mode, a decision context was set up in which managers can themselves form the necessary alliances to deal with issues where multiple environments need consideration. Decision context management allows many multidimensional issues to be negotiated and resolved at intermediate management levels, without involving top management."

The most successful companies, the researchers found, were those who recognized that the complex and highly variable decision process in multinational corporations was intrinsically conflictual and could not be legislated through a bureaucratic framework. These companies shared two characteristics: they had informal structures, and their top management exercised great care in maintaining the quality of the decision process between managers with territorial responsibilities and managers with product responsibilities. They needed more asymmetry in the decision process than could be provided by formal

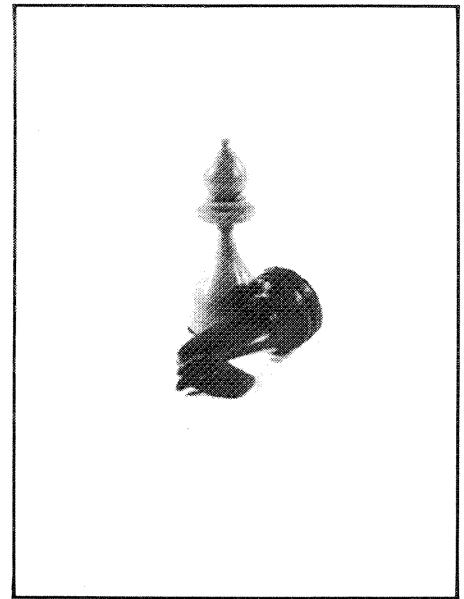
"The most successful companies were those which recognized that the complex and highly variable decision process in multinational corporations was intrinsically conflictual and could not be legislated through a bureaucratic framework. These companies recognized that to solve conflicts they need to manage tensions, not just to formulate policies."

structures and administrative procedures, which tend to define permanent, shared responsibility. In short, these companies recognized that to solve conflicts they needed to learn to manage tensions, not just to formulate procedures.

Issues dealt with in this research are being explored in a book by Professors Prahalad and Doz which is tentatively scheduled for publication in early 1985 by the Free Press, a division of MacMillan Publishing Company. The book is tentatively titled, "The Work of Top Management."

Prahalad and Doz are now embarking on another large research study focused on innovation within multinational corporations. They are asking such questions as, What can top management do to promote innovation within the corporation? How does the administrative framework inhibit or promote innovation? What methods can be adopted to keep a huge bureaucracy from crushing new ventures that may arise from within?

The team is studying ten large scale innovations that exist within five multinational corporations. The companies include IBM, GTE,



Philips, Ciba-Geigy, and ELF, a petroleum company in France. The study is expected to take four years. Each company is providing access to its top management and relevant internal documents. The team will do extensive interviews with management and study the documents — then build a model based on the findings. Cases are also expected to be produced from the research.

"To do this kind of study you need to have built a relationship of trust with the corporation," comments Professor Prahalad. "Product and business plans are very sensitive, and our study also requires a good deal of time from top executives for interviews. However, the companies we are working with know us, know our research record, and are committed to the research. Several of them are also providing funding to support the research. While we are still studying the large, multinational corporation and the work of its top management, in this new research the focus has shifted from how to manage existing business to how to create new businesses within the framework of the large, diversified firm." ■

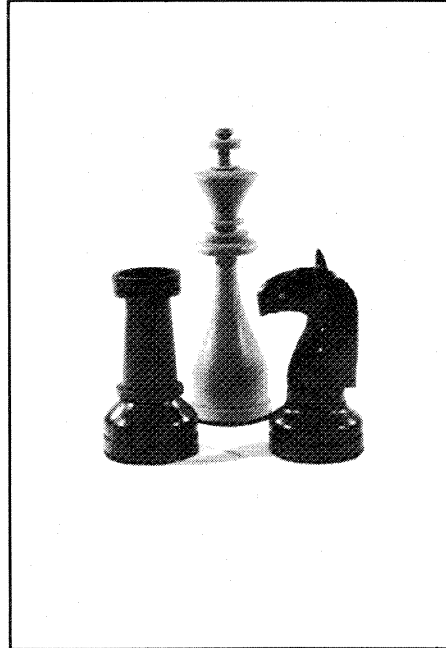
Strategy and the Creation of

How does the financial market value corporate strategy? Over what period does value arise? Are certain intermediate conditions — e.g., market share — explicitly valued? These questions are part of ongoing research being conducted by business policy faculty members Aneel Karnani, Cynthia Montgomery, and Birger Wernerfelt in a series of studies on the relationship between strategy and the creation of shareholder wealth.

“Our research exploits the progress made by modern finance to yield insights into strategy,” explains Aneel Karnani, a member of the research team. “Much of the previous work on value creation has been done on accounting-based returns. There are several problems with this approach. For instance, accounting-based returns measure what *has* happened instead of what’s *going* to happen, and they also are not adjusted for risk. When considering the effects of strategy it is important to use a prospective, as opposed to a retrospective, measure of economic performance because strategies, as opposed to tactics, are inherently long term in character.”

“The modern theory of finance,” continues Birger Wernerfelt, another member of the research team, “suggests that the stock market provides a measure of a firm’s economic performance which does not have the drawbacks of accounting measures. The capital asset pricing theory argues that the stock market provides an unbiased estimate of the net present value of the future earnings of a firm adjusted for the systematic risk of that firm.”

To sum up, the research team believes that business policy research



has had the broad perspective of strategy but has operationalized economic performance using accounting data and has thus not adequately captured the long term nature of strategy nor taken into account the riskiness of different strategies. On the other hand, finance research has developed a more appropriate measure of economic performance without emphasizing the strategic perspective. Therefore, there is an opportunity to bring together the substantive insights from business policy and the research methodology from finance. Only then will it be possible to conceptually understand and empirically validate the effect of strategy on shareholder value. They see themselves as involved on a long term basis in a stream of research to do precisely that.

In one study, the team is taking an in-depth look at a single industry over an eight year period. They chose the brewing industry because of the number and kind of competitive interactions that were occurring in the industry at the time (plant expansions, takeovers, new brand introductions). Another major reason for choosing that industry was that most major brewers are single business companies, making it easier to link actions taken in the brewing industry with movements in the firms’ share prices.

“Competitive analyses of various industries and structural conditions abound,” comments Professor Montgomery, “and detailed casework on industry analyses has traced interactions among firms, the development of industries, and the outcomes of various competitive strategies. However, the impressions of “winners” and “losers” or of “good moves” and “bad moves” in these situations has not been explicitly evaluated in terms of wealth creation.”

The finance field has developed a sophisticated methodology which allows one to measure the financial market’s response to individual firm events. The stock price of a firm on any particular day represents the market’s view of the present value of that firm’s future cash flow. As events are announced which alter that earnings stream, adjustments are made in the price of a firm’s stock. Careful measurement during these adjustment periods can capture the market’s evaluation of specific events.

The research team is combining this method of event calibration with an analysis of the competitive dynamics of the brewing industry by

Shareholder Wealth

identifying the major competitive moves in the industry and the dates those actions were announced in the *Wall Street Journal* (widely considered as the date the information reaches the market). The database includes a total of 700 different events of possible strategic importance. The team intends to look at some of these 700 events both as individual occurrences and in combination with other events that, taken together, may create a pattern of even greater significance. In addition, they intend to evaluate the impact of a firm's own moves on the stock price of its competitors — the essence of competitive dynamics in the market.

Preliminary analysis of the individual events indicate that over the long run different strategies create very different amounts of value, but that few individual strategic actions (other than acquisitions or divestitures), are valued separately by the stock market. This may indicate that strategy is valued by the market gradually, rather than in discrete jumps in response to particular events. In effect, it appears to be the unfolding of a pattern of action which gradually creates value. Further analysis will be directed toward combinations of events and interfirm comparisons.

A second study undertaken by the team will look at the relationship between market share and financial returns. The fact that market share and profitability tend to go hand in hand is one of the few firm pillars underlying strategy formulation. Yet the relationship has been explained in two different ways with conflicting strategic implications.

According to the more popular view a high market share causes high profitability because of scale advantages or market power. This then leads to the conventional wisdom that firms should fight, at least to a degree, to gain market share. If firms on the whole respond correctly to this opportunity, market share development over the product life cycle can be seen as a direct consequence of their order of entry and financial resources. A sophisticated analyst should be able to predict market share movement and profitability over time.

An alternative theory is, that some underlying stochastic phenomena, such as the hitting of oil fields, simultaneously lead to both higher profits and higher market share. If this is true, fighting for market share is not a good strategy.

To discriminate between these two theories, the team will correlate changes in market shares with abnormal returns in the stock market for all single business firms in the overlap between Compustat and Standard and Poor's. The first theory above would predict no relationship on the grounds that the underlying strengths were known to the stock market before they materialized in changed market shares. Conversely, the second theory would predict a strong positive relationship, as the stock market reacts to the good or bad news leading to market share changes.

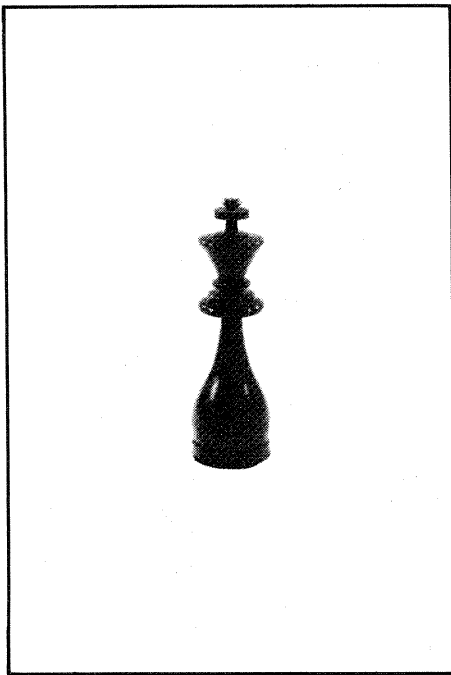
A third study, done by Ann Thomas, assistant professor of business economics, Cynthia Montgomery, and several doctoral students, looked at the relationship between types of divestitures and

stock market valuation. Seventy eight divestitures made by *Fortune* 500 firms during the years 1976-79 were identified and categorized as follows: 1) strategic divestiture related to corporate or business strategy, 2) selling undesired units, 3) selling in response to liquidity concerns, 4) forced divestitures, and 5) undiscussed divestitures. After classifying the different types, the team looked at the stock market valuations of the firm just after the divestiture.

The results showed significant differences in valuation across divestiture categories. Divestitures linked to corporate or business level strategy were valued positively by the market, but those presented in tactical or financial terms alone (category 2) were valued negatively. The size of divestiture (defined as absolute dollar value of the divestiture relative to total assets of the firm) was not significantly related to category classification or financial outcome.

"The fact that category 1 divestitures did result in value creation was consistent with our expectations," says Dr. Montgomery in discussing the results. "However, information releases on divestitures can also destroy value, as shown in the valuation of the category 2 types (selling of undesired units). This indicates that divestitures should perhaps not be as easily undertaken as some managerial techniques (i.e., growth/share matrices) suggest. At any rate, more work is needed on the negatives of separation, including the cumbersome administrative issues and high emotional costs that often accompany divestiture." ■

The Management of New Ventures



To date, there are more questions than answers about how to direct rapidly growing high technology new ventures. Some venture capitalists have suggested that the administrative and management skills of an entrepreneur and his or her team are as important as the new business idea itself. Rob Kazanjian, assistant professor of policy and control, is currently conducting research in two areas relating to management and innovation — the first investigates new technology-based ventures, and the second is concerned with organizing for internal diversification by large, established companies.

A dominant theme related to this first topic is the stage-of-growth perspective which proposes that firms will grow through a predictable pattern of stages, each characterized by a series of problems and a distinct internal organizational configuration. It should be noted, however, that this is not a universally accepted view.

Virtually all stage-of-growth models developed to date have been descriptive and conceptual, with few if any efforts directed at empirical validation of the stage-of-growth idea. Dr. Kazanjian combined these two methodologies by first developing a four-stage model, and then testing the model empirically using a sample of more than 100

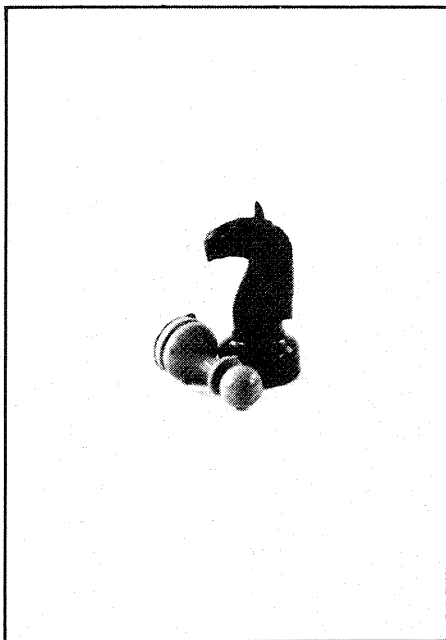
technology based ventures, all created within the past ten years.

Beginning with intensive case studies of new ventures, Kazanjian developed a four-stage model specifically focused on technology based start-up companies. This model suggested that such companies can anticipate a pattern of specific problems which the firm must resolve as it progresses from inception to maturity as a single business entity. Broadly speaking, the stages of the model are: 1) *feasibility assessment*, or pre-start-up which focuses on demonstrating technical feasibility of the product and defining its application; 2) start-up, which centers around production development, initial commercialization and related issues; 3) *growth*, which requires the development of adequate administrative subsystems and the attainment of profitability; and 4) *maturity*, which usually requires the development of 2nd and 3rd generation products or new product lines.

In testing the model empirically with a sample of over 100 firms, Kazanjian found support for the notion that dominant problems define a firm's stage of growth. Firms categorized in each stage reflected age, rate of growth and size patterns consistent with expectations. "This research is relevant for CEOs of rapidly growing high technology firms," says Kazanjian. "It gives

Innovation: and Diversification

guidelines on anticipating stages of growth, major problems the firm is likely to encounter, and how they should be treated organizationally. Entrepreneurs may assume that since informality, personal face-to-face decision making and a general lack of internal structure led to success in the early stages, that such an organizational configuration should be perpetuated into the future. The findings of this research suggest that as the firm grows it faces new and different problems, all requiring more specialized skills which entail more complex internal structures and coordination mechanisms.”



Kazanjian stresses that timing is very important, and suggests that venture managers may want to pre-invest in the development of administrative systems and organizational structures which position the firm to address the pattern of concerns that will emerge as the company grows. “This is not to suggest that such firms should embrace a bureaucratic mind set,” he explains, “but to recognize that at later stages increased structure, formality, and specialization are as critical to success as their absence was in earlier stages. Knowing a firm’s developmental stage and future plans enables top management to make more informed choices and prepare themselves and their company for the future more effectively.”

Building upon the ideas and findings associated with his research on new ventures, Professor Kazanjian is conducting a related stream of research with Professor Robert Drazin of Columbia University. In this study, the researchers are looking at a similar phenomenon in a different setting and level: the management of innovation by larger, established firms who want to diversify by internal development efforts rather than by acquisition. Here, a conceptual model has been developed which prescribes a series of structural options available to

firms and describes the situations most suited to the use of each. The choices range from developing a new business within the existing functional departments of the core business of the firm, to creating a new organization to pursue a new business opportunity, with choices determined largely by the degree of relatedness of the proposed new business.

In contrast to existing approaches which categorize a new business candidate as generally related or unrelated to the existing business, Kazanjian and Drazin view relatedness at the functional levels of marketing, product technology and process technology, which allows for a full range of options than would otherwise be available. Next steps for this research include extension of the model to look at the role of internal systems such as rewards and staffing. It is intended that these ideas will be tested empirically with a sample of appropriate firms in the near future. The findings will help top management of large, typically bureaucratic firms to understand the innovation process and increase the prospects for successful internally developed diversifications.

These two studies then are representative of the investigation of an emerging but complex managerial issue, looked at in several different settings and using case analysis, conceptual theory building and empirical analysis. ■

We're Almost There!

As the School's Capital Campaign edges closer to the \$15 million goal, two buildings funded by the Campaign are taking final shape.

We are now at the \$13.5 million mark, with only 10% left to raise. "This last part of the campaign is being fueled by those important smaller contributions from individual supporters of the School," said Dean Gilbert R. Whitaker, Jr. "We're very pleased with the success of the Campaign so far, but our work definitely isn't over yet."

Special gifts to the School — those that range from \$5,000 to \$100,000 — are receiving particular attention at this point. National Chairmen of this phase of the Campaign are Allen Gilmour, MBA '59, vice president-controller of Ford Motor Company, and John Morley, MBA '58, president and CEO of Reliance Electric Company of Cleveland. Special gifts comprise \$1.7 million of the money that has been raised so far.

John R. Edman, BBA '50, MBA '50, vice president of General Motors, emphasizes that the Business School Campaign is an integral part of the Campaign for Michigan. He is chairing the Business School's Capital Campaign Steering Committee and is also a regional co-chairman for the Campaign for Michigan — a five year project to raise \$160 million for enhancement of University educational programs and facilities.

The Campaign for Michigan, launched in October, 1983, has already raised \$49 million. Edman is excited about the success of both campaigns, but warns against early complacency. "We can't call the Business School effort successful until we hit the \$15 million mark," he says, adding that the success of the Business School's effort bodes well for the University's overall fund-raising activities.

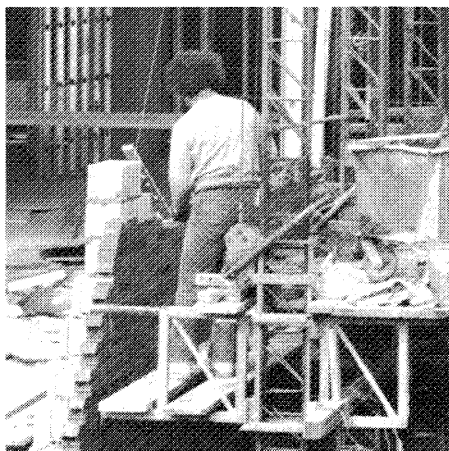
Meanwhile, the new buildings are nearing completion. Exteriors of the Kresge Business Administration Library and the Computer/Executive Education Building are finished. "As the outer skins of the buildings have been completed, the esthetic characteristics of the design by architect Carl Luckenbach has generated a lot of excitement and praise," said William G. Moller, Jr., associate dean of the business school and liaison between the School and construction engineers.

Work on interior walls is now progressing. Both buildings are designed for energy efficiency. All windows are double glazed, exterior walls have 6" of insulation installed, and walls are also insulated for sound proofing.

According to Moller, ninety-five percent of the interior design budget has been bid, and contract awards have been made for delivery starting July first. Plans now call for the move into the new buildings to begin in midsummer, so that all areas will be completely operational at the start of the fall, 1984 term.

Both buildings have been funded entirely through donations to the Capital Campaign. Bids will soon be taken for construction of a third building — residential facilities to house executives participating in the School's executive education programs. ■

Pictured right — The northeast corner of the Computer/Executive Education Building situated at the corner of Monroe and East University.





Far Away in the Hamburger

By Linda R. Benson

The scene at Foster's Hollywood Cafe, Magallanes 1, looks so undeniably, predictably American that it could be a contemporary update of a Norman Rockwell painting. Waiters wearing levis and red shirts with Colonel Sanders' string ties take orders for char grilled hamburgers with-or-without-cheese, banana splits, french fried onion rings, bar-b-que'd spare ribs, salad with four kinds of dressing including chef's and bleu cheese. Barnwood paneling, tiffany lamps and, just as the name implies, some movie posters from various decades of box office success decorate the walls. One shows the craggy features of the late Steve McQueen smiling devilishly. Another advertises "Mickey Mouse on Parade" with the familiar rodent decked out in red-white-and-blue. A third, advertising *Reds*, features Diane Keaton and Warren Beatty bundled in winter garb and locked in a passionate embrace.

But the label emblazoned across the Keaton-Beatty poster says *Rojos* instead of *Reds* — and Magallanes 1 is a street in the "fuencarral" district of Madrid, Spain, a middle class neighborhood with the second largest concentration of movie houses in the city, the Washington Irving Library (a division of the American Embassy), and a stone's throw from the Gran Via, Madrid's decorous version of Times Square.

Foster's Hollywood Cafe is one of a three-restaurant chain owned by John Finerty, BBA '64, MBA '65. For the past 10 years, the 42 year-old expatriate American has been living and working in Madrid, first as a

manager for audit operations in Spain-Portugal for Touche Ross, but for the past six years as an entrepreneur, a businessman, which the Spanish refer to as a "Patron."

Finerty estimates that he is one of about 20 Americans living permanently in Madrid who own their own businesses and are not part of the corporate, military or diplomatic establishments there, but it was never part of any "grand design."

"I was working at the Detroit office of Touche Ross right after graduating from U-M when the overseas opportunity came along," he says over a hamburger and a glass of Spanish wine at midafternoon in his restaurant. "There were openings in Zurich and Milan as well, but Madrid seemed like the best career opportunity to me. My wife and I hadn't done any traveling and I didn't want to reach the age of 65 and wonder why I didn't go. Our plan was only to stay for three years. Our daughters were aged 7 and 11 then and that seemed like a reasonable length of time to be away from the States."

Life was comfortable — in fact, more comfortable than Finerty imagined. He enjoyed the autonomy that was available to an American "specialist" in an overseas office, the easy opportunities to travel to vastly different cultures. His children were enrolled in the 750 student-American School of Madrid, and his wife coped deftly

with the small daily difficulties that accompany living in a foreign country. "Overseas assignments can often fall harder upon the spouses," Finerty says. "They are not dealing with the same things and they don't have the comfort of similar office routines."

And there was Spain itself, a bit Victorian in the Franco years, but clean, safe, colorful and puritanical. "The most serious crime here is purse snatching," says Finerty. "Your kids are safe out on the streets, day and night, they can go anywhere without fear, and there are no drugs or Penthouse magazines."

By 1976, Finerty was involved in negotiating the sale of a small restaurant chain owned by a Touche Ross client, an American corporation named Foster's Inc. The three years that Finerty and his wife had promised themselves were winding down, and he began to wonder about going into business for himself.

"I knew the restaurants were a good buy, and if I didn't go into business for myself now, I never would. But I had never been a restaurateur, or even an operator. My responsibilities at Touche Ross were more as a consultant. The closest I had been to restaurant management was to handle an account for Greyhound Foods!"

Finerty weighed instincts with reason. He will not say exactly which one won out — but he bought the restaurants anyway, leaving the world of the specialist in international business for that of the Patron.

Palace . . .

In France the word "Patron" means "Boss," often in its most negative connotations, but in Spain where crony-ism is the established way of getting things done, "Patron" has a more fundamental meaning. Many employers and managers in a similar occupation will band themselves into business organizations called "Patronales," sometimes semi-official, sometimes voluntary, in order to deal with activities relating to their industry, much in the same manner as the 16th century guilds. Their ability to wield power and influence can be considerable.

"Franco's government offered great days and lots of opportunities from a business standpoint," says Finerty. Workers were forbidden to strike, and employers were forbidden to fire them. This has changed under the democratic government, but unions are very powerful, including a communist one now, and welfare laws and taxes are complicated."

Whether by coincidence or not Finerty estimates that six or seven of the approximately 20 American businessmen living permanently in Madrid are in the restaurant business. One owns "The House of Ming," and another, a former Chicagoan, owns a chain of three Mexican restaurants. "Madrid is a very cosmopolitan city," he says. "Even though there are not many ethnic communities in its midst, people like to eat different food."

The Hollywood theme had already been established by the time Finerty took over the restaurants, but



Foster's Hollywood Cafe is one of a three-restaurant chain in Madrid, Spain, owned by John Finerty, BBA '64, MBA '65, pictured here.

there was plenty of room for improvements. "About 95% of our clientele is Spanish and they are meticulous about eating meat with a knife and fork. I'd say about 70% of

the regulars here eat hamburgers with their fingers now, though," he says. "The fast food influence is strong here, "especially among the young people." Since Burger King

arrived in Madrid seven years ago, it has established 14 places; McDonald's, though a relative newcomer arriving in Madrid three years ago, has five, including one location amidst the granite and wrought iron buildings of the Gran Via; and Wendy's has a chain of seven restaurants in Madrid. After contemplating and discarding an idea to expand his operations into Barcelona, Finerty is now negotiating to become the franchise agent for Pizza Hut for the province of Madrid.

Unlike the franchises and mega-chains, the three Foster's Hollywood Cafes serve "real" food, cooked to order in a style that can best be described as "American roadhouse," and though the menu seems to lack culinary complexity, Finerty is proud of the level of food preparation.

"We are probably the only restaurant in Spain that serves a Reuben sandwich," he says, explaining that he makes his own corned beef because this is not available in Spain.

"Hamburger meat is low in fat content here," he continues. "We have a butcher who grinds it for us and mixes 21% fat to get the ratio of American ground chuck. The buns are made by a local baker and we constitute about 80% of his business. Wood fired furnace ovens are quite popular in traditional Spanish cooking, so we use a version of this, with oak barbeque bricks, just like you would in your back yard. But we have to train the cooks to put it all together — American style.

"As you are here longer, it becomes easier to learn where to get things," Finerty explains. "Everything we serve is fresh except corn-on-the-cob and potatoes." But Finerty acknowledges that corn-on-the-cob stumped his Midwestern resourcefulness for a time.

"We only started serving it about a year ago. I had my eyes open for it, and finally found some being grown around Valencia. We serve it fresh in July, but we have a company that freezes it for us for the rest of the year."

Spanish custom dictates late

dining, especially in Madrid where street life is teeming until 3 a.m. "Our hours (1 p.m. til 2 a.m.) are a bit unusual for Spain," Finerty says. "Most places do not open quite that early here. The main dining hours are 2:30 p.m. for lunch, and 10:30 p.m. for dinner, but lunch might slip back to around 4:30 p.m. in the summer when many people leave the city."

American corporate efficiency makes a quasi-adaptation to the time-honored siesta these days. Many employees take a 1½ to two hour lunch and end the workday at 6:30 or 7 p.m. Finerty feels that the trend will change to a more typical workday for most Spaniards within the next ten years.

"There is a much deeper sense of 'living' here," says Finerty in observing the Spanish character. "There is not the same intensity about work that Americans have. The amount of regulation both from government and unions has a stifling effect on personal economic aspirations, and social welfare benefits can be as much as double American social security."

Finerty employs about 70 people in his three locations, and each gets 14 'pays' per year, with an extra 'pay' coming at Christmas and another for vacation, and 30 days of vacation after a year's employment. At present the unemployment rate is very high, running about 17%, since Spain has had to re-absorb a sizeable number of workers who had temporary work permits in Germany and were forced to leave when that country experienced recession.

"In spite of the laws, the Spaniard is a very hard worker," says Finerty. "You can see that by the way he will stay out all night and still drag himself into work the next morning. A lot of his economic needs have not been met yet."

Our meal draws to an end. Finerty asks a denim clad waiter for a snifter of Spanish cognac, which he feels is underestimated and often overlooked in favor of the French brands. "Spaniards look up to the French for their sense of style, in spite of agricultural rivalries," he says, referring to a recent incident

where French workers were sabotaging Spanish wine shipments at the Spanish-French border along the Pyrenees. "But they like Americans too and admire our standard of living. America is truly the ancient Rome of today's world, and the first seven or eight pages of every daily newspaper is devoted to what the U.S. is doing."

Finerty, who describes his own politics as "Goldwater Republican," votes in all federal elections, visits the U.S. every other year to see his father in Adrian and his wife's family in Brighton, and his eldest daughter who is now a college student majoring in business in Boston. He acknowledges a deep nostalgia for "Bo's football teams."

How safe, how secure does Finerty feel in his own personal bastion of hamburgers and Americana?

"For about six months or so we had some tear gas and a bit of shooting out in front of the restaurant; that was early in 1981. Actually it was very smooth considering the enormity of the changes that have taken place.

"Spain has never been too successful in its attempts at democracy," Finerty notes. "The banking and military interests have always been quite influential. The lack of estate taxes and lack of enforcement of tax laws has enabled banks to accumulate a great deal of wealth, and these families can control other industries as well." Finerty points out that, in order to get a venture loan, banks usually want 5 to 10 per cent of your company, and while the moneyed class is small in numbers, its influence is great.

"There is a lot of speculation about what socialism can do to a country," he says. "But Franco created a middle class here, and they have a great deal to lose by anarchy and disruption. Right now the socialists are staying on a very moderate course because they have to work with the business interests for the sake of progress. It seems to me that historians and political scientists should be studying Spain. It is a rare opportunity to look at a country undergoing a sweeping and fundamental economic and political transition." ■

How Others See Us: Alumni as Informal Ambassadors

Although the Graduate School of Business Administration has consistently been ranked among the top ten business schools in the country in survey after survey, there are ways of improving even that excellent reputation, and one of them is through national media attention.

For more than a year, the Business School has expanded its traditional and diverse alumni programs to include a program to improve media attention, because the media has a profound impact on how others see us. Alumni of the Business School can help with this campaign in two ways — first, by mentioning us when being interviewed by the media, and second, by helping us to get feedback on how the School is being perceived out there.

“We could rest comfortably on the School’s excellent reputation,” said Anneke Overseth, director of external relations. “But why not ask our graduates to expand that reputation through their contacts and communications within the business community?”

Alumni have almost endless potential as contact persons and informal ambassadors for the School, notes Peter Devaux, BBA ’66, MBA ’70, senior vice president for Young & Rubicam USA advertising agency and chairman of the Alumni Society Board of Governors. “There’s absolutely no reason why alumni shouldn’t mention their alma mater whenever the opportunity arises,” he said. “For example, one of my associates is a graduate of Harvard and never misses the opportunity to mention that fact in his speeches.”

Why shouldn’t U-M alums show similar pride in the institution from which they received MBAs and BBAs? Devaux asks. While alumni who are interviewed by the media usually are asked to speak to a particular business issue, “it is not intruding on the interviewer’s

territory to mention that one is a graduate of the University of Michigan’s Business School,” he said. “Ultimately, it is the reporter’s responsibility to decide whether or not to include the University of Michigan in the story,” he added, “but it never hurts at least to offer that information.”

Thanks to J. Ira Harris, BBA ’59, executive managing director for Salomon Bros. Inc., readers of national business news know that U-M produces some of the nation’s top business leaders. Harris, the subject of several major news features for publications including *Businessweek* and the *New York Times*, says, “it’s entirely appropriate to offer information concerning one’s

alma mater in such interviews.”

“Obviously, one should also identify the School in speeches and on one’s vita or bio sheet,” he added. “It’s good, both for the School and the alumnus.”

The positive attribution, whether in informal conversation, prepared presentation, or interview, is one side of alumni participation in external relations. Another important aspect is feedback on the nation’s perception of the School, as communicated throughout the business community.

Those “back at the ranch,” depend primarily upon alumni to provide such feedback, says Overseth. “We would very much appreciate a note, call, or newspaper clipping that shows how the School is being perceived out there,” she said.

To provide that service, an alum need only pick up the phone and relate the information to Dean Whitaker, says Harris.

Devaux also stresses the importance of sharing published references to the School.

“We should enlist the entire School — alumni, faculty, and staff — as a clipping service,” Devaux says. “Send any article that mentions the School to the Dean — there’s no need to include comments, just the masthead and date of the publication in which the School is mentioned.”

As for feedback on others’ perception of the school, “our alumni have provided bucketfuls of information,” he said.

“There are many ways in which alumni can be of great assistance to a college or university — besides, of course, contributing a million dollars.”

Overseth concluded that the long term effects on this kind of alumni feedback will be invaluable not only in a promotional sense, but will increase the ‘esprit de corps’ among the Business School family for years to come. ■

Some Ways to Help

Here is a checklist of things you can do as an alumnus to help the Business School in our public relations effort.

- If interviewed by the media, mention where you received your academic training.
- If you read material that contains quotes from Business School faculty or fellow alums, take time to clip it out and send it back to Ann Arbor.
- Keep informed on current issues affecting business schools.
- Take the time to read publications you receive from the Business School (e.g., *Dividend*, *Update*).
- If you are doing something that is special in your business, let us know about it.

Among Ourselves

An informal collection of items, including news of the faculty, of alumni, and of the school, and assorted other information, opinion or comment that we think will interest you.

Professor Merten Becomes Associate Dean for Executive Education

Professor Alan Merten will become associate dean for executive education at the Business School starting July 1. His appointment for a three year term was approved by the U-M Regents in January.

"Prof. Merten's breadth and insight, combined with great common sense and the respect of the faculty, make him particularly well suited to lead and oversee the complex and ever-changing executive education area in the Business School," said Dean Gilbert R. Whitaker, Jr.

Merten, who has been academic director of the executive program, joined the U-M faculty in 1970 as an assistant professor of industrial and operations engineering in the College of Engineering. In 1974 he was named associate professor of computer and information systems at the Business School, and in 1981 he was promoted to professor.

He has held positions at IBM Research, United Nations Development Program, Los Alamos Scientific Laboratory, Stanford University and the University of Wisconsin. He has published widely in the areas of computer-based information systems, data management systems, and management science, and serves in leadership roles in various professional organizations and



Professor Alan Merten

programs. He has also served as a reviewer for more than 30 publications and conferences. This year he is on leave in Fontainebleu, France where he is a visiting professor at INSEAD, the European Institute for Business Administration. Merten received his BS degree from the University of Wisconsin in 1963, his MS from Stanford in 1964, and the Ph.D. from Wisconsin in 1970.

IBROM Project Reduces Business Paperwork by 36 Percent

Michigan businesses will save thousands of dollars every year because of a project being conducted by the Independent Business Research Office of Michigan (IBROM), a division of the Business School; the Governor's Cabinet Council on Jobs and Economic Development; and the Michigan Department of Commerce.

Impetus for the project, intended to ease the paperwork burden of businesses operating in Michigan, comes from the Paperwork Reduction Act passed by the Michigan legislature in 1981.

The Department of Commerce was the first state agency targeted for attention because of the volume of business-related forms required by its various bureaus. In December, Commerce officials announced that they had eliminated 242 business forms, a reduction which means businesses will be required to file an estimated 52,800 fewer pages annually with the Department of Commerce.

The paperwork reduction project includes a computer inventory of all forms required by all state agencies in dealing with business. The end products of the project, scheduled to be completed in June, 1984, are expected to be:

— Elimination of duplicative and nonessential business forms, and any

form not specifically required by law.

— Modification and streamlining of necessary forms, to reduce business costs for compliance.

— Development of an information management system to control and monitor future forms.

Alfred L. Edwards, professor of business administration at the Business School and chairman of IBROM's board of directors, underscored the University's interest in future involvement with projects to enhance Michigan's business climate.

"Although a number of states have undertaken business paperwork reduction efforts," Edwards explained, "Michigan is the first to utilize the expertise and technical resources of a university. As a result of IBROM's involvement, the State of Michigan will have an efficient information management system which will provide both immediate and long-term paperwork relief for business. The model developed in Michigan clearly has wide application as other states begin to tackle business forms."

The project makes Michigan the first state in the nation to compile a computer inventory of all forms required by all state agencies in dealing with businesses, he noted.

Paul M. Zlotoff, president of a Birmingham real estate equity company, and an IBROM board member, estimated that the impact of the first phase alone will save Michigan businesses thousands of dollars each year.

"IBROM was established to bring the expertise and resources of the University and the knowledge and experience of the business community together to impact Michigan's business climate," he said. "I believe this project takes a significant first step in that direction."

The Independent Business Research Office of Michigan was founded in 1982 in response to a need, identified by the small business community and supported by University President Harold T. Shapiro, for a research resource to address public policy issues as they affect small and independent businesses operating in Michigan.

Millard H. and Mary S. Pryor Establish Entrepreneurial Award at the Business School

The Michigan Individual Entrepreneur Award, to encourage entrepreneurship and new business formation, has been established at the Business School by the Pryor Foundation. It will offer a \$2,500 cash prize for the best prepared, most innovative business plan detailing the start-up strategy for a new enterprise which might be carried out by the contestant(s).

Final judges for the award, which is supported by a \$50,000 grant from the Pryor Foundation, will consist of a panel of venture capitalists who may, at their option, offer financing for the proposed firm. It is expected that the Pryor Entrepreneurial Award will be an annual contest at The University of Michigan. During the first year, competition will be conducted according to the following rules.

The 1983/84 entrepreneurial contest is open to all full-term students, graduate or undergraduate, at The University of Michigan. Business plans may be submitted by a single person or by a group, and the groups may consist of individuals from different departments of schools (business, engineering, architecture, law, etc.). The only requirement is that the members of each group must be formally registered as students at The University of Michigan during the 1983/84 academic year.

The proposed business venture may center on a consumer product or service, an industrial product or service, a real estate project or other venture. The level of technology involved in the product or service may be high, medium or low. It is expected that the proposed product or service will be the idea of one of the members of the group submitting the business plan, and will be an idea that can be legitimately assigned by the group. It is understood that the idea for the product or service will

remain the property of the group submitting the business plan, and The University of Michigan will take all reasonable efforts to protect that ownership.

The written business plan is expected to contain, among other things, a description of the new product or service, a delineation of its market segment, and an explanation of the marketing policies, production facilities, financial needs and human competences required to develop a successful enterprise. The legal form of the organization (proprietorship, partnership, or corporation) and the tax implications of the investment (Chapter S, etc.) need not be included in the business plan; it is assumed that these could be added by professional advisors in the event that the student(s) submitting the proposal decide to actually start the firm.

The submitted business plans will be judged on the innovativeness and attractiveness of the concept, the practicality of the marketing and production methods, and feasibility of the financing proposal, and the clarity and precision of the plan. Preliminary screening will be done by faculty at the School of Business Administration, and by entrepreneurs with the southeastern Michigan area. The library at the School of Business Administration will place books and articles that describe the small business plans on reserve for use by entrants in the contest. It is also expected that at least one venture capitalist (not a member of the judging panel) will be asked to give a public lecture on "What I Look For in a Business Plan."

Contestants for the Pryor Entrepreneurial Award should submit their written business plans to Ms. Evelyn Shurtliff in the Dean's Office at the School of Business Administration of The University of Michigan before 5:00 p.m. on Wednesday, April 11th, 1984. A grace period of 48 hours (until 5:00 p.m. on the following Friday) will be permitted; in order to maintain equal treatment to all participants, no further extensions can be allowed.

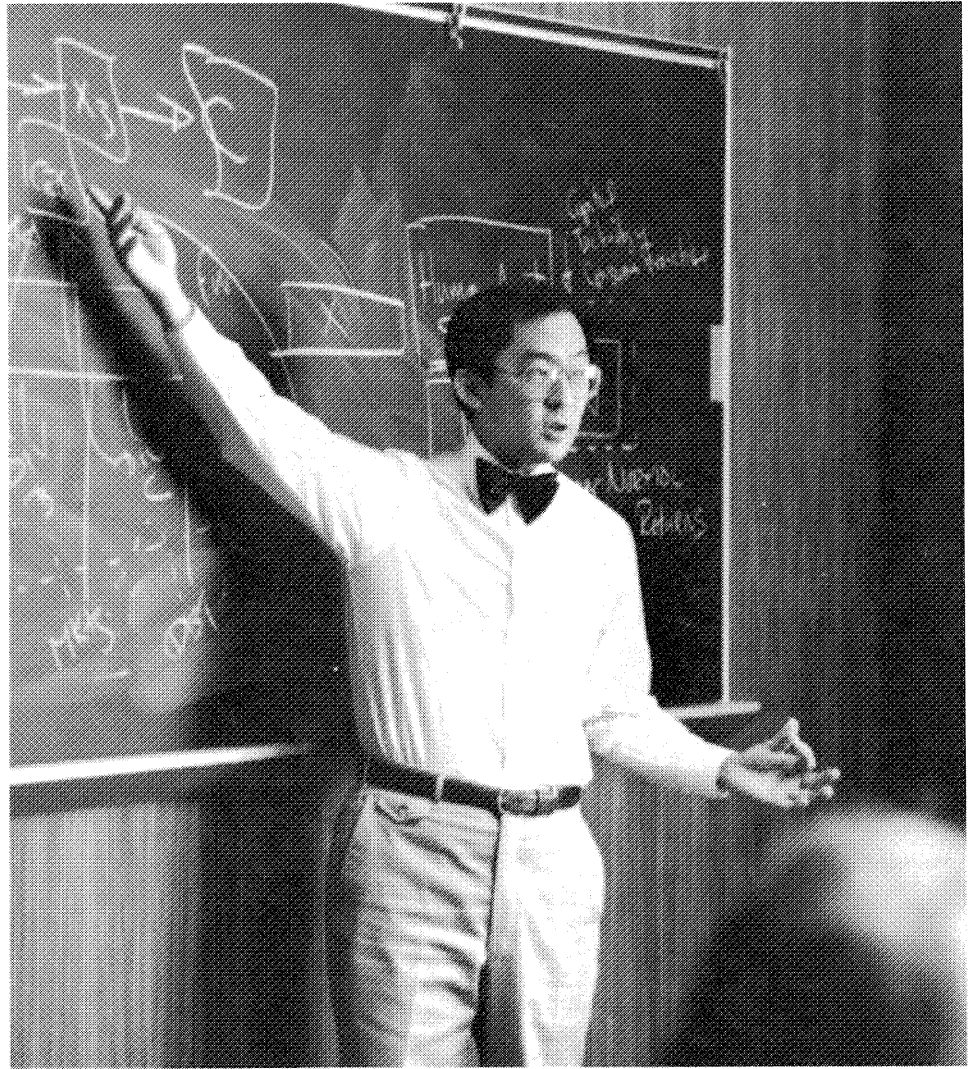
The Author of *Theory Z* Talks at Business School about the M-Form Society

"If our children try to play the piano, flute, violin and trumpet as well as soccer and softball plus try to be a good family member, they will likely end up being good at nothing," said William Ouchi, author of the book *Theory Z* and professor of management at UCLA, in a January talk at the Business School. "This is true of industry as well. Business leaders need to agree on where to put resources through regular communication with one another and with government in order for maximum economic development to take place."

Ouchi, whose appearance at the Business School was co-sponsored by the faculties of organizational behavior/industrial relations and policy and control, discussed his forthcoming book, entitled *The M-Form Society: How American Teamwork Can Recapture the Competitive Edge*. The "M-Form" refers to the multi-divisional firm which consists of several operating divisions, acting independently on matters such as marketing, but collaborating on research, manufacturing or administration.

"Research on corporate organizations clearly indicates the superiority and efficiency of the M-Form," stated Ouchi. "The essence of the M-Form's success is its capacity to strike a balance between self-interest and cooperation. The M-Form needs interdependence like a family, but also the balance of competition and teamwork characterized by bureaucracies and markets."

Ouchi asserted that since the M-Form works in business, it may also have applications for society. A key aspect of the M-Form society is that it relies on social memory, which means that what one does in the short run will be remembered in the long run by those one works with. Thus equity, or balance is built into relationships over time. Social memory occurs when there is a structural and systematic pattern of interactions between firms and



The essence of the M-Form's success is its capacity to strike a balance between self-interest and cooperation, said William Ouchi in a talk at the School on his forthcoming book, "The M-Form Society: How American Teamwork Can Recapture the Competitive Edge."

between firms and government. "When one business stands aside," stated Ouchi, "so that another can advance, social memory ensures that the business that stood aside will get repaid later. The Japanese have been able to develop such a social memory. In the U.S. business executives should be concerned about building in systems which allow for exchange of information so that social memory can be developed."

To illustrate an M-Form society, Ouchi compared the growth of the computer industry in the United States and Japan. "By 1975, IBM had 70% of the computer market, Japan only 30%," began Ouchi, "and

because the fourth generation computers required large scale research and development integration, no single company in Japan could make the necessary technological breakthrough." To gain market industry, the Japanese applied the concepts of an M-Form organization to the computer industry. A joint research and development venture among seven companies was formed under the name JEIDA. A guiding force of JEIDA was the Keidanren, which consisted of 812 elite companies, the Federation of Trade Associations, 110 trade companies and one million small and medium sized businesses.

"The Keidanren's purpose," said Ouchi, "was to articulate the opposing interests of big and small business before those concerns got to the government. This invited active participation by businesses involved, and formed a matrix of interdependent industry bureaus and issues bureaus." Another important element in this venture was the Industry Structure Council. "This involved 82 members, none of whom were elected, and was a collaboration between competitors who put aside their competitive self interest for a higher loyalty to the country and emperor," explained Ouchi. "In Japan, all parts of business and government are linked together by social memory and the M-Form. Individual effort and teamwork must exist at the same time. Strength lies in the diversity that creates possibility when everyone works together."

In the case of JEIDA, the research and development laboratories were the shared aspect, and, Ouchi explained, "an attempt by any company to gain an improper advantage; that is, to get out of the arrangement as much as possible without putting a lot into it was grounds to be disqualified." Eventually, the joint effort was able to catch up with the technological advances of the United States. "The results of this R&D were great," stated Ouchi, "and 500 patents will ultimately be awarded."

Parallel attempts at joint R&D in the United States have not been successful, according to Ouchi. For instance, the Department of Energy has awarded 462 contracts to 250 contractors for one solar energy development project, all of whom are working independently; no attempts have been made at interaction among these. "In the search for energy independence, Congress has responded inappropriately to the needs that have to be met," he said. "In the United States, the government exists in a political/economic gridlock. In Congress, of 22,000 new bills, only 5% have passed into law, and half of these were private bills. The problem seems to be that no traffic can flow because no one will stand aside."

Perry Drug Trust Establishes Scholarship to Honor Ross Wilhelm

A student scholarship fund in honor of Ross Wilhelm has been established by Perry Drug Stores Charitable Trust. Professor of Business Economics for many years in this School, Ross Wilhelm died suddenly in March, 1983, just a few weeks before his anticipated retirement to pursue a wide array of interests in business and communications.

"We appreciate the generosity of the Perry Drug Stores Charitable Trust," said Dean Gilbert R. Whitaker, Jr. "The need for scholarship money is great, and this is a splendid way to honor a fine professor."

The Ross Wilhelm Scholarship will be funded to \$25,000 by the Perry Charitable Trust. Those wishing to give to the Scholarship can send their tax deductible contribution to the Ross Wilhelm Scholarship Fund, Care of the Development Office, Graduate School of Business Administration, University of Michigan, Ann Arbor, Michigan 48109-1234.

Robert Libby Named to Peat, Marwick, Mitchell Accounting Professorship

Robert Libby, who has been described as one of the major researchers working in the area of behavioral aspects of accounting, has been named to the Peat, Marwick, Mitchell & Co. Professorship of Professional Accounting.

In recommending the appointment, Dean Gilbert R. Whitaker, Jr., said Libby is "a nationally renowned scholar. Both his past and his current work on the application of theories of human information processing to accounting are widely recognized as major contributions to the field."

Libby joined the Business School faculty in 1979 as associate professor of accounting and was promoted to professor in 1982. Before coming to Michigan, he taught four years at the Pennsylvania State University and

three years at the University of Chicago.

He has served on the editorial board of the Accounting Review and the Journal of Accounting Research.

As a doctoral student, Libby received an American Accounting Association Fellowship and the most prestigious of accounting doctoral student awards, the Arthur Andersen and Company Doctoral Dissertation Fellowship.

He graduated from the Pennsylvania State University in 1970. He earned his master of accounting science degree in 1971 and his Ph.D. in 1974, both from the University of Illinois.

The Peat, Marwick, Mitchell & Co. professorship was established by the gifts of alumni of the U-M School who are employed by Peat, Marwick, Mitchell & Co. and by a special matching grant from the Peat, Marwick, Mitchell Foundation.

Business School Fund Registers an All-Time Record for Annual Giving

"The first six months of the 1983-84 Business School Fund campaign have been the most successful ever," remarked Frank Westover, BBA '61, MBA '62, national Fund Chairman. "So far we have raised \$400,000 towards our goal of \$560,000 for the year, and the Fund's year doesn't end until June 30th."

Westover credited a generous alumni response to the Harris Foundation's million dollar challenge grant as part of the reason for this year's record giving. "The School's base of annual support is rapidly expanding," he commented, "and this kind of growth means Michigan will continue its tradition as a leader among major Business Schools."

According to Frank Wilhelme, director of alumni relations and of the Business School Fund, phonathons also have shown a record increase. Since October, over \$124,000 has been raised by student and alumni callers; this compares to a \$65,000 total from last year's phonathons.

1983 Edition of Current Issues in Advertising Includes New Review Section

A new feature has been added to the book, "Current Issues and Research in Advertising," being published for the sixth year by the Division of Research.

The new feature is reviews of selected areas in which leading scholars address their specialty area. In the 1983 edition, areas covered include advertising stimuli effects, regulatory activities, and the creative function.

The book, which is edited by James H. Leigh and Claude R. Martin, Jr., the Isadore and Leon Winkelman Professor of Retail Marketing, continues to aim at advancing the state-of-the-art in theory, practice, and current developments, as well as to publish complete reports of original theoretical research. It includes, besides the new review section, thirteen articles by distinguished professors and executives. The expanded edition contains 462 pages and may be ordered for \$15.00 from the Division of Research, Graduate School of Business Administration, University of Michigan, Ann Arbor, Michigan 48109-1234.

Bruce Nelson, BBA '65, Dies Suddenly

Bruce Nelson, BBA '65, a member of the School's Development Advisory Board, died January 27, in Mill Valley, California. He was a partner in the law firm of Morrison and Foerster of San Francisco.

Nelson was founder and general counsel of the California Employment Law Council and a member of the California Business Law Institute and the National Conference of Christians and Jews.

The First Major Study of U.S. and Japanese Auto Industries is Completed

Four driving forces that intensify competition between Japan and the U.S. have been identified in the final report of the first major scholarly study of the U.S. and Japanese auto industries. The study originated at the January, 1981, University of Michigan conference on the two auto industries and grew out of a common concern for the health of the respective economies, international trade and U.S.-Japanese relations.

Chairmen of the study's 20 member policy committee were Robert S. Ingersoll, chairman of the Japan Society and former U.S. ambassador to Japan, and Minoru Toyoda, chairman of Technova, Inc. Research chairmen for the group were Paul McCracken, U-M professor of business administration, and Keichi Oshima, vice chairman of Technova, Inc. and professor emeritus of the University of Tokyo. Robert E. Cole, U-M professor of sociology and former director of the U-M Center for Japanese Studies, was the U.S. project director. The U-M Center for Japanese Studies and Technova, Inc. coordinated research and administration in the U.S. and Japan, respectively.

The four driving forces identified by the researchers are: consumers' demands and aspirations concerning automobiles, flexible manufacturing systems, rapidly-evolving product technology, and the internationalization of the automotive industry.

The study underpins its findings with an examination of the Manufacturing Cost Differential (MCD). The researchers conclude that "it is not unreasonable to argue that at 240 yen to one dollar the MCD is somewhat in excess of \$1,500." This is somewhat lower than many of the prevailing estimates, though still substantial. To take one component of the differential, Japanese labor costs appear closer to the U.S. level than commonly thought when hidden fringe benefits such as housing subsidies are counted, the study's researchers state. On the

other side of the issue, the study points out that the overly strong dollar (with recent rates in the zone of 235 yen to the dollar) continues to work against reducing the MCD, despite significant improvements in the productivity of U.S. auto firms.

The study explains that it is difficult to evaluate the various published reports of the MCD because of the inconsistent methods employed in calculating the cost estimates.

The report also points out that as the Japanese work force grows older, the fact that wages in Japan are largely seniority-based will tend to reduce wage differences with the U.S. Because of this development, the third world will offer a progressively less expensive source of labor than Japan.

The dilemma the researchers see is how to mold an international marketplace that is simultaneously cooperative and competitive. Increasingly, cooperative relations and coalitions, particularly on an international scale, are evolving as strategies to exploit new technologies and to strengthen competitiveness. Care must be taken, the researchers point out, that this not be allowed to "lead to a cartelization of world markets that would end up diminishing competition."

On the controversial issue of industrial policy, the currently popular view that it has been the predominant determinant of automotive industry success in Japan or problems in the U.S., is questioned by the report. It finds that, although quite important, government policy has had mixed effects in both countries. This, of course, is apart from the decades-long protection from foreign competition, which permitted the infant Japanese industry to grow and mature. As cited by the researchers, the key elements of the lesson Americans should draw from current Japanese industrial policy are: "the maintenance of a careful balance between a nurturing environment provided by the government and independence of the companies

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Class Notes

'56 GILBERT L. LAVEY, BBA '56, C.P.A., was recently named vice president and controller for Michigan Consolidated Gas Company in Detroit. Gilbert joined MichCon in 1973 as a general auditor, and was elected controller in 1978 by the Board of Directors of MichCon. Gilbert, his wife and four children, live in West Bloomfield, Michigan.

'61 DONALD L. MORRIS, MBA '61, joined Bloomfield Savings in Warren, Michigan in May 1983 as treasurer and chief financial officer. He writes, "Bloomfield Savings is a rapidly expanding savings and loan association and financial services corporation formed in December 1982. I enjoy spending my spare time with my wife, Carol, and our 8-year old son, Jason."

'65 S. J. MORCOTT, MBA '65, recently became president-North American operations of Dana Corporation in Toledo, Ohio. Woody was group vice president for distribution before taking over as president. He came to Toledo through Hayes-Dana, Ltd., and was president of the Canadian affiliate before joining Dana's Service Parts group in 1980.

'66 LEROY F. ANDERSON, BBA '65, MBA '66, of Los Angeles, California, was named a partner of Ernst & Whinney as of October 1, 1983. LeRoy joined the firm in 1983, and has been a consultant to the health care industry for the past 17 years, specializing in health care information systems and systems engineering. He and his wife live in Marina del Ray, California.

'67 *The Journal of Business Broadcasting* has named PAUL SHELDON FOOTE, BBA '67, as departmental editor for digests of articles on forecasting and for

forecasting software evaluation. Paul is an assistant professor at New York University.

'68 HOWARD SILVER, MBA '68, has been promoted to assistant vice president, internal auditing, for Revco D.S., Inc. of Twinsburg, Ohio. In his new position, Howard is responsible for the department that monitors operations to insure compliance with company policies and procedures. Howard was previously the director of non-drug store accounting, and came to Revco from Touche Ross. He and his wife and two children live in Mayfield Heights, Ohio.

'69 ERIK R. EYBYE, MBA '69, has been appointed director of international compensation and benefits for the International Pharmaceutical Products Division of Schering-Plough Corporation. Erik has held consulting and management positions in international personnel and compensation administration with Hay Associates of Stamford, Connecticut, and ICI Americas Inc., of Wilmington, Delaware. He is a member of the American Compensation Association and the American Society for Personnel Administration. He lives in Chatham, New Jersey.

'71 JOHN M. DONETH, BBA '71, recently became a certified financial planner after two years of coursework and a series of examinations on personal financial and retirement planning at the College for Financial Planning of Denver, Colorado. John works for Interwest Financial Consultants, Inc., a financial planning and investment advisory firm in Salem, Oregon. For the past ten years, he has been an executive with Oregon Home Builders Association.

DAVID T. OLMAN, MBA '71, of Saginaw, was named a partner of Ernst & Whinney as of October 1, 1983. David, a specialist in bank taxation, joined the Grand Rapids, Michigan office in 1972, and transferred to Saginaw in 1976. He serves three SEC-registered clients and is the past president of the Saginaw Valley Chapter of the NAA.

'72 WILLIAM E. BJORK, MBA '72, writes that he was transferred by Peat, Marwick, Mitchell and Co. in June, 1983 to Albuquerque, New Mexico and promoted to audit partner. He worked for Comerica bank before joining Peat, Marwick in 1977. He specializes in commercial and mortgage banking. He is also involved with the Albuquerque Museum Foundation, presently serving as vice president for development and with Friends of Art, which supports the University of New Mexico art museum. His article, "The Judgment Factor in Commercial Credit Analysis," was published by the Robert Morris Associates in the September, 1983 issue of *The Journal of Commercial Bank Lending*. He and his wife, both natives of Traverse City, Michigan have one daughter, Erica, born in 1982.

'73 DANIEL S. EHRMAN, JR., MBA '73, has been named vice president for finance and business affairs for the Gannett Broadcasting Group in Atlanta, Georgia. Daniel was previously director for accounting and financial reporting for Gannett in New York. He joined Gannett, which has 19 stations as well as other entities, in 1977 after four years as senior accountant at Price Waterhouse and Co. in Washington, D.C.

'76 GORDON M. TUCKER, BBA '76, writes, "I joined the American Consulting Group in Sudbury, Massachusetts in early 1983. ACG is a small and rapidly growing company comprised of former Procter and Gamble brand managers specializing in marketing related issues. Before joining ACG, I was a P&G brand manager responsible for launching the new Duncan Hines Ready-to-Serve cookie line into test market in Kansas City — a big success to date!" Gordon and his wife live in Sudbury, Mass., and have one daughter.

'77 LARRY HARDER, MBA '77, writes, "After serving five years in the Washington, D.C. area — two years on the staff in the Office of the Secretary of Defense and three years at the Headquarters of the Naval Supply Systems Command, I will be moving to the job of commanding officer of the Naval Regional Contracting Center in Naples, Italy. The Contracting Center has a sub-office in London, England. These two offices have contracting and contract administration responsibility for Europe, Southwest Asia, and Africa." Larry's most recent position has been as the director of the Resource Management Division at the Naval Supply Systems Command Headquarters in Washington, D.C.

'78 KATHY BRENNER, MBA '78, is currently a brand manager at the Clorox Company in Oakland, California. Her current assignment is Formula 409 All Purpose Cleaner.

WADE S. LLENICKA, MBA '78, a purchasing supervisor for Printpack, Inc., of Atlanta, Georgia, recently completed the United States Army Command and General Staff College as an honor graduate. He writes, "My work at Printpack and in the U.S. Army Reserve kept me busy in '83. I also served on the organizing committee for my Georgia Tech class' ten year reunion, which was a lot of fun as well as the most successful ever held. For fun, I help with the Georgia Tech lacrosse team, and have also become a lacrosse referee."

RICHARD R. SORENSEN, BBA '78, has been named an associate in the auditing and accounting department at Plante & Moran, certified public accountants. Since joining the firm in 1978, Sorensen has participated in and supervised audits and business and tax consulting for a wide variety of clients, including manufacturers, construction contractors, municipalities, colleges, universities, and real estate companies. He is a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. He also belongs to Beta Alpha Psi, the national honorary accounting society.

'79 "Nancy and I have just moved to California, near San Francisco," writes ERIC STERNBERG, MBA '79, "where Hewlett-Packard transferred me. We have two children, Cole, 4, and Claire, 7 months, and a station wagon, but left our dog in Virginia." Eric is presently a markets program manager for Hewlett-Packard in Cupertino, California.

MICHAEL S. LAAKKO, MBA '79, was employed by Gould, Inc., as an internal auditor shortly after graduation. He currently has a small business consulting firm, and is an SBA advisor to small business. Mike is currently looking for employment in finance or accounting with growth potential. Any assistance alumni can provide would be greatly appreciated. Responses can be addressed to Michael S. Laakko, 1156 N. Vernon, Dearborn, Michigan 48128, (313) 562-8287.

JAMES G. BERTAKIS, BBA '79, has been awarded the Certified Commercial-Investment Member (CCIM) designation by the Realtors National Marketing Institute, an affiliate of the National Association of Realtors. The CCIM designation is awarded to those who draw from market experience and study to help clients analyze and meet investment objectives. A series of five comprehensive courses must be completed for the designation. There are currently 49 Canadian CCIMs

and 1,637 in the United States. James recently became the president of the Commercial/Investment division of Jim Saros agency in Grosse Pointe, Michigan. Before this he was an associate broker. He is also involved in the Michigan chapter of the CCIMs and works with the membership committee to recruit new candidates and advance current candidates.

'80 ERM LEPLEY, MBA '80, writes, "My wife, Peggy, and I are still living in Charlotte, North Carolina. I have been working in Tampa, Florida on a special project for Price Waterhouse, since June 1. Peggy is now working as an account representative for Fringe Benefit Review, a group health and life insurance brokerage and consulting firm. I was promoted to senior tax accountant in July, and passed the CPA exam on my first try in May 1981. My old roommate, Glenn Morino (MBA '80) is recovering from a recent operation and is staying with his mother in Long Island, New York. I'm sure he would appreciate hearing from some of his old B-School buddies."

BRIAN M. BLAUVELT, MBA '80, was transferred in May 1983 from Minneapolis to Seattle as a senior technical sales representative for Exxon Chemical Americas, to take over all field sales activities for Exxon's United States fertilizer business. He writes, "Although the product and assignment are not at all what I expected to be doing with my MBA, the job is very interesting. Things are always changing and I travel a lot, mostly in the northwest quarter of the U.S. At any rate, it is an enjoyable stop along the career path."

'82 SANDRA A. BEACH, MBA '82, currently works as a sales representative for Rubber Chemicals and Dyes for American Cyanamid Company. She writes, "After completing one year as a planning analyst for the Cyanamid Chemicals Group, I (along with several other Cyanamid hired MBAs) was transferred to a line position, the next step in Cyanamid's program for MBAs."

Ph.D. Notes

After 16 years as a professor of finance, associate dean, and director of the MBA program at the University of Minnesota, ROGER UPSON, MBA '61, Ph.D. '65, was appointed chief financial officer of Park Nicollet Medical Center in Minnesota. Park Nicollet is a 240 physician group practice in Minneapolis.

WILLIAM H. PETERS, MBA '66, Ph.D. '68, was recently named dean of Kogod College of Business Administration at The American University in Washington, D.C. An item in the winter issue of *Collegiate News and Views* reports that before joining The American University, William served as dean and professor of marketing for the School of Business at the University of Louisville. He has also worked with AT&T, American Cyanamid Company and Pfizer, Inc.

JAY E. KLONPMAKER, Ph.D. '73, has been named associate dean for development and corporate relations at the University of North Carolina at Chapel Hill's School of Business Administration. Jay has worked closely with business organizations as director of the Young Executives Institute, the business school's development program for middle managers. He has taught in both executive and academic programs and was voted outstanding teacher in the Young Executives Institute in 1983. In his new position, he will have the overall responsibility for development, alumni relations, placement and communications. Jay joined the USC-CH faculty in 1972.

Please Tell Us About Yourself

We would like to include more news about alumni in *Dividend*, and hope you will help by providing us with information about yourself. We'd like to know where you are working, and other news about you, such as promotions, new business ventures, any business or academic honors, authorship of books or articles, or other information that would be of interest to alumni. If you would take the time to fill out the form below and send it to "Pringle Smith, Editor, *Dividend Magazine*, Graduate School of Business Administration, University of Michigan, Ann Arbor, Michigan 48109," we would very much appreciate it.

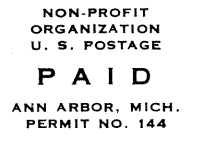
Name: _____ Degree(s) and Class Years: _____

Business Position: _____

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Study of U.S. and Japanese Auto Industries

Continued from page 24

to compete and produce a better product for the customer; ongoing government and industry communication; discussion about current trends and future problems, plus continued attention to the issue of international competitiveness."

In order to provide effective support for industry, the researchers say that government must engage in sound macroeconomic policies that stimulate cost competitiveness, encourage strong domestic economies and exchange rates that foster reasonable balance in overall trade relationships.

The report concludes that international competition and the need to streamline operations prevent the hiring of many of the remaining laid-off auto workers in the United States; this has additional bearing on government input: "Public policy to aid re-employment should be examined, as should regional policy to redevelop areas dependent on the automotive industry." For example, the researchers contend that trade adjustment assistance would be more effective if it were used to retrain employees and not simply to augment unemployment insurance.

"Both Europe and Japan provide several models of public-private cooperation in such programs that merit serious investigation," the researchers note.

These statements are included in a commentary on "Public Policy," one of eight major issue areas the report identifies. The other seven are: global economic policy,

monetary exchange rate, market access, technological progress, manufacturing cost differences, manufacturer-supplier relations, and human resource management.

The researchers further advise more attention to problems posed by exchange rates that have been heavily skewed by large capital flows in recent years. Both Japan and the United States need to work toward more complementarity in their monetary and fiscal policies. This involves coordinating their monetary and fiscal policies to avoid exchange rate relationships that distort trade. The U.S. must work toward reduced budget deficits, and the Japanese government should be encouraged to establish conditions that will enable the yen to play a major role as a key international currency. This involves further financial liberalization measures including "the freeing of Japanese capital markets for access by foreigners as well as Japanese institutions," the report says.

Such cooperative economic revisions are preferable, the researchers contend, to government imposition of policies which insulate individual markets.

"Specific 'auto policies' cannot offset the deficiencies of basic economic policies that produce chronic stagnation," they write. "When protectionist measures are deemed necessary, they should contain an explicit schedule for their dismantlement in order to insure that the industry accepts the inevitability of the need to adjust to competitive forces."

The researchers stress that even with the total removal of import barriers in the Japanese market, "... it is unlikely that there would be a significant increase in U.S. automotive exports to Japan in the near future. Transportation costs, development costs for products suitable to the Japanese market, the cost of producing for the Japanese market, the existence of productivity differentials of some magnitude, an overly strong dollar, and lower labor rates all make it clear that American cars are not currently competitive in the Japanese domestic mass market." For this scenario to change over the long term requires positive and persistent efforts on the part of U.S. auto makers.

Nevertheless, on policy grounds, it is important that the Japanese continue to remove barriers to imports, according to the report. It suggests, for example, that government action to introduce foreign cars into their auto procurement policies would be seen as an important symbol for such efforts.

"While Japan is not likely to become a major importer of finished vehicles, there is a potential for importing more components and raw materials," the report continues. "This outcome requires strenuous efforts on the part of the Japanese to overcome past barriers as well as efforts on the part of foreign suppliers to meet specifications."

Funding for the U.S.-Japan auto study was drawn from multinational sources, including both private and government institutions.