Real Estate Forum / The Post-Reagan Economy

Dividend

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THE UNIVERSITY OF MICHIGAN
SCHOOL OF BUSINESS ADMINISTRATION
ANN ARBOR, MICHIGAN 48109-1234

Gilbert R. Whitaker, Jr.
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Dear Alumni and Friends,

We are all delighted about the new Jack D. Sparks/Whirlpool Corporation Research Professorship in Business Administration which has just been established. The professorship was presented to Sparks as a surprise by the Whirlpool Foundation at a black tie dinner in Benton Harbor on the occasion of his retirement. We are very grateful for this professorship which will help our faculty keep at the "state of the art" in knowledge creation.

This year we have held several conferences and forums which have brought us lots of visitors. Stephen Ross, who has endowed our first chair in real estate, was here for our first Real Estate Forum, along with Ira Harris and Dan Rostenkowski as well as Sam Zell, Leanne Lachman and Ron Weiser. Then the Forum on the Post Reagan Economy brought Allan Gilmour and Martin Zimmerman back to campus. Martin, as you may recall, was chairman of our business economics department before going on leave to become chief economist for Ford Motor Company. The Forum generated a lot of interest, coming as it did less than two weeks after the October market meltdown. And speaking of the meltdown, the J. Ira Harris Center for the Study of Corporate Finance sponsored a Forum about what happened during Black Monday, with experts from various fields here to talk to students in a three hour panel discussion that covered everything from program trading to the twin deficits.

I´d also like to mention news about some of our professors who have been so meaningful to generations of students. Bill Paton was honored as the Educator of the Century by the AICPA at their annual conference. In his honor, we have started a Paton endowment fund which joins several others. You are probably already familiar with the establishment of funds to honor Bill Pierpont and Paul McCracken. Another one in honor of Jim Pilcher has also now been established. And while we are on the subject of well loved professors, the executive lounge in the Assembly Hall has now been renamed in honor of D. Maynard Phelps. Maynard would not let us have a party to celebrate this event, being too modest for such a celebration, so we had to content ourselves with taking his picture in front of the lounge with its new name (see p. 42).

We have been having some exciting discussions lately with alumni, friends and faculty about the future of the School and some strategic planning. In my next letter, I´d like to share some of those ideas with you.

Sincerely,

Gilbert R Whitaker Jr

Gilbert R. Whitaker, Jr.

Dividend

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About the Cover
Winter on the Diag can be very beautiful, as this picture by Phillip T. Dattilo shows. Photograph Copyright © 1988 by Phillip T. Dattilo.

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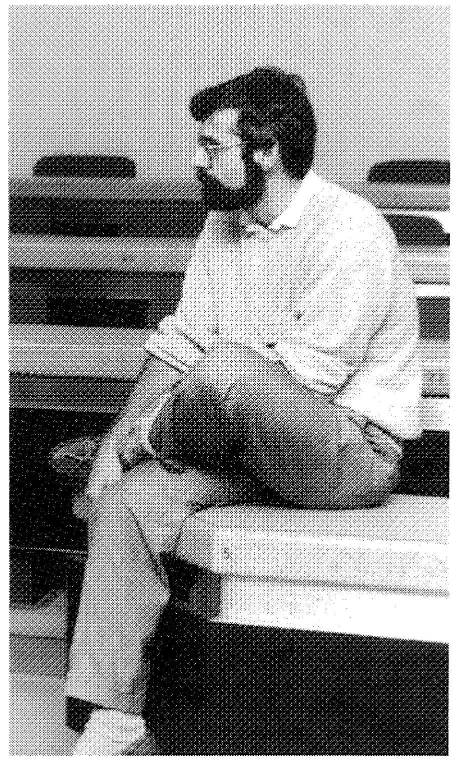
The Real Estate Forum

David S. Hooker, district sales manager of Mazda Great Lakes in Grand Rapids.

Stephen Ross, BBA '62, founder of our new endowed professorship in real estate.



Philip Schoenberger, partner in The Investment Group, Washington, D.C.

Since many of you were not able to come to our first Real Estate Forum, we are bringing part of it to you in the pages of *Dividend.* Here are pictures of a few of the people who attended, and on the following pages, you can read some of the lively speeches and discussions that were held during those two days. The Forum was received with such enthusiasm that we're planning to do another one next year on October 7th and 8th, the weekend of the MSU game. If you want to be on the mailing list to receive notice of the program, please fill out the postcard provided on the back cover of this issue.

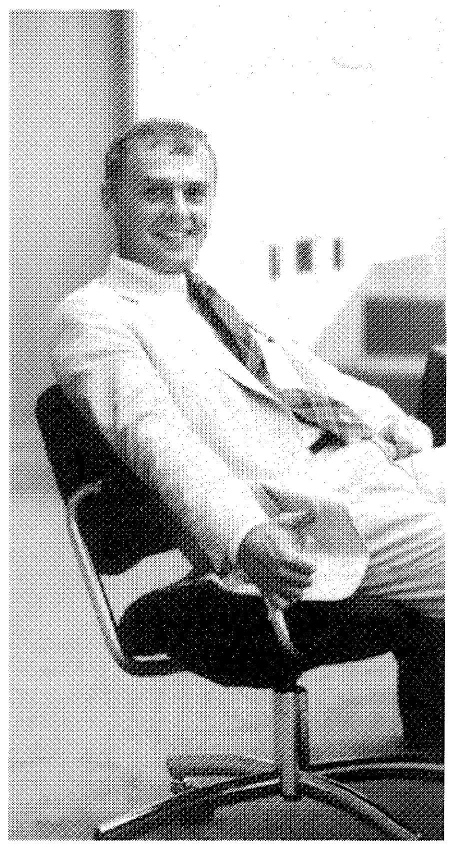
The program began with an informal session called, "Where are you and what have you been doing?" About 70 participants gathered in Hale Auditorium to exchange information about who they worked for and what challenges they saw facing them in the real estate industry.

Following the introductions, small "breakout" groups explored different aspects of real estate. There were sessions on "Waterfront Development," sponsored by Laventhol and Horwath; on "Financing Trends," sponsored by Continental Illinois National Bank and Trust and Citicorp Real Estate in New York City; on "Shopping Center Trends," sponsored by Landau & Hayman, Inc. of Chicago and The Investment Group of Washington, D.C.; on "Recent Development Deals That Work — After Tax Reform," sponsored by Trammell Crow in Memphis, Detroit, and Washington, D.C.; and on "Careers in Real Estate," sponsored by Russell Reynolds of Chicago.

A highlight of the dinner following the sessions on Friday was the announcement of the Stephen M. Ross Professorship in Real Estate that has just been established at the School. Stephen Ross, BBA '62, president of The Related Companies, Inc., New York, was at the Forum, and is pictured above.

The Real Estate Forum was inspired and developed by Peter Allen, MBA '73, president of Peter Allen Associates, Inc., and adjunct professor of real estate.

Photos by D. C. Goings



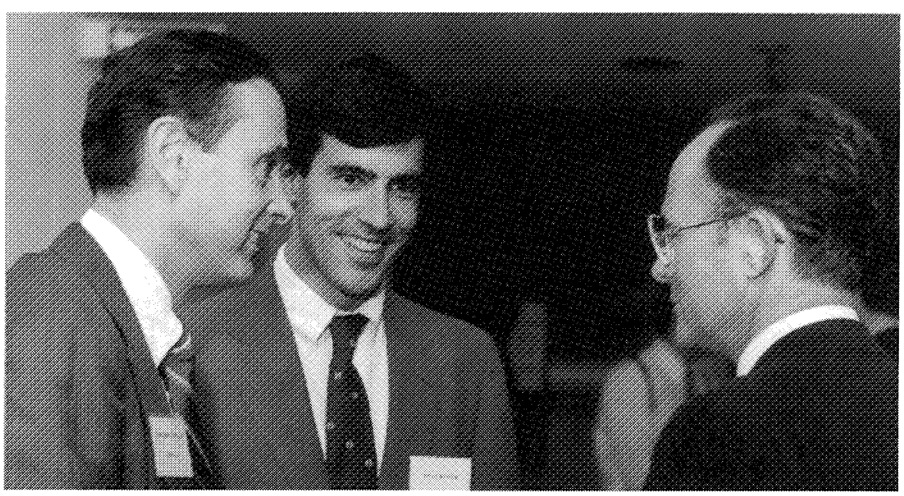
Peter Allen, MBA '73, who inspired and developed this first Real Estate Forum.

Judith Bailey, MBA '82, assistant vice president, NBD Mortgage Company in Troy, Mich.

Lewis Kasselman, vice president/branch manager of Cushman and Wakefield of Michigan.

Suzanne Upton, MBA '87, real estate associate at Continental Bank in Chicago, and Scott Inbinder, MBA '86, investment analyst at Heitman Financial in Chicago.

Dru Richards, MBA '82, financial manager at Trammell Crow Company in Washington, D.C.



Left to right: Chris O'Donnell, vice president of Continental Bank in Chicago; Peter Kostishak, BSE '74, MBA '80, vice president, Lautrec, Ltd. in West Bloomfield, Mich.; and Win Cooper, BBA '58, MBA '59, owner of W. L. Cooper–Realtor in Port Huron, Mich.

Peter Klein, MBA '80, sales and co-op conversion analyst, MJR Development Corp., New York.

Remarks by Dan Rostenkowski, D-Ill.,

Revenues, the Deficit,

"The hardest thing that happens in Chicago is to find someone silly enough to run against him," said J. Ira Harris, BBA '59, when he introduced Dan Rostenkowski, D-Illinois, to a standing-room-only crowd in Hale Auditorium, Sept. 12, at the Real Estate Forum.

As Chairman of the House Ways and Means Committee, Rostenkowski, who was elected to Congress in 1958, and has been re-elected ever since, has jurisdiction over federal taxes and more spending in the government than any other government agency, the sole exception being the Defense Department.

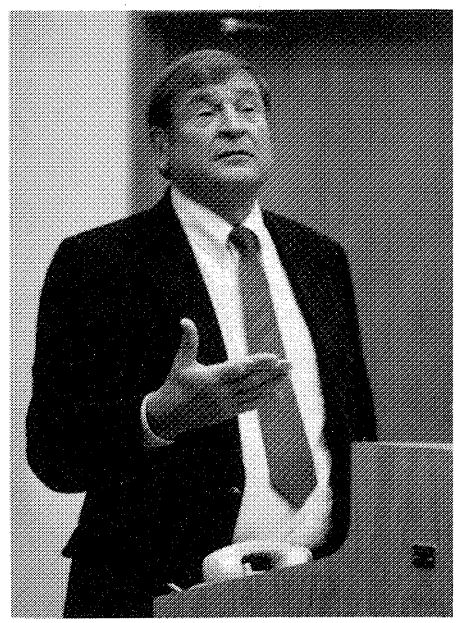
His Committee has authority over Social Security, the hospital portion of Medicare, and welfare spending. In addition, it is deeply concerned with trade reform and welfare reform. Without question the Committee plays a central role in the government's budget process and — as such — has an enormous effect on the lives of all American citizens. He is also chairman of the Joint Committee on Taxation.

Rostenkowski has been called one of the three most important and powerful men in Washington on budget matters, the other two being the Chairman of the Senate Finance Committee and the President of the United States.

In his talk, which preceded a lengthy question and answer period, Rostenkowski spoke earnestly about the economic issues facing the nation, particularly the huge deficits.

"What I'd really like to do today," he said, "is give you a perspective of how things happen on Capitol Hill. One economic issue today is the enormous budget deficit that confounds us when we try to get it under control. My #1 priority at the moment, and it's a big priority, is to try to force the President, that popular fellow down at 1600, to confront the issue of needed revenue increases.

"The history of major tax legislation is one of Republican presidents cooperating with a Democratic Congress. The exception to this rule of cooperation was in the 1981 tax bill. The Congress got rolled by the President on that bill and it resulted in a $900 billion drain on the Treasury. That is the largest contributor to what is our current deficit problem.



"Imagine trying to convince the American people that Ronald Reagan is

"Since that time, however, we have worked with the President and developed several revenue bills. The 1982 and the 1984 deficit reduction acts raised taxes and were signed by the President. In 1982, he signed a gas tax increase. In 1983, he signed legislation increasing Social Security taxes.

"When I'm asked today if I believe Ronald Reagan will raise taxes, I'm reminded of the farmer who was asked by the preacher if he believed in baptism? 'Believe in it?' the farmer replied, 'I've seen it done.' Well, when it comes to President Reagan and raising taxes, I've seen it done. He has signed tax bills — now this might come as a surprise to some of you, — he has signed tax bills totaling over $500 billion dollars over 5 years.

"The tax increases since 1981 have been signed by the President for two reasons — very important reasons. One, they were necessary to achieve important policy goals: deficit reduction, improvements in the nation's highway system, and the long-term solvency of the Social Security system. Two, they did not threaten the President's primary tax policy, which was lower tax rates.

"The 1982 and the 1983 Tax Acts had common characteristics. They included base broadeners, they included loophole closers, and provisions making the code fairer. They included user fees, and some excise taxes. By not attacking what Ronald Reagan wanted most — lower rates — we were able to repeal the worst of the 1981

Chairman of the House Ways and Means Committee

and Plain Fair Dealing

the biggest deficit spender in history."

business cuts, reduce the deficit, and make Ronald Reagan a part of the process.

"If you think it could have been done in any other way, imagine trying to convince the American people that Ronald Reagan is the biggest deficit spender in history. He is, you know. The total federal debt has more than doubled during this administration — over 2 trillion dollars. Not once has the President submitted a budget that was even close to being balanced, but the American people just don't believe it.

"Better yet, try to convince the American people that Ronald Reagan is the biggest peace time tax raiser in our history. He is that too. He has signed legislation raising $500 billion dollars in taxes over 5 years. His own budgets have recommended $220 billion dollars in new taxes. But again, the people just don't believe it.

"So, where does that leave us? We have to face the fact that deficit reduction means new revenues. More importantly, we have to make Ronald Reagan face that fact. If we can develop a tax bill that meets the deficit reduction goals of the budget resolution, and is consistent with the policy of lower rates, then we force the President to confront the deficits squarely.

"Ronald Reagan is a formidable opponent even when he's wrong, and he is wrong when he says we don't need new taxes to reduce the deficit. But wait until you see him when he is right! And on the issue of not raising the rates, in my opinion, he is right, and he'll have the people behind him.

"Tax reform, as we put it together, promised two things: lower rates in return for the repeal of tax preferences, and stability for the business community. We have had four major tax bills in the last five years. While the deficit demands yet another major tax bill, the need for stability argues against disrupting the 1986 Act, and plain fair dealing should shame us, the Congress, from trying to change the rate structure of that act.

Now I'll take questions.

Q. *What about a constitutional amendment to rectify the deficit problem?*

A. Oh, I don't think you'll see that. There are so many ramifications to a constitutional amendment with respect to how the individual states would be treated. We're not states. We're a nation with complexities all over the world, and I just think that we'll need that latitude.

Q. *How soon do you think the budget can actually be balanced?*

A. We've got a target of 1992 for a balanced budget, but that's a very bold statement.

Q. *What ever happened to tax simplification as a part of tax reform?*

A. We took 6 million people off the tax rolls. That's awfully simple. When we bring fairness into the code, it doesn't simplify the code. I think we put simplification in only because it's a good catch word. But there's no tax that's simple unless its excise taxes. And I think this audience should be more concerned with the Federal Government getting involved in excise taxes than anything else, because it's so easy for the legislator to stick a half a penny on, or a penny on. It is an easy way for us to create revenues.

Q. *This is a real estate forum and you've been given a lot of credit for preserving the rehabilitation tax credits in the tax bill last year, which I thank you for. Are you going to be able to protect those, or expand those?*

A. That's one of my favorite projects. I live in the inner city, and we lose so much character in a community when we take down the old building that is so pretty and put up a high rise. I wasn't as successful as I would have liked to be, but, yes, if I've got a pet, it's the rehabilitation tax credit. I would like very much to expand on it if I can.

Q. *Could you comment on how the Tax Reform Act may change people's investment decisions in real estate?*

A. I have, I think, a covenant personally with the people that supported the reform "act." All I heard from real estate people was "write the rules and leave us alone. We don't care whether they adversely affect us or whether they don't, but leave the rules alone so we can plan into the future." I would very much like to leave the code alone for as long a time as possible so that we can't adjust it, and so that the business community can plan into the future.

by Ron Weiser, BBA '66,

In a Changing Environment,

I'm pleased to have the opportunity to discuss with you this morning some of the current problems and future opportunities of the real estate industry.

As you know, real estate developers, managers, and investors are continuously facing changing conditions in the real estate market. We have demographic changes, which Ms. Lachman highlighted in her comments. They are one of several conditions that real estate investors must consider in developing effective investment strategies for the future. The demographic changes today are dramatic, and are indications of a continuing broad trend.

As a member of the soon-to-be-gray-haired baby boomers, which my barber actually says I've already joined, I'm convinced that we will have increased interest in certain types of real estate, namely: in-city condominium units, apartments for retirees, rental housing for single and childless couples, and a trend toward nursing and congregate care housing as a result of our aging population.

There are several other factors that are currently influencing the marketplace. European and Japanese money has flowed freely into the U.S. in recent months and into the real estate markets, largely because the foreign marketplaces are overpriced when compared to the U.S. However, this influx of funds could be reversed just as quickly as it's come. The Tokyo Exchange has been especially volatile and any steep drop could set off a withdrawal of foreign capital from America, which could dramatically affect our stock and bond markets. This would have an immediate impact on interest rates and, in the long run, could cause a huge withdrawal of capital from the commercial real estate marketplace.

The Tax Reform Act of 1986 significantly changed the tax rules regulating real estate ownership. These changes require that new investment strategies be applied to virtually all transactions, including the development, acquisition, operation, and disposition of real estate. Real estate ownership is now strictly an investment decision based upon economic considerations as opposed to income tax benefits. Two major tax benefits previously enjoyed — namely, the opportunity to defer income tax payments and

"The structuring and marketing of public and private real estate investments has already changed dramatically. . . . Real estate ownership is now strictly an investment decision based on economic considerations as opposed to income tax benefits."

Chief Executive Officer, McKinley Associates

Do What You Do Best

the opportunity to convert ordinary losses into favorable capital gains — have been eliminated. Cash on cash returns are now the primary goal of most real estate investors.

The magnitude of these changes requires that real estate developers, owners, managers, and investors must reassess their organizational strengths and match them to the needs of the marketplace. The key strategy for all of us is "do what you do best."

Developers face an oversupply of offices and shopping centers in most areas. However, if they look in other marketplaces, they will find that certain real estate is still in short supply, including: a ready demand for multi-family housing at rental rates that make sense, a continuing need for congregate care or retirement facilities for the aging, and a growing need for warehouse and commercial distribution facilities.

Owners and managers must emphasize on-site management expertise to maximize the value of their properties. The properties must be well maintained and serviced to stay competitive in the marketplace. Real estate investors will now demand that investment opportunities either be seasoned properties with current cash flow or new construction with developer guarantees of net operating income and fixed construction costs. Cumulative cash flow distributions to the investor and return of capital, plus some appreciation factor, will take priority over fees and incentives to the sponsors. These are just a few of the basic strategies that we at McKinley Associates are emphasizing with our property and investment managers.

Now I would like to summarize some personal thoughts and opinions — in other words, my wild guesses on what I expect in the future for the real estate industry.

1. Real estate markets are still healthy overall. The reduction in interest rates will more than offset the increases in building costs, plus the loss of tax benefits. For instance, a property with a 9½ percent mortgage and no tax benefits will probably in the long run outperform a property with a 13 percent mortgage and significant tax benefits. This is better for the developers, the owners, and the investors.

2. Joint ventures between investors and developers will be commonplace. Developers will work carefully to control construction costs, having personally guaranteed their performance to the investor. They will receive a larger share of the upside appreciation in cash flow when they outperform investor priorities. Guarantees of cash flow during the construction and lease-up periods will be standard.

3. Mature, well-maintained, income-producing properties will be in even greater demand. I expect rents to increase as markets tighten, keeping returns on real estate competitive with other investments.

4. Property management will be more important for profitable real estate investment. In many cases, the availability of good property management will be a key factor in the acquisition decision.

5. Institutional investors, pension funds, foreign investment trusts, and insurance companies will significantly increase their investment in real estate as returns increase. If inflation returns to levels of six percent or more, institutional money will be channeled into high quality, multi-family projects as they seek to hedge against inflation.

6. The structuring and marketing of public and private real estate investments has already changed dramatically. Syndications must now be customized to investor needs, with the developer and syndicator reducing previously enjoyed profit margins. Historically at McKinley, in structuring private syndicated real estate transactions, our fees have ranged between 7 and 10 percent of the capital raised. This compares to larger organizations where normal fee structures and SAIE commissions range between 15 and 30 percent. We expect these fee structures to be reduced as investors demand higher current yields.

7. More all-cash deals will appear in the marketplace. This will occur as a result of the growth in investor demand for a steady, assured cash flow. Demand for cash flow and an inflation hedge will come from

the bulging IRAs, KEOGHs, and personal pension plans of many investors. The increased syndication of participating mortgages will be another result of this demand.

8. Real estate will probably enjoy more favorable tax treatments in the future. The elimination of the favorable capital gains rates by the Tax Reform Act of 1986 makes no sense. Congress anticipated raising more revenue by increasing the rate from 20 to 28 percent. What will probably happen is that capital gains revenue from real estate will fall significantly. Capital gains transactions are voluntary. If the tax rates are too high, real estate investors will choose to keep assets. The freezing of assets will slow the growth of the economy and impede capital formation. Already there has been some support for a capital gains rate of between 9 and 20 percent. Where else could Congress actually increase revenues by instituting tax cuts?

Finally, as it relates to my own company, McKinley Associates, the Tax Reform Act of 1986 has been a blessing in disguise. It is eliminating competitors who were offering tax deals that had no economic substance whatsoever. A sound economic project no longer has to compete with a bells and whistles tax deal for investor retention. Too often the quick-fix tax deal was more attractive to the investor than the good real estate investment with long-term potential. We at McKinley will continue to do what we do best: namely, to seek out quality properties in local markets and to provide experienced property management and partnership management personnel who can maximize both current cash flow as well as long term appreciation.

About the author: Ronald Weiser founded McKinley Associates in 1969. It is a diversified private real estate and investment banking company which has formed and manages over 150 investment partnerships comprising over one billion dollars of property. It employs nearly 600 people and has its headquarters in Ann Arbor.

by M. Leanne Lachman

Demographics: Changing

"Hotels are the most overbuilt land use today — far worse than offices. One out of three hotel rooms in America is empty every night."

I think it's important for people interested in real estate to be aware of demographic shifts that are underway now and will become more evident in the '90s. Astute property managers, developers and redevelopers, and acquisition and disposition strategists are always looking ahead to envision future tenants and orient properties to their needs, so let's look at the characteristics of real estate users.

During the '90s more than half the American population will be over 35 and three-fourths of that group will be between 35 and 64. The median age today is 32, and we are rapidly moving toward 40. This affects real estate in several ways.

First, with half the adult population entering their highest earning years, retail purchasing levels will go up for clothes, electronics, convenience foods, upgraded home furnishings, jewelry, leisure equipment, diet foods, and so on. The greater spending power will support new malls as well as renovations of existing centers, and the decor and atmosphere in shopping centers will be geared to mature shoppers. Forget about the mini skirts; we're already seeing older models on TV and in magazine ads, and they will become more familiar.

Tempering the prospects for shopping centers will be the much larger proportion of out-of-store retail sales. As of a year and a half ago, direct marketers were skimming off 14 percent of retail sales, and some experts predict that by 1995, one-third of all retail

Managing Director, Schroder Real Estate

the Real Estate Equations

sales will occur through mail order catalogs and TV sales.

In about 70 percent of today's households, no adult is home during the day to shop. So, ordering by mail appeals to working people, as do later hours in retail stores, knowledgeable sales personnel, and convenient one-stop shopping. People with little time want to buy what they want when they want. If retailers don't adapt to those shopper preferences, the catalogs will seriously erode in-store sales. Some smart retailers are already offering to order and ship out-of-stock items when you're in the store. Some even have computer terminals within the stores, so that customers can use their charge card or their Visa and order directly. The feeling is, "better to get the sale than have it go to a mail order house."

A second real estate impact is that the higher travel expenditures of an older population will at least partially bail out our overbuilt hotel situation. Hotels are the most overbuilt land use today — far worse than offices. One out of three hotel rooms in America is empty every night.

People over 50 already dominate the pleasure travel and tourism market. They are traveling more, often in groups, staying longer, and spending more. This is good for the resorts with the sense to cater to mature patrons. There will be more older travelers in the '90s and they will be supplemented by affluent people over 35, mature singles, and the so called DINKS — dual income, no kids households.

The DINKS and singles have much higher disposable incomes than their counterparts with children, and they like to travel. We're going to see more experiential resorts, sort of mainstream Club Meds where both working and retired people can commit to packaged relaxation and diversion. Entertainment is increasingly important in resorts, just as it is in shopping malls. Chris Hemmeter has been creating Disney-style fantasy resorts in Hawaii that command consistently high occupancy at very fancy rates. Now, he is starting projects in Southern California as well. Las Vegas is the same kind of destination vacation spot, and we're going to see more and more adult resorts.

A third real estate impact is on housing. The market in the '90s will be dominated by older boomers who want bigger or at least better housing units. The essential criteria will be prestigious neighborhoods that are proximate to services, to schools for those with children, and to jobs. Remember that 75 percent of baby boomer women work, which means that commuting convenience is an issue for both adults in the household. And without those second incomes, these couples could not afford the apartments and the houses and the furniture and the appliances that they want. So, catering to the two wage earners is very important in location and marketing.

The housing market is far more diverse than has been true historically. Adult housing will be built in a variety of forms over the next ten years: apartments, including rental retirement projects; condos for empty nesters and never-marrieds more than for first-time buyers; and single family homes for both child-oriented and non-child-oriented households. Interest in second homes will grow with the merging of three key factors — a maturing population, affluence, and tax benefits. As people get used to the tax law and settle into their upgraded primary homes, we're likely to see a real boom in recreational housing.

Another aspect of the overall maturation is rapid expansion of the group that includes parents and grandparents of baby boomers. The ranks of the elderly are increasing faster than any other age cohort. Most people are not aware that the typical elderly person is no longer poor and the future elderly will be downright affluent. Also, seniors are actually better protected from inflation than the working population. Half of today's households of age 70 and over can afford market rate rental retirement housing. These are units renting for $750 to $2,500 a month and offering housekeeping services, one or more meals a day, recreational services, transportation, and some health care, and they're geared to households that need or anticipate needing some assistance to continue living independently.

When you combine the elderly with the middle-aged market, you really have a huge mature population to serve. By and large, these are people who can afford to demand the services they want. This is not going to be as faddish a group as the "jeans crowd" to which we've become accustomed. The more mature buying public will be discriminating and they will look for quality.

A few other demographic trends are also worth noting. Child care is a big issue. When Fortune magazine's cover worries about who's taking care of the children, we know that business is starting to pay attention. In the '90s we're going to see more day care centers as amenities in industrial and office parks with the cost shared by the business tenants. In fact, John O'Donnell, in Southern California, puts a day care center in all of his business parks of over 40 acres. Furthermore, he says, they're his highest profit centers.

The Deerwood Center, which is a 400-acre industrial park in Jacksonville, features a day care center for the project's 6,000 employees. Copley Real Estate Advisors, which do joint venture development for pension funds, say that day care centers are rapidly becoming standard amenities. San Francisco now requires developers to set aside space for day care or contribute to a general fund for in-town child care. In Concord, over on the East Bay, developers of non-residential projects have to set aside one-half of one percent of the development costs to meet local child care needs. Los Angeles, Dallas, and Madison all have adopted approaches to stimulate formation of day care. This kind of legislation is attracting attention, but I don't expect many cities to follow the Northern California examples. Nonetheless, provision of day care centers will prove to be good business for individual companies and for many real estate owners and developers.

The other side of the children question is also instructive. Households without children tend to be the ones with higher incomes — 20 percent more on average. The spread is even wider for disposable income: about 85 percent of childless couples draw two paychecks. Those are the folks eating in fancy restaurants, traveling, buying clothes and home furnishings in upscale stores, and spending on entertainment. Childless couples have a high propensity toward rental housing, and many are attracted to in-town living.

"Some demographers project that two to three times as many of today's young adults will remain single as in the last generation. Between 1985 and the year 2000, non-family households are projected to grow by 34 million."

Some demographers project that two to three times as many of today's young adults will remain single as in the last generation. Between 1985 and the year 2000, non-family households are projected to grow by 34 million, which is up 40 percent. Again, many singles are healthy spenders and they're predisposed toward rental housing as well.

Everybody is trying to market to the higher income crowd and it's a rapidly expanding group. However, we can't forget all the other households. Children have to be fed and clothed, too. So there are attractive opportunities for moderate income and discount stores. The retail market is increasingly bifurcated. There is the high end and the price sensitive end and a great deal of confusion for the retailers in between.

America's labor force will change in the '90s. Some of the effects are already visible. Fast food chains, hotels, and retailers are having trouble finding teenagers to work at minimum wage. Companies are now looking to retirees to help fill the labor shortage. We are seeing labor costs rising for hotels and retail stores. Immigrants are not providing substitutes in most locations because they're disproportionately concentrated in California and Texas, followed by New York, New Jersey, Chicago, and Miami.

Demand for office space is dropping significantly with the slower growth in office prone employment. Although they use different approaches, both Real Estate Research Corporation and David Birch at MIT project annual growth of 1.7 percent in office employment between now and 1995. That's half the rate of the '75 to '85 period, which translates into half as much new office construction needed after the current surplus is absorbed.

Many people are predicting that early retirement won't be encouraged as freely in the '90s. And, finally, immigration policies may have to be loosened up in the latter '90s to ease labor shortages.

Clearly, the aging of Americans presents more opportunities than problems. On average, we have a more mature, better educated, healthier, and wealthier population that is, for the most part, employed. However, real estate has to be carefully targeted to this population because the consumers are discriminating and will summarily ignore projects that don't meet their needs. This means that the demand side of the real estate equation is going to be more and more important.

About the author: M. Leanne Lachman joined Schroder Real Estate, New York, in early 1987 as managing director with primary responsibility for strategic planning and marketing. She formerly served as president and CEO of Real Estate Research Corporation, where she performed market analyses and provided acquisition and disposition advice for Fortune 500 companies, pension funds, real estate organizations, and government agencies.

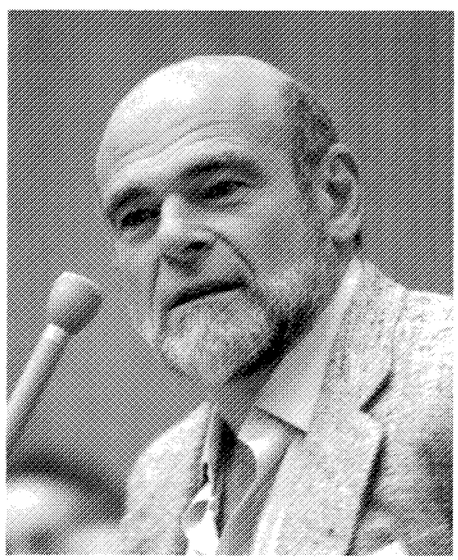
End Game: The Crest Has Passed

by Sam Zell,
Chairman of the Board,
Equity Financial Management Company

I think the real estate business is now in the end game phase. Ten years from now the business that we know today as real estate is going to be dramatically different, dramatically smaller, dramatically less relevant to the future of the U.S. economy.

We are looking at zero population. We are looking at the end of the conversion from manufacturing to office. One of the most interesting sets of numbers I've come across compares the amount of square feet of office space built in Chicago from 1945 to 1965 — 20 years — with the amount of office space we built in Chicago in 1984. Believe it or not, we built more office space in Chicago in 1984 than we built in that entire 20-year period — which was a period of tremendous population growth — much bigger population growth than we've seen in the '80s. A lot of the office space that has been built today all over the country will never be occupied for the use that it was originally intended. We were building for a change in the way our society functions, the way our economy works, and that change has been almost completed.

We have just completed an extraordinary orgy of construction in this country. We have overbuilt every market — office buildings, shopping centers, parking projects, hotels. M. Lachman told you that every night one third of the hotel rooms in the United States are empty. What she didn't tell you was that *at a minimum* one third of the hotel rooms in the United States are empty. We have these wonderful, wonderful hotels that are built all over the country, one next door to the other. I remember going to Denver on a motorcycle trip a year or two ago and I got up at six o'clock in the morning to see the sunrise. We rode out to the edge of town and there it was — we saw the sunrise over the horizon through six empty office buildings.



"We're losing options, and as we lose options, we are faced with dealing with our past follies."

The occupancy of the real estate that is under construction or completed today is going to take a lot longer than anybody really believes. We're going to come up with new definitions of absorption rates.

You know, we are all optimists. This country has been very lucky. In the past when we've had oversupplies, we've been able to do one of two things. We could either outgrow or we could inflate them. Either way, the result was we filled the space.

In the '80s and in the '90s, the population is not going to outgrow, and since we can no longer control the cost of our funds and the availability of our funds, we can no longer unilaterally reflate as Jimmy Carter did in '77, without regard to the rest of the world. The minute we expand the money supply and start debasing our currency, unfortunately (or fortunately, because it is a new level of discipline), the world markets deflate the value of our currency.

Twenty years ago when you turned on the radio in the morning you'd hear about the price of wheat; you'd hear about how many cows got slaughtered at the local whatever it was. And what do you hear today? Good Morning, America, the dollar is down, gold is up, interest rates are this: these are all numbers, these are all relevant facts that didn't influence our lives 20 years ago, and today influence it every day.

What it really means is we're losing options, and as we lose options, we are faced with dealing with our past follies. It is going to take a long time to recover from the current oversupply of space. Rather than a shortage of congregate-care facilities, or apartments, or even employees, what there's really a shortage of is *tenants.* And that shortage isn't going to change. Everybody is sitting around saying, "Boy, isn't it terrific, the Japs have come and they're bailing us out. They are buying all these buildings." But you guys don't understand what the Japanese are buying. They're not buying brick and mortar, they're buying *leases.* They're buying existing, committed, credit-worthy streams of income that happen to be housed in brick and mortar. That's dramatically different than in the '70s when you bought brick and mortar because you anticipated riding on its inflationary expectations.

We're going to look at a very different real estate community in the late '80s and '90s than what we see today. We're going to see dramatically lower capitalization rates — that is, the yield an investor will get or is offered for his money. Ten years ago that capitalization rate might have been 10 percent. Today it is about 6 percent. Five years from now, the capitalization rate from high-quality real estate is likely to be 3 percent, almost without regard to inflation or any other macroeconomic scenario short of a recession.

Even in a recession, I believe you will see a continuing reduction in capitalization rates or increasing price-value attached to brick and mortar because there is going to be a shortage of it. Not a shortage of brick and mortar *empty* — a shortage of brick and mortar *full.* In other words, a shortage of investment opportunities within real estate.

Historically, shortages of investment opportunities, as our friends on Wall Street have shown us, can quickly, radically, and irresponsibly be solved by throwing money at them. This time around, you're not going to be able to throw money because you aren't going to be able to develop the tenants to service the money being thrown.

"Any time you separate risk from reward: any time the guy taking the risk ain't the guy underwriting it, it comes back and it comes back in spades."

In the '70s people bought real estate and expected inflation to increase the value. Often the definition of a successful investment was did it keep up with inflation? I believe in the future we're going to see real estate outperform inflation. We're going to measure a quality real estate investment by the spread that it generates over the inflation rate, not whether it kept up with the inflation rate.

Overall, we're going to see a dramatically smaller real estate industry. You think about the word "vacancy." There is no vacancy rate in housing almost anywhere in the world except here in the United States because we have had the economic substance to take assets and quote, unquote, put them out in the market non-producing — vacant — but that kept the price level overall reduced and therefore benefited the overall economy. I do not see us being able to take those kinds of assets and let them sit fallow from this point forward. I think that as current oversupply begins to be absorbed, we will see less being built.

We're going to see a lot of the follies of this particular period come back home to roost. All those wonderful strip shopping centers that were created by virtue of the fact that there was demand for them to be *bought,* not demand for them to be *used,* are going to come back to haunt lending institutions.

We're probably going to look at 60 to 80 billion dollars of loss that the U.S. real estate market is going to be responsible for. This is going to make future real estate financing much, much, more difficult. Securitization has the potential for a disaster scenario. All we need to do is get some securitization of commercial mortgages, where we are attributing triple-A credit to non-creditworthy tenants in order to sell paper to people who don't know what the paper represents or what it is backed by, and we'll have a couple of disasters in that area like we've had in the single family area. Any time you separate risk from reward, any time the guy taking the risk ain't the guy underwriting it, it comes back and it comes back in spades.

I know that I have not provided you with a particularly glorious or exciting perspective, but I think reality is ultimately what protects us from ourselves, and I think the real estate industry, the real estate community, and the real estate business is in a tremendous oversupply — not only an oversupply in brick and mortar — but an oversupply in people that have been directed and encouraged to be involved in this business. Those people are going to have to find something else to do.

The crest of the real estate business has passed, and I think this is going to change a lot of ways we act. It is going to change a lot of the ways we think. It is going to make us a less mobile society. It is going to make us a society that spends a great deal more on costs of occupancy than we have heretofore faced. But, I might add, not a great deal more than the rest of the world has been paying all along.

We have been basically able to take advantage of our own growth and a philosophy of building for the future without really being concerned about the cost. You know, when you think about this industry, you can certainly think back to a lot of things that have happened over the last 10 to 15 years that have dramatically pushed us to this place. Probably the most significant thing is the fact that the real estate business has historically been a business of transactionalists, of people who are extraordinarily competent at getting something done. Certainly the environmental laws and the local laws and the local philosophies have compounded that process, but nonetheless, it has been transactionally focused rather than conceptually focused, rather than trying to see where you're going and not taking your eye off the road and understanding the implications along the way.

About the author: Sam Zell, BA '63, JD '66, is founder, principal, and chairman of Equity Financial and Management Company, a Chicago-based nationwide real estate organization which owns and operates a national portfolio of residential and commercial properties.

Q. and A.

Peter Allen — Now let's have some discussion. Any comments, questions, reactions from you all?

Q. *It seems that demographics plays a major part in all of our predictions. What about the demographics of immigration and the possibility that may have for funding or fueling future population growth?*

Lachman: One of the problems with immigration right now is that it is not spread evenly across the country. If you look, for example, at the southern California housing market, which has remained surprisingly tight, it is because of the steady immigration. But the immigration really is concentrated in California and Texas first, followed by New York, New Jersey, Chicago, and Miami. If you put those six pages together, you've got 75 or 80 percent of the immigration.

Q. *(to Mr. Zell) What are you buying and what are you selling?*

Zell: Whatever you're buying, I'm selling, and whatever you're selling, I'm buying. (Laughter)

Q. *(Good humoredly) Can you be more specific, Sam?*

Zell: I guess the answer to that question is that toward the end of the '70s we looked at the real estate business and came to a major conclusion, which was that the risk/reward ratio in the real estate business had changed dramatically because of three things:

1. The end of long-term, fixed rate, non-recourse debt.

2. A market that had become, frankly, too efficient. In 1967, if I went to Reno, Nevada, to look at a potential deal, the fact that I knew about it was a significant part of the investment process. Today, the same guy with the same project looks in the newspaper, finds the list of the ten biggest syndicators, sends them out a package, and eight of them come look. So, we have an extremely efficient market, which, by definition, runs against entrepreneurial opportunity.

3. Since 1969, the trend, with a couple of blips, has been very contrary from a tax point of view. From our perspective, one of the things that made real estate so attractive was its very favored tax position. So beginning at that time, a large portion of our new involvements were in the non-real estate sector. We bought manufacturing companies. We bought rail car leasing, container leasing, transportation services, electrical communications, distribution systems. Basically we bought businesses. We don't think that there will be significant opportunities for us to invest capital in the real estate business. We are buying some distressed real estate, but very selectively. We are buying specific, individual, unique office buildings that we perceive are good investments because of their lease structures. We believe that if there's anything peculiar about today's real estate market, it is that there is very little conviction that real estate is going to cost a lot more tomorrow. So, the whole focus of our investment in real estate today is very replacement cost oriented.

Q: *I have two comments. One involves those empty hotel rooms. I see an opportunity to invite foreign tourists to fill those rooms. If we are running a trade deficit from year to year, that means somebody has money. And the asset here is a beautiful America — many millions of people would like to see beautiful America. My second comment is about immigration. People think of immigration as importing young people to work here, but the other end is the greying affluent immigrant who has money and wants to buy into the stability and security that we have here and that you don't find in many parts of the world. So I think the opportunities are there.*

Lachman: You are absolutely right that tourism can help not only the national economy, but local economies. But America is way behind other tourist destinations in attracting and handling non-English-speaking people. For instance, our signage is in words, not symbols. You go to Washington, D.C., which should be the tourist capital of the United States, and cab drivers don't know where they're going, can't talk to you, and don't have meters. We're just not thinking tourism. Foreign travel is way up this year, but it only helps selected hotels — the ones downtown and the ones near tourist attractions. Unfortunately, a high proportion of the new hotels in the last five years have been built in office and industrial parks as added amenities to help market the office space. It's going to be hard to fill those hotels with tourists, but your basic point is a good one.

Weiser: Sam has said a number of interesting things about the real estate market. If you think them through, they really have two parts. On one side, he has talked about the lack of opportunities — especially for real estate developers — and that's something I agree with. There is an oversupply of housing, office space, and shopping centers in many areas, but in other areas the situation is more balanced. Tenanted buildings of good quality and in good locations are going to do very well.

Sam spoke of capitalization rates falling and returns exceeding inflation. The person who owns good real estate now and who is able to maintain and manage it effectively is going to be able to enjoy those benefits. The key is to ferret out good opportunities. That's not necessarily easy because this is a much more efficient industry than it was in the past, and anything that's for sale is fairly well-known. So, you have to be creative in structuring new opportunities and also in taking advantage of your business relationships in order to find good property. But when you do, I think there's going to be rewards that will be substantially greater than many other investment opportunities.

Q. *Both Ms. Lachman and Mr. Zell referred to a trend of lower capitalization rates, and Mr. Weiser mentioned that he is seeing or predicting more emphasis on higher equity rates. Can you explain how this can happen? Wouldn't a higher equity rate also indicate a higher capitalization rate?*

Weiser: Lower capitalization rates on existing property are going to increase the yields and increase the property values. You have to look at a piece of real estate over the length of time that you own it. Most people today hold real estate for a reasonably long period. Cash flow is going to be very important. Investors are going to want to have cash flow, since they no longer have a cash savings from tax benefits.

"This is a much more efficient industry than it was in the past, and anything that's for sale is fairly well-known. So you have to be creative in structuring new opportunities."

RON WEISER

Zell: Real estate, like any investment, has a risk/reward ratio. As the risk increases, so too does the overall yield. But if, in fact, we end up with a much more stable, less volatile, non-oversupply, non-cyclical real estate economy, then by definition, as the risk recedes; as your conviction that your tenants are going to pay you every month increases, your willingness to take less in order to have an inflation-protected investment will drive down the initial capitalization rate, and will increase the initial price. Over the long term your investment in real estate will be much more measured by its capital appreciation — not inflation, capital appreciation — than by its cash flow.

Q. *Has the full impact of the Tax Reform Act been felt in the real estate industry yet?*

Zell: No. I don't think we've even begun to see it yet, because we've had a staggering oversupply that has made the fact that nothing is being built, for example, irrelevant. The fact that they were building 50,000 apartments a year in Dallas and now they're building 1,000 a year, doesn't have any impact on the ownership characteristics in Dallas other than it's improving a bad situation, but it ain't terrific. But as we go two or three years with almost no development, you will see dramatic implications of the reduction in tax benefits.

Weiser: One thing that we're finding on a selective basis, is that good quality real estate projects that are generating current yields have higher cap rates than they did 18 months ago. People want to sell, and they can't sell the tax benefits anymore. So, in some of the transactions taking place today the cap rates are significantly better.

Lachman: That really depends on which tier of real estate you're talking about, because in the premier buildings that are being sold to institutional and foreign investors, the cap rates are continuing to come down.

Weiser: You have A buildings in B towns which the foreign investors are not buying, and you have B buildings in A towns which foreign investors are also not buying. That niche is one where cap rates are higher. Quite often those buildings represent excellent opportunities because they are filled.

Lachman: The need for passive income under the new tax law has not registered on investors fully. Real estate people file their tax returns later than anybody else. Consequently, most of them are still filing their tax returns for 1986 and haven't really come to grips yet with the way they are not going to be able to use their passive losses for '87. As the 1987 tax returns are completed, not just for active real estate people, but for passive real estate investors as well, the fact that we are going to be back to basics in looking for income is going to register. That will happen in the next year.

William A. Paton Honored by AICPA as Outstanding Educator of the Century

"His influence on the profession resulted in reforms that, originally regarded as radical in the early 1900s, have since become accepted practice."

William A. Paton, Edwin Francis Gay Distinguished University Professor Emeritus of Accounting and Economics, was designated Outstanding Educator of the Century by the American Institute of Certified Public Accountants (AICPA) at the Institute's 100th annual meeting, held in New York City.

Paton is most recognized as a pioneer accounting theorist. He is a leader in both the American Accounting Association (AAA) and the AICPA. An author of innovative textbooks and more than 150 articles and other short periodical pieces on accounting, Paton was a persistent advocate of the use of current values in financial statements. His influence on the profession resulted in reforms that, originally regarded as radical in the early 1900s, have since become accepted practice.

Paton was a member of the Business School accounting faculty from 1915 until his retirement in 1958. He is noted for his early and leading efforts with the AAA and its predecessor, the American Association of University Instructors in Accounting (AAUIA).

At the Business School, Professor Paton has been recognized and honored by the building in his name, the William A. Paton Center for Accounting Education and Research, dedicated in 1976. The School is also honoring him by the newly established William A. Paton Endowment Fund for the support of promising Ph.D. students in the accounting program. Those wishing to contribute to the new endowment may send contributions to: The William A. Paton Endowment Fund, Development Office, The Michigan Business School, The University of Michigan, Ann Arbor, Michigan 48109-1234.

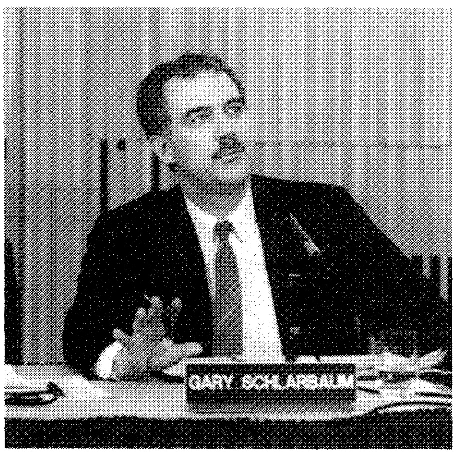
In 1926, Paton founded the *Accounting Review*, the oldest scholarly journal in accounting. In 1936, he and four colleagues collectively wrote the first in a series of widely noted American Accounting Association (AAA) statements on accounting principles.

In an attempt to expand and explain the 1936 statement, Paton and a colleague published *An Introduction to Corporate Accounting Standards* in 1940. This monograph has been one of the most influential treatments of accounting theory and its implications for practice in U.S. accounting literature.

Paton's immense contribution to accounting literature spans almost half a century. Apart from his 1940 monograph, his 1922 treatise, *Accounting Theory — With Special Reference to Corporate Enterprise*, was one of the earliest works devoted entirely to accounting theory. He wrote a succession of textbooks, beginning in 1916-18 with *Principles of Accounting*, and concluding in 1971 with *Assets — Accounting & Administration.*

The AICPA is the national professional organization of CPAs with a membership of over 250,000. In its continuing efforts to serve the public interest, the organization sets audit standards, upholds the profession's code of ethics, provides continuing professional education, and prepares and grades the Uniform CPA Examination.

Mark Rzepczynski, senior economist for the Chicago Mercantile Exchange, spoke on the role of exchanges.



Gary Schlarbaum, co-director of quantitative equity services at Miller, Anderson, and Sherrerd in Philadelphia, spoke on global equity markets.

William Marshall, vice president of the fixed income division of Goldman, Sachs & Company, discussed the effect on pension funds.

Right, Andrew Morse, senior vice president of Drexel Burnham Lambert's corporate bond trading department, who spoke on bond markets during the crash, and Paul McCracken, Edmund Ezra Day Distinguished University Professor Emeritus, who spoke on the twin deficits and economic growth.

Black Monday

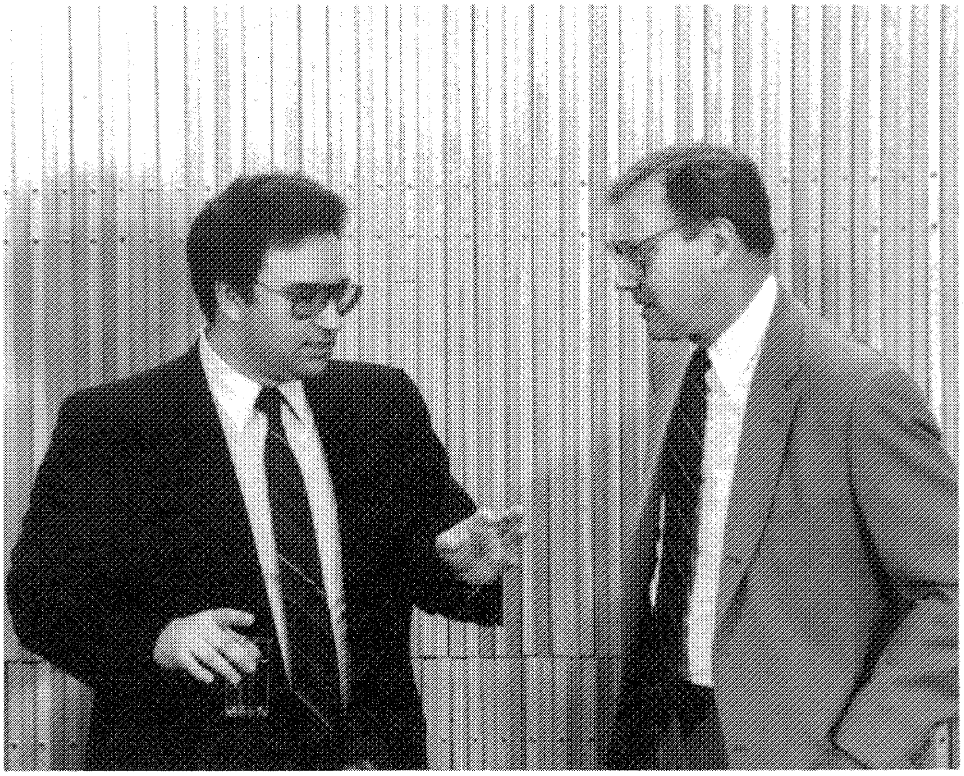
"The volatility was a surprise. It's put the fear of God in people's hearts," said one of the experts during a panel discussion on "Black Monday: The World Financial Markets and the Economy," held Wednesday, Dec. 9, in Hale Auditorium.

The three-hour program was put together by the J. Ira Harris Center for the Study of Corporate Finance to educate business students and others about what really happened, not only on that Monday, but on the days and weeks following.

Eight experts each discussed one aspect of the event — including fallout for public corporations; program trading and portfolio insurance; the effect on pension funds; the twin deficits; bond markets during the crash; the role of exchanges; new issues and corporate buybacks; and global equity markets.

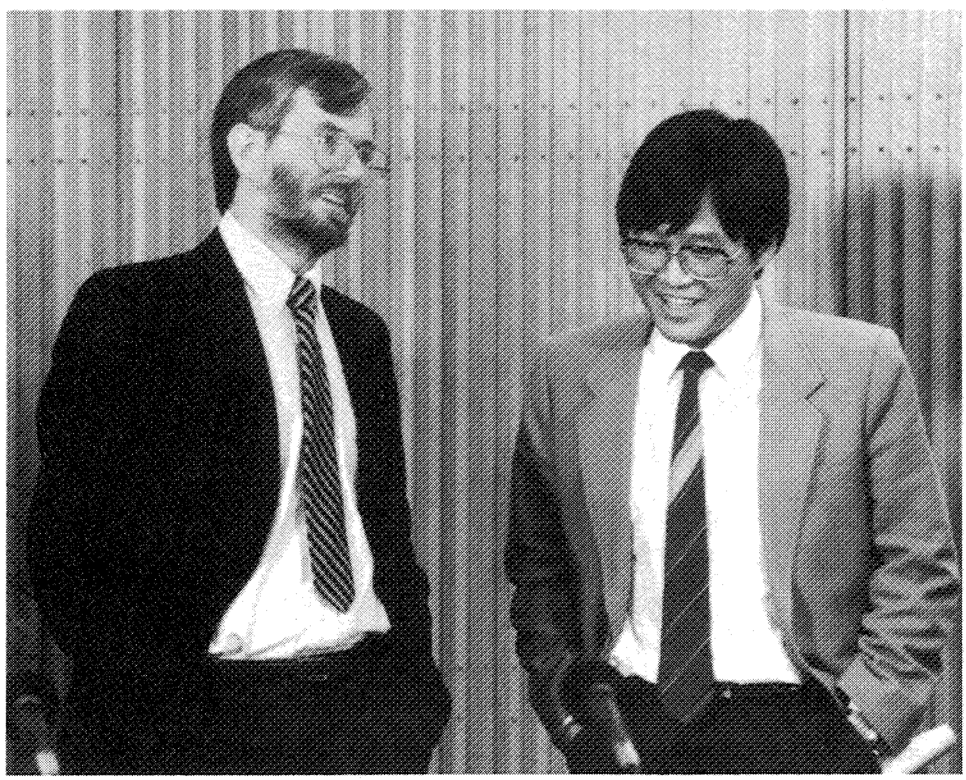
Photos by D. C. Goings

Left, Stanley Kon, professor of finance and director of the J. Ira Harris Center for the Study of Corporate Finance, which sponsored the program on Black Monday, and Vincent R. McLean, co-director of the Center.



Ralph Ferrara, partner in Delevoise and Plimpton, talked about the fallout from the crash for public corporations.

G. Lawton Johnson, Jr., of Shearson Lehman Brothers Inc., spoke on new issues, IPOs, mergers and acquisitions, and corporate buybacks.



Left, Stephen Figlewski, vice president of equity research at First Boston Corporation, who spoke on program trading, and E. Han Kim, Fred M. Taylor Professor of Business Administration and professor of finance.

The U-M and the B School Get High Rankings in Various Surveys

When a survey taken by U.S. News and World Report ranked the Business School the seventh best in the nation last fall, that was only one of several surveys in which we could take pride.

The news weekly also reported that deans of business schools listed The University of Michigan as the number one source of their top graduate students.

The survey of business schools, contained in a special report in the Nov. 2, 1987 edition, was the magazine's first look at professional schools. Deans of graduate schools in business, medicine, engineering, and law were asked to name the 10 best schools in their professional area.

Criteria included "the quality of the faculty, the strength of the curriculum, how well a school prepares students professionally, and the placement of its graduates in positions that contribute to the improvement of the profession and the public."

In naming U-M seventh, the magazine cited the Business School's stress on a strong research environment. It quoted Dean Gilbert Whitaker, Jr., as saying, "Professors are required to be 'knowledge creators.' There is an intellectual liveliness found here."

While Whitaker said he was pleased with the poll's results, he added a cautionary note. "The U.S. News poll, like all such polls, reflects the perceptions of those polled," he said. "I am pleased that so many of my fellow deans believe that we are among the top 10 of America's business schools. It means they believe that we are doing well in our fundamental mission of teaching and research.

"I believe that we are doing well, but that we have considerable need for further improvement. In fact, we must strive for continuous improvement. The more we improve, the more we will be

Results of Survey by U.S. News & World Report on National Business Schools

Rank		*Rating*
1	Stanford University (Calif.)	86.3%
2	Harvard University (Mass.)	80.9%
3	University of Pennsylvania, Wharton School	79.4%
4	Massachusetts Institute of Technology, Alfred P. Sloan School of Management	69.5%
5	University of Chicago (Ill.)	66.4%
6	Northwestern University, J. L. Kellogg Graduate School of Management (Ill.)	65.6%
7	University of Michigan, Ann Arbor	51.9%
8	Carnegie Mellon University (Penn.)	39.7%
9	Columbia University (N.Y.)	36.6%
	University of California, Berkeley	36.6%
11	Dartmouth College, Amos Tuck School of Business Administration (N.H.)	29.0%
	University of Texas, Austin	29.0%
13	University of California, Los Angeles	27.5%
14	University of Virginia, Colgate Darden Graduate School of Business Administration	23.7%
15	University of Illinois, Urbana-Champaign	22.1%
16	Indiana University, Bloomington	21.4%
17	University of North Carolina, Chapel Hill	16.8%
18	Duke University, Fuqua School of Business (NC)	16.0%
19	Yale University (Conn.)	13.7%
20	New York University	13.0%

Note: Ratings are percentages of all graduate-business-school deans naming schools in top 10 and are based on a 56.5 percent response rate, with 131 of the 232 surveyed deans responding.

recognized as one of America's best at what we do in teaching and research.

"Our goal is to improve our abilities to provide knowledge as well as knowledgeable graduates who will improve the performance of business. If we focus our attention on our fundamental goals, the polls will take care of themselves."

Business schools, ranked in the order in which they appeared, were: Stanford; Harvard; the University of Pennsylvania's Wharton School; the Alfred P. Sloan School of Management at Massachusetts Institute of Technology; the University of Chicago; the J. L. Kellogg Graduate School of Management at Northwestern; and The University of Michigan.

Rounding out the top 20 business schools were: Carnegie Mellon; Columbia; the University of California at Berkeley; the Amos Tuck School of Business Administration at Dartmouth; the University of Texas at Austin; UCLA; the Colgate Darden Graduate School of Business Administration at the University of Virginia; the University of Illinois at Champaign-Urbana; Indiana University; the University of North Carolina; the Fuqua School of Business at Duke; Yale; and New York University.

The magazine polled 608 deans of graduate schools of business and about half responded.

In a more concrete sense, the Business School's success is reflected clearly in the success of its students. A total of 335 companies interviewed 1987 MBA graduates last year at the Business School. Each student averaged 20 interviews and three job offers, with 297 reporting job acceptances as of June 1987.

The average MBA salary was $42,750, an 11% increase over the previous year's mean salary. This figure also is higher than the $30,840 average salary reported in a nationwide study of MBA offers by the College Placement Council.

Students completing the BBA program in 1987 averaged 17 interviews and three job offers each during interviews with 256

"If we focus our attention on our fundamental goals, the polls will take care of themselves."

DEAN GILBERT R. WHITAKER, JR.

companies. The average salary for a BBA graduate was $24,700, an increase of 9% over the previous year's mean. This compares favorably with the nationwide average of $20,052 reported by the College Placement Council.

The current year's recruiting is equally encouraging, especially in light of last fall's Stock Market collapse. In the highly competitive sphere of summer internships, 91 firms have recruited first-year MBA students for summer positions as of December 1987.

The total number of companies recruiting for summer internships in 1987 was 99, said Ann D. LaCivita, assistant director of placement. "Internship recruiting really doesn't start until March," she said. "This is a really good sign, especially with the current economy. This is very encouraging news."

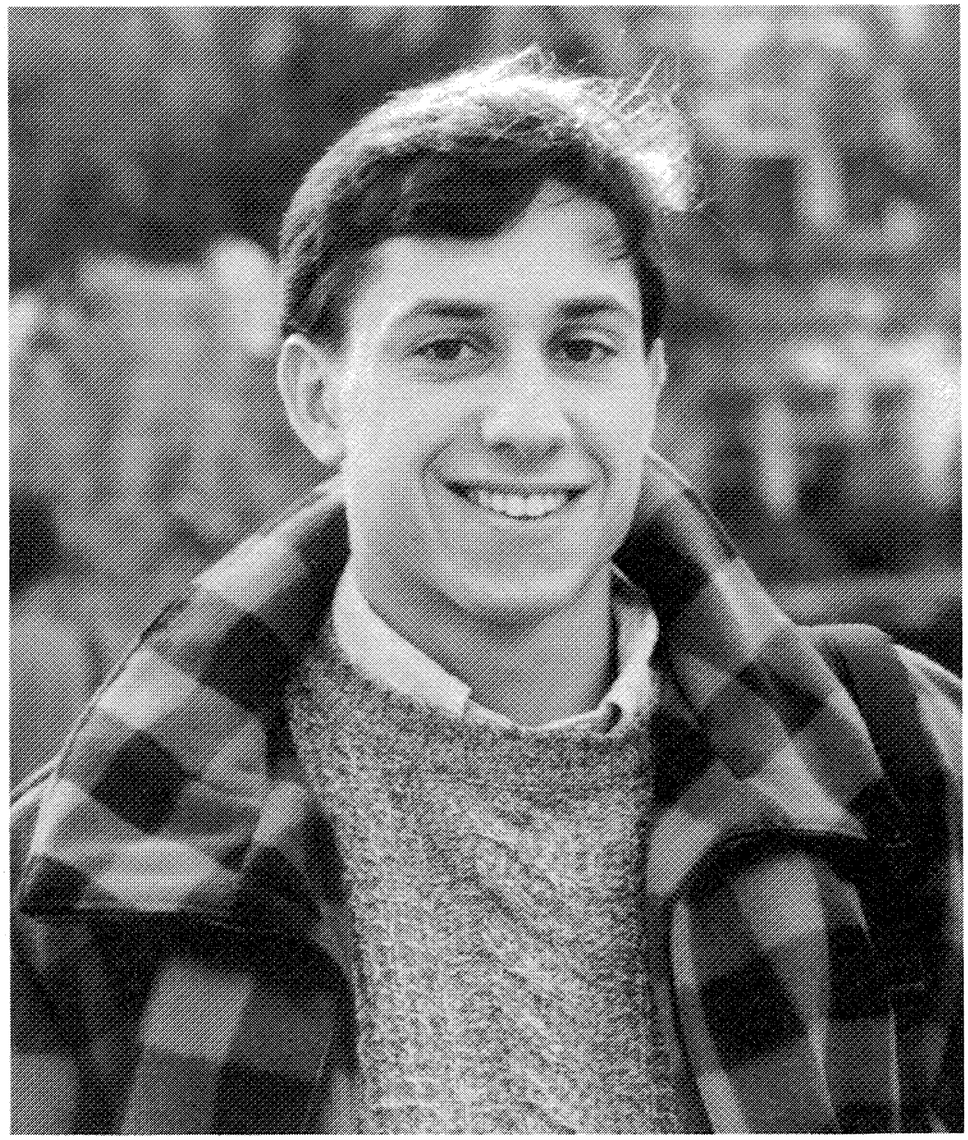
Other survey results of interest include:

- Korn/Ferry International's second profile of senior executives at major U.S. corporations (an update of their 1979 study). This survey found that The University of Michigan was the third most often attended graduate school among top executive respondents, following Harvard and Columbia University. By far the most popular graduate degree among senior executives is the MBA, which accounted for 54% of all postgraduate degrees, compared with 41% in 1979.
- In a survey of the quality of undergraduate education conducted by U.S. News and World Report among college presidents, the U-M was ranked eighth among 204 schools in the national university category. (The U-M ranked 12th in a similar survey in 1985.) Michigan and the University of California-Berkeley were the only public universities among the top ten in the category. Stanford ranked first, followed by Harvard, Yale, and Princeton.
- The Michigan Business School's Executive Education programs were ranked third in the country, behind Harvard and Wharton, for the number of participants attending university-based general management and functional management executive programs. This survey was conducted for Bricker's International Directory and was published in the Directory's 1987 Summer Bulletin. The article stated that Harvard's programs were attended by 11.8% of total participants, followed by Wharton with 9%, and The Michigan Business School with 8.4%. The article further said that 20 business schools control 84% of the market.
- The University of Michigan was named by Business Week as one of the top ten undergraduate alma maters of members of "the corporate elite" — that is, chief executives of the Business Week Top 1,000 Directory.
- A survey done by the newsletter HR Reporter found that its corporate readers (who are Human Resource executives) listed Michigan fourth in answer to the question, "Which universities do an outstanding job of training future HR professionals?" (The first three choices were Cornell, Columbia, and Harvard.) In answer to the question, "Which universities provide outstanding executive development programs for HR professionals?" the U-M was listed fourth, with American University, Duke University, and Harvard comprising the first three choices. In answer to the question, "Which academicians do you consider to be the best and the brightest 'stars' in HR or related fields?" the readers listed three U-M professors in a final list of 18. They included Noel Tichy, Karl Weick, who has just joined our faculty, and David Ulrich. Also listed was Eric Flamholtz, who received his Ph.D. in 1969 from The University of Michigan.

Dollars for Scholars

First in a series about Scholarships and Fellowships at the Business School

By Lisa Cripps



Ed Dubin, this year's winner, thrives on challenge of all kinds.

Lynn Townsend, BBA '40, MBA '41, former chairman of Chrysler Corporation, understands the financial needs of students. To afford tuition, he worked after high school as a bank clerk, and while at the University, scrubbed dishes at Theta Delta House to stay in school. So when he came to the Business School for his MBA and qualified as the first person to receive the Arthur Andersen scholarship (an award of $50 a month for 10 months), he knew first-hand how important a scholarship can be.

The benefit he received from that scholarship made him want to return the favor. And so, in 1967, he and his wife Ruth (Laing) Townsend, BA '40, established the L. L. Laing fellowship in memory of Ruth's father, Lemuel L. Laing. While at the Business School, Townsend had been a student of Laing's, who was a professor here and also in the economics department.

The L. L. Laing fellowship, founded in 1967, is one of 39 grants awarded to outstanding MAcc or MBA students. Tailored after the scholarship Townsend had received when he was a student, the Laing fellowship pays $3,000 in ten $300 monthly installments. The recipients do not apply, but are chosen by the accounting faculty on the basis of financial need and merit in upper-level accounting courses.

Ed Dubin, this year's winner of the Laing fellowship, is a student in the Master of Accounting (MAcc) program. To help with the costs of out-of-state tuition, he worked summers and through most of his academic career, holding a job as a bus boy one year and working as a grader and proctor his first year in the MAcc program. "Winning the L. L. Laing fellowship was probably the most exciting thing that has happened to me academically," says Ed. "It was really a peak. It makes me feel proud that I was able to do what I wanted to do and someone recognized my efforts and rewarded them."

Ed thrives on challenge. He is a relay triathalon swimmer who, with two friends from EMU, placed second in Detroit, 5th in Chicago, and qualified to go to the national competition. "I worked out three hours a day after work to prepare for the Chicago competition," he says. "It takes a lot of discipline. If you're swimming for yourself you just want to beat your own time. But if someone else is counting on you, you work harder."

Ed has held three summer internships in accounting — one in government, one in private business, and one at Ernst and Whinney in their national tax department. He plans to go into tax accounting. "You can't become complacent in that area," he says. "It's a complex, dynamic field and you always have

Deb and Sherry Brand split the L. L. Laing fellowship in 1986-87.

to be up-to-date. That challenge is attractive to me."

The 1986-87 L. L. Laing fellowship was split between twin sisters Deb and Sherry Brand, both second-year MAcc students. The twins have put themselves through school by working in factories during the summer, and in dormitory cafeterias and as graders while in school. "Winning the L. L. Laing scholarship was one of our biggest achievements," they say. "Someone recognized that we did a good job."

Competition is also a theme for Deb and Sherry. "All through school we competed for the best grades," says Sherry. "We both always had to get straight A's. We graduated as co-valedictorians. We worked so hard and by pushing each other, were both able to achieve a goal we really wanted to achieve."

The twins have both also held summer internships; Deb with Deloitte Haskins and Sells, and Sherry with Arthur Andersen and Co. Sherry has already accepted a full-time job with Arthur Andersen in Grand Rapids.

After graduation, Sherry plans to move to Grand Rapids and Deb and her new husband David Spetnagle will settle elsewhere. It will be the first long-term separation for the twins, and they view it with mixed feelings. "We fight to be recognized as individuals and it's hard for us to do that because we're so close," they explain. Deb adds, "Now that we're starting to lead different lives, we can share our different experiences and that is something new and exciting for us."

Scholarships provided by Business School Alumni make up an important part of student aid. "As the cost of providing a first-rate educational experience continues to rise," says Dean Whitaker, "alumni and friends can help assure that competitive financial aid packages will be available to our students. Private support for student financial aid has allowed the Business School to attract some of the ablest students to attend Michigan who otherwise would have gone elsewhere or who might have been unable to complete their formal education."

A delicious tailgate brunch was served in the Kresge Library Portico following the Saturday morning program on "The Post-

:agan Economy."

Alumni Weekend

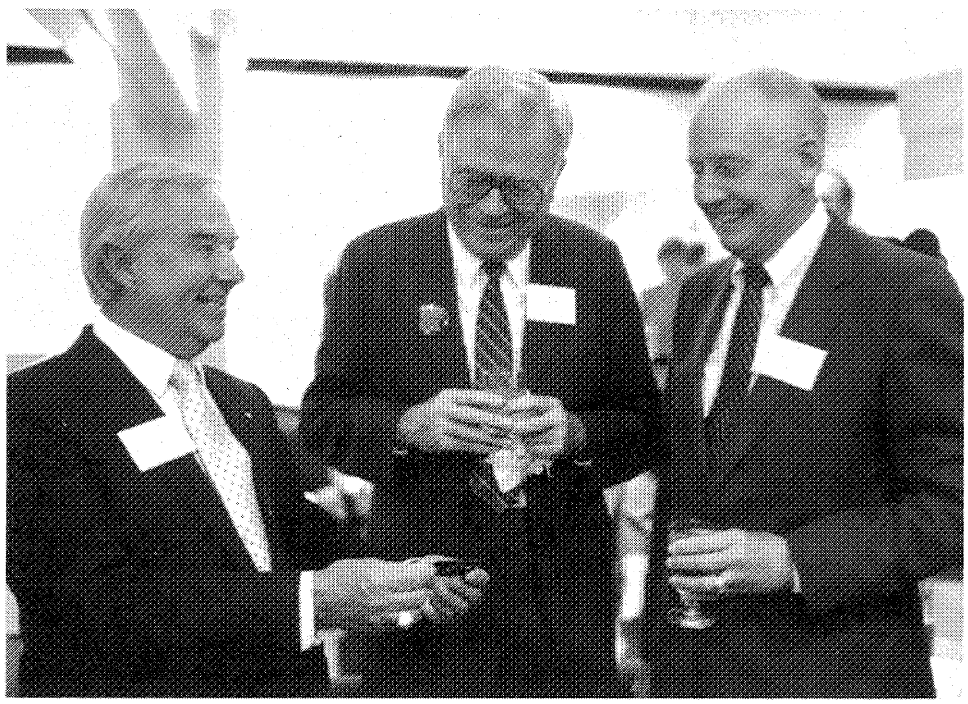
Reunion was the word for the weekend, as the classes ending in "2" or "7" and going back to 1942 returned for their special reunions. Of course they were not the only alumni to come back to enjoy the Michigan-Northwestern football game, the delicious tailgate brunch held in the Kresge Library Portico, the Friday night dinner held in the elegant dining room at the Executive Residence, and the reception before the Friday dinner. An especially popular feature of the reception was notebooks containing news of all the reunion classes which had been gathered by sending questionnaires to each class. The tables containing the notebooks were always surrounded by browsers.

A lively "Saturday Morning at the Business School" program preceded the tailgate brunch. Three speakers discussed the "Post-Reagan Economy" and as you can imagine, the subject was particularly interesting as it followed the stock market meltdown by only two weeks (the program was held October 31).

On the following pages, you can see pictures of some of the alumni who attended, and read the talks that were given on "The Post-Reagan Economy," as well as the questions that followed the talks.

Left to right, Bob Roth, MBA '51; George Moran, MBA '51; Gerry Bouwsma Steele, BBA '51, her husband Harold Steele; and Ned May, MBA '58.

Connie Cooper, MBA '77, returning for her class's 10th reunion, looks at notebooks containing news of her class. The notebooks, which were put out on tables at the reception, proved to be highly popular with returning alumni.



Left to right, Bob Stelzer, BBA '46, MBA '47; Stanley Stong, BBA '46, MBA '47; and Chuck Low, BBA '46, MBA '47.

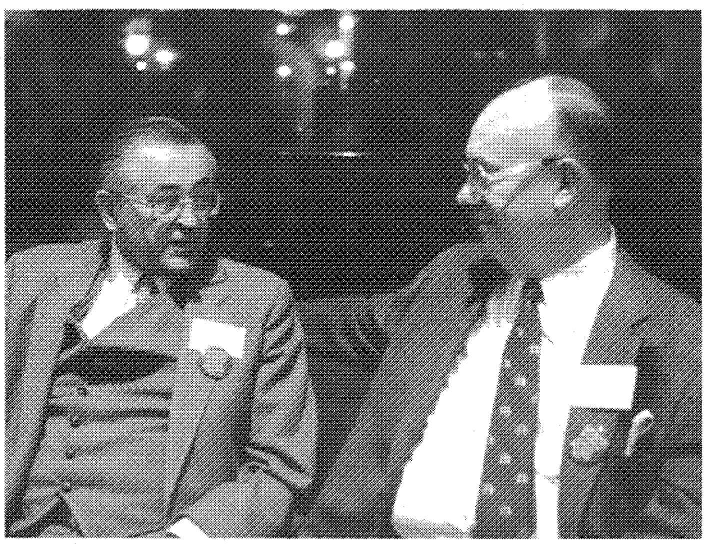
Photos by Dean Russell

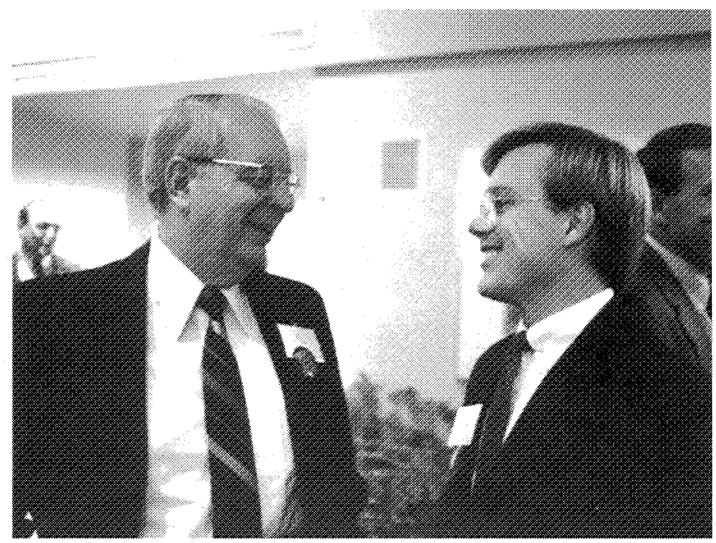
Right, Stephen Perry, DME '82

Below, left to right, Rolland Damm, MBA '29; T. Kenneth Haven, MBA '29, Ph.D. '40; and Mrs. Rolland Damm.

Center left, Robert C. Zwinck, MBA '42 (left), and Bob Maulbetsch, BBA '48.

Center right, Doyle Selden, MBA '42 (left), and Chris Lucander, MBA '84.





Left, Sharon Sweet and Stephen Field, both MBAs '77.

The Post-Reagan Economy

Three Sources of Imbalance on

by Paul McCracken,

DEAN RUSSELL

"One of the key dis-equilibria in the world economy at the present time is that this western European economy, which in the aggregate is as large as that of the United States, is simply on dead center."

Let's leave the stock market out of the count for the moment and take a look at the basics of the economy. The picture is really not bad at all. If you look at the statistical indicators that presumably are a harbinger of things to come in the economy — it's pretty difficult there to see any evidence of a downturn. Current rates of improvement in the economy are not bad. Bob Eggert, who used to be with the Ford Motor Company, has his Blue Chip economic indicator service. His panel of economists are predicting pretty good rates of gain for next year and a little higher rate of inflation. So why the concern?

I think the basic concern is a fear that not only our economy but the world economy is sort of living on borrowed time — that we're pursuing paths which are inevitably going to lead us at some point to a serious reversal in economic activity. Now, from the European point of view, there is only one disequilibrium which is courting the risk of disintegrating the entire world economy, and that's the U.S. budget deficit.

Well, the fact of the matter is that there are at least three sources of imbalance in the international economic scene that do have some relevance to the post-Reagan era. Let me just tick them off very briefly.

One of them is, of course, our budget deficit. I think what we have seen in this era is the ultimate consequence of the jettisoning of the sort of unwritten rule in this

the International Economic Scene

Edmund Ezra Day Distinguished University Professor Emeritus of Business Administration

country that budgets ought to be balanced — a rule which was probably more effective or at least as effective as any article in the constitution. It did prevail from about 1789 up until 1929 and maybe for another 10 years after that. We didn't balance the budget in the '30s but we felt sort of guilty about what we were doing. It wasn't until the end of that decade that we decided that one ought to make a virtue out of what we were doing anyway.

The second major source of imbalance is the obsessively export-driven strategy for domestic economic growth of the Southeast Asian countries — particularly Japan, Taiwan, South Korea, to some extent Hong Kong and Singapore. They are no longer poor countries — they are middle to upper middle income countries in the world scene. This export driven strategy is now a major source of disturbance in the world economy and somehow or other this is going to have to be changed.

Our current account balance this year will probably be in the neighborhood of $165-70 billion negative. If you look at current account balances in these countries, in Japan it will be something like $85-90 billion positive current account balance. The little country of Taiwan, which has not quite 20 million people, may run a current account surplus this year of $25 to $30 billion. In other words, more than $1,000 per capita. Obviously, they're not a poor country because taking $1,000 per capita away from a poor country would leave them with nothing, and they're living fairly well. The Hong Kong per capita current account surplus this year probably will be a little larger even than Taiwan. Now, there's no way the world economy can adapt in an equable manner to these kinds of strategies.

A third major source of imbalance that's upsetting the world economy is Europe's economic stagnation. In talking with Europeans you almost have to beat them over the head with a 2 x 4 to get them to see their own problem. Now the problem is this. Throughout much of the last 35 to 40 years, one of the key questions that would always be discussed at any international conclave was, "How can the Europeans have persisting unemployment rates that are so much lower than what we can achieve in North America?" If you were to go back to the decade of the '60s and the early '70s, you'd find our unemployment rate was 4.9%. For the decade '62 to '73, in the Federal Republic of Germany, it averaged 1.3%; in France, 1.8%; in the Netherlands, 1.3%, and so forth. And these differentials persisted. Our unemployment rates were always far higher than Europe.

Now, what do we see? The U.S. rate, of course, is a little less than 6%. The OECD is projecting for 1987 and 1988, rates in the Federal Republic of Germany of 8%; in France, over 11%; in the Netherlands, about 13%; and the same for Belgium. Moreover, for most of these countries, a further rise is projected for 1988.

One of the key dis-equilibria in the world economy at the present time is that this western European economy, which in the aggregate is as large as the United States, is simply on dead center, and in that sense Washington's effort to try to prod them to do something is very much in order.

The fourth dis-equilibrium, or issue of considerable importance, is the LDC debt problem and the extent to which that overhangs the financial situation, but fortunately, I'm practically out of time. So, I've no comment. (Laughter)

Well, let me tell you very quickly where I would come out on this. As far as the stock market goes, I'm on the optimistic side. I think the developments in the stock market may on the whole have been a good thing. It's going to nudge us toward a little better budget, not a good one, but a little better one. If it will make nations a little less inclined to impose price controls on exchange rates, even that may turn out to be desirable. In a grudging way, Japan is beginning to refocus its strategy of economic policy. I'm less confident that Europe will get off the dime. I must say that that's the most exasperating aspect of this whole thing. The key question is not why the stock market declined, but why it ever got as high as it did. In that sense, we're fortunate that we got a correction because, if the rise had continued much longer, the central banks would have had to put on the brakes hard, and then we would have been in for a problem.

Some Trends in the Economy and

by Allan Gilmour,

DEAN RUSSELL

"I think the changes in productivity are small, incremental, detailed changes that take place on factory floors, in offices and labs, and places of that kind."

I would like to look at some of the trends in the economy and where I think they're taking us. My comments, of course, are heavily influenced by what's happening at Ford and the perspective of manufacturing industries. I realize that it's fashionable these days to conclude that manufacturing is a high-class term for smokestack, and that the service industries are going to carry America and the rest of the world. I think there's some question about that. Manufacturing is in a major way a source of many high-paying jobs and also a source of the technological progress that leads to higher productivity in the whole economy and to better standards of living for everybody.

Our economy has made a great deal of progress since the dark days of the early '80s. In 1982, unemployment was 9.5% nationwide; now it is slightly below 6%. In 1982, unemployment was 16% in Michigan; now it's 7.8%. As a nation we've generated about 10 million new jobs since 1982.

Productivity in the U.S. also has been improving, particularly in manufacturing where it has risen at an annual rate of 4.4% since 1982. That exceeds the rate of increase in Canada, France, and Germany. Japan increased productivity at a higher average rate, but in two of those years since 1982, the U.S. beat Japan in productivity improvement. Now that is in terribly sharp contrast to what had happened in the recovery that started from the low in 1975. At that point we were all reeling from oil price increases, but our productivity suffered the most. For example, our productivity growth on average was less than a third of the growth in productivity in Japan and in Britain (of all places), and less than half that in Germany and France. Yet, in spite of that, the dollar surged in value, further reducing our ability to compete in international markets. The dollar got stronger and the performance of the economy got worse. And, so, we really were in the soup.

What led to the improvements since 1982? Economists haven't been able to explain this in detail. I just read that MIT Professor Robert Solow received the Nobel prize for showing that the bulk of the gains in productivity cannot be explained. (Laughter). I already knew that. Seriously, I think the changes in productivity are small, incremental, detailed changes that take place on factory floors, in offices and labs, and places of that kind. And it takes a great many small changes to add up to any sort of large effect and these aren't directly measurable by macroeconomic data that we normally look at.

What we did at Ford, I think, is a good example of what manufacturers all around the country have done. In 1980, survival was at stake. PR releases didn't say it, but with hindsight that certainly was the case. Necessity is the mother of invention and we clearly had to invent, if not new ways of doing business, some different ways, and right then. I can't point to any one single thing that we did. But I can point to a major shift in thinking.

We went back to basics. We determined that quality had to

Where They're Taking Us

Executive Vice President, International Automotive Operations, Ford Motor Company

be improved and costs had to be reduced, and we set to work on these issues in every way we could think of. How do you achieve quality at low cost? By conducting a search, day in and day out, for improvements. By going through the complicated process of simplifying the systems, by using the efforts of all the people who do the work in any organization aimed at improvement. We achieved our goals through hard work. Is the effort over? Clearly not. And this brings me to the post-Reagan economy, because the pressures that led us to make changes are still here.

It's true the dollar's come down. That has improved the competitive situation of our manufacturing industries, particularly compared to the Japanese. However, the Japanese are responding to the change in the value of the yen by cutting their costs. Additionally, of course, new competitors are appearing — the Koreans, the Taiwanese — who still enjoy a large cost advantage. Everyone in the world wants to produce cars for the U.S. The Yugoslavs of late, the Chinese, the Russians, and all those other people. All you have to have, it seems these days, is a boat to ship the exports!

Being as old as I am, I can remember academic studies in the 1950s that said no one could ever enter the U.S. auto industry. They didn't have the brand name, they didn't have the capital, they didn't have the dealers. I only wish it had been true.

While the private sector has come to grips at least to some extent with its problems, and I think we've made some progress in America, I can't say that I think that's true of the government. The post-Reagan administration, whether Democratic or Republican, will have to deal with several important issues. First, our fiscal policy is not sustainable. The rest of the world blames our budget deficit for the recent collapse on the world stock exchanges. Whether that's true or not, sensible economic policy requires that we reduce the deficit. That would reduce our need for foreign capital and allow for improvement in the trade deficit.

The events of the past few weeks have powerfully concentrated minds. I think there's hope for cutting spending, along with some inevitable increase in taxes. But we have to be careful of this. We already raised business taxes the last time around and further business tax increases will certainly not help our competitiveness compared with other countries. This means that spending cuts are essential. The choices are difficult. There are very few volunteers for cuts in their own areas. And this will be one of the big issues facing any new administration.

Second, we also have to have an international economic policy that makes sense. If we are to get the trade deficit down, the dollar will have to fall. We can't agree to maintain a value of the dollar that is not in sync with underlying economics. Of course, this will be easier, as Paul pointed out, as some of our trading partners expand.

Third, a more balanced fiscal policy will allow a more steady monetary policy. On balance, I think we had a good record in the last few years. But the substantial monetary tightening earlier this year lies behind some of our recent problems.

Finally, a point that doesn't receive enough emphasis, at least in our view. The U.S. needs to avoid government actions that have an adverse effect on international competitiveness. Regulatory policies and taxes have to take international trade into account. For example, in our own business, fuel efficiency regulations now constrain us much more than they do the Japanese. These regulations provide an advantage for Japanese firms trying to enter segments of the car market where we have traditionally enjoyed a comparative advantage. I think we've made some progress on international competitiveness, but the challenges haven't gone away and further progress is necessary.

I hope that the turmoil of the last few weeks will finally bring the policymakers to their senses. I see the nature of international challenges of the post-Reagan economy much as I see the current situation. That is, we've come to grips with some of the problems, but much remains to be accomplished. Further, all government policies will have to acknowledge the global economy to a much greater degree than we've seen it before in this country. We will have to gauge the effects of our policies on our ability to compete. Our competition does this. We can't do any less.

The Post-Reagan Economy

The Changing Regulatory

I want to talk about the regulatory environment and changes that I see coming there. But, I'll begin with a little history. In the late '70s and early '80s this country underwent a great deal of regulatory change. And, if you will recall, a lot of it came in the Carter administration, in a Democratic administration. We deregulated airlines, we deregulated trucking, we deregulated railroads. We started the process of deregulation of the banking sector.

All that deregulation really concentrated around removing price controls and increasing competition, allowing new entry into these various industries. I think it came about for two reasons. First, inflation and technological change had made it very difficult to regulate these industries in a detailed way. Second, there was public sentiment, created and supported by an intellectual climate, that favored deregulation.

The reason I think that climate existed was that a lot of studies and a lot of testimony in Congress had supported the notion that price and entry controls were anti-competitive and anti-consumer. This type of regulation raised prices and reduced the extent and variety of services.

The Reagan administration shared this view and it pursued further deregulation in the price and entry arena. However, what was new and different from what the Carter administration had done, was that the Reagan administration also pursued deregulation in the environmental area, in the safety area, and in the labor market.

A good example of that was the establishment of OIRA, or the Office of Information and Regulatory Affairs, which was really a regulatory oversight organization set up within the administration. That office systematically tried to apply cost/benefit analysis to new regulations coming out of the Environmental Protection Agency or coming out of the Department of Transportation or the Department of Energy or other executive branch agencies. That had the effect of slowing down and keeping back many new regulatory actions.

That thrust of the Reagan administration has not received a great deal of public visibility, but it was important and it was a dramatic change. There is a great deal of support from everybody for getting rid of regulation dealing with price and entry; but on the environment, on safety, and on the labor market side, that is not true. And the political climate determines what will go on. That's where I see the basic changes coming.

Why is there a lot of disagreement about deregulation in these areas? I think it is just that there is much more disagreement about the benefits of regulation. We all like lower prices and better service, but when it comes to valuing or evaluating the environment, people differ. We all have differing views, I think, about how much we are willing to pay for wilderness out in Montana. That's a subject of great disagreement among various groups within our economy.

There are other disagreements. Each time you slow down regulation in the health and safety area, you're implicitly putting a value on human life. Nobody wants to put a value on human life, yet necessarily we do that all the time. But because of those kinds of value judgments, there is a wide area for disagreement in environmental and safety regulation and, as I'll get to, in labor markets.

Now, if there are these opposing forces and no unanimity, the political context matters a lot. I think the Reagan administration came in with a large electoral mandate and was able to pursue its agenda in that area. That's changed.

We've had an obvious weakening of the administration. We have had the Senate go from the Republican Party to the Democratic Party and we have an environment where everyone is worried about safety; about airline safety, about toxic wastes, about toxic spills. So we have a climate now where the Reagan administration, which is ideologically committed to further deregulation, is weakened. Consequently, we're starting to see much greater activity in the area of this environmental and safety regulation.

I will just give you a couple of examples: there are bills in Congress now that would tighten the Clean Air Act and force a substantial reduction of emissions and a substantial increase in costs. I know it would affect the auto industry strongly. In the auto

Environment

by **Martin Zimmerman, Ph.D.,**
Chief Economist, Ford Motor Company

industry again, there are bills in Congress on safety regulations, on recovery of the vapors that come out when you fill your tank. A whole series of these things are coming out now that we didn't see five or six years ago.

In the labor market area, we now have bills which, if they're passed, will require mandatory notification of plant closings, mandatory parental leave, mandatory health benefits — a whole series of things which traditionally we've left to bargaining between labor and management. We see movement toward increasing government intervention in these areas.

So the pendulum has swung. We're coming back into the regulatory mode. And as we look ahead to the post-Reagan economy, I think the political dynamic will lead us further in that area. The concerns about safety, the environment, health, aren't going away. They are a constant.

The recent volatility of the stock market further creates this distrust of unfettered markets, maybe with some justification in the stock market case. When you have that kind of distrust, however, it spreads and you have more receptivity to all sorts of actions that lead us in the direction of more regulation. In summary, what we've seen most is deregulation on the price and entry side. In the social sphere and in the safety, environmental, and labor market areas, I think we're in for increasing regulation in the post-Reagan economy.

"The pendulum has swung. We're coming back into the regulatory mode. And as we look ahead to the post-Reagan economy, I think the political dynamic will lead us further in that area."

The Post-Reagan Economy

Q. and A.

Dean Whitaker: Now let's have some questions.

Q. *Since the European economies are stagnating, wouldn't we be better served to direct our resources to markets in developing countries, rather than in Europe?*

McCracken: We have to do both. There is no question in my mind but what the center of gravity of the world economy in the period ahead is going to be the Pacific. In a manner of speaking, the Europeans are at the geriatric stage, we're in upper middle age and the figure of youth is found out there. Their initial strategy of trying to achieve economic progress by an export driven strategy was probably the right strategy, but they've come to the second stage now where domestic policy, not just economic policy, has increasingly to be directed to improving material levels of living in their own countries. That, of course, opens up important markets for us. And I think that they'll grudgingly move further in that direction. Now, that does carry with it implications for American business. American business increasingly is going to have to gear itself to improve its effectiveness in exporting as well as simply investing abroad. And my guess is the exchange rate pattern will permit that. On the other hand, Europe constitutes a very important market for us also.

Q. *Why did the stock market fly so high before the crash? And what is your opinion on program trading and portfolio insurance. Should they be regulated?*

Zimmerman: The reason the stock market went so high is because a lot of people bought stocks. (laughter) As far as program trading goes, I've talked to a lot of people who say, "Look, it does increase the volatility — when things start going down, they go down faster." I'm inclined to believe that.

Q. *So, do you think program trading should be regulated?*

Zimmerman: Should we stop it? I think you've got to be very careful, because clearly the futures markets provide a good opportunity for people to lay off risk. You don't want to reduce those opportunities, and to the extent that you put stock limits on futures trading, you're also going to have the effect of reducing that ability, and you know from my classes that more choice is better. What I'm worried about is that we will have this general distrust of markets because of what happened on Wall Street. And because of that we're going to launch into regulatory programs without really thinking it through carefully. I think those markets do provide a useful service in our economy, and before we go ahead and legislate or regulate them out of existence, we had better think a lot about it.

Q. *How do you think the integration of international businesses — how they coordinate their operations — is going to affect the form and management of business in the future?*

Gilmour: This is a subject we've talked about for years and I think we always started at the wrong end. The end that we should have started from, I believe, is the market end, the need to get our products to customers. One thing we learned in the early '80's depression, as we in Detroit call it, is that the customer is always right — even when they're wrong, they're right. People frequently say to me, 'why don't you export a lot of cars from North America to Germany, or Japan, or Australia, or Brazil, or wherever.' And the generally right answer has been that U.S. cars were not suitable for people in those countries. That doesn't mean that the people were at fault, that doesn't mean that the cars were at fault, because those cars were generally very suitable for the world's largest market — the U.S. and Canada combined.

As we see products become more common and more universal, then I think it's time to think about how we manage and organize companies to meet those common needs. But I think we've got two conflicting trends. We have the trend for more worldwide products. Everyone wants the best they can find regardless of where it's manufactured. At the same time we're seeing a fragmentation of markets. I'm beginning to think that, in the car business anyway, the market is just a collection of niches. So the dilemma for many kinds of businesses is how to handle the conflict between the production, distribution, and development of the common product, and the customer's desire for a specialized product. So I think the principal objective has to be to do a very good job of quality and cost and product development and technology, etc., where we can somehow have a physical system and a management system that provides choice to a broad range of customers.

Q. *What effect do you think the lower dollar will have on our trade deficit?*

Zimmerman: Of course, the prices of imports go up. They haven't gone up, by the way, nearly as much as the depreciation in the dollar would suggest. This means that the Japanese, particularly, have just been having their margins squeezed. And that suggests something about the fear that a lower dollar will lead to higher inflation. When there is excess capacity worldwide, it does tend to keep the price increases from flowing through immediately when the dollar depreciates. But, on balance, the falling dollar is good in the sense that it improves our position vis-a-vis imports. I think one of the key imbalances in our economy has been the price-fixing over the value of the dollar. We've been trying to maintain the value of the dollar at too high a level, and not to let it fall would be to fix the price at an unrealistic level.

McCracken: When I hear that the change in the exchange rate is just not going to have the impact on our trade patterns that we would hope, because we've got structural problems, then I find myself thinking back over the long span that I've been an economist. Back in the 1970s we knew that "for structural reasons" an expansion of the economy would not do much to lower the rate of unemployment, except when the economy expanded, unemployment rates did respond. And earlier than that, "for structural reasons," it was said that probably we would have a dollar shortage forever. It was a serious question as to whether Japan and Europe could ever compete with the North American behemoth. Well, we know what the final answer was. So, when I hear, once again, "for structural reasons" now, this equilibrium will just not respond, my inclination is to say, "Seems to me I've heard this before."

"What I'm worried about is that we will have this general distrust of markets because of what happened on Wall Street."

Martin Zimmerman

"We have two conflicting trends. We have the trend for more worldwide products. At the same time, we're seeing a fragmentation of markets."

Allan Gilmour

"The center of gravity of the world economy in the period ahead is going to be the Pacific."

Paul McCracken

Q. *In view of our large budget deficit, wouldn't it be a good idea to persuade our allies to do more for their own defense?*

McCracken: Well, two comments. First of all, I think in looking through the tops of our bifocals at the next 5 to 10 years, in a messy and untidy way, we'll sort of deal with our budget problem. It won't be a very artistic job, but, then, of course, Washington never does artistic jobs on these things. As a matter of fact, in this 200th year, it's not amiss to remind ourselves that one thing the founding fathers deliberately built into the Constitution was to make it hard to pass legislation. They didn't want all that much legislation because they didn't want all that much government.

Getting a more equitable sharing of the common defense burden is a tough one. It's a tough one because, for example, the obvious problem is Japan. Japan spends about 1 percent of its GNP on defense. Now that Japan is a rich country, shouldn't it spend about the same percentage as we do? There is a strong case for it, but the Japanese have an obvious answer which is that they are subject to the limits that we imposed on them with the peace treaty.

There is another aspect we've got to think about. If Japan seriously started out on the path of building a major defense capability, there would be a lot of nations in Southeast Asia that would be very disturbed, because they wouldn't be sure of where that's going to end. Frankly, I would be disturbed too. And, by the way, a lot of people in Japan would be disturbed for the same reason. It's a knotty problem. For the period ahead, we're still going to have to carry a disproportionate share of the defense burden. Of course, one of the problems with the European economic community is that it does resemble the definition of a committee, which is that individually they can do nothing and collectively they agree that nothing can be done.

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.

Research Professorship to Honor Jack Sparks Is Established by the Whirlpool Foundation

The Jack D. Sparks-Whirlpool Corporation Research Professorship in Business Administration has just been established with a $500,000 gift pledged by the Whirlpool Corporation.

The professorship is being established in honor of Jack D. Sparks, former chairman, president, and chief executive officer at Whirlpool. During his years at the head of Whirlpool, Sparks led the company through a bold and significant "change effort," positioning Whirlpool for long-term results in an increasingly competitive world.

Holders of the new professorship will be distinguished scholars who have made important research contributions in their respective fields. Appointments will be for one term, during which time the professor will be free from regular duties and thus able to pursue intensive research.

It is particularly appropriate that this sort of a professorship is established in Sparks' name, as he has always championed education and the development of vital endeavors, both at Whirlpool and in society. He joined Whirlpool as a laborer when he was 16 years old, returned to the company in a position in personnel after serving as a pilot in the Air Force during World War II, and worked his way through sales and marketing to become CEO.

Sparks did not let his lack of a college degree interfere with his

Jack D. Sparks, former chairman and CEO of the Whirlpool Corporation.

education. "Two things in my life kept me current," he is quoted as saying in the book, "The Transformational Leader," by Noel Tichy and MaryAnne Devanna. "One, I've always read everything I could find on subjects that interest me. Two, I kept outside contacts. I went to Conference Boards. I went to marketing seminars. I went where I thought I could meet people and learn."

In commenting on the new professorship, Dean Gilbert R. Whitaker, Jr., said, "The continuing growth and success of Whirlpool Corporation in this era of change are a direct result of Mr. Sparks' personal vision and leadership. He institutionalized change itself within the corporation as a nurturing affirmative way of life instead of a necessary evil for survival. By word and deed, he reassured all who came in contact with him that Whirlpool's core values of ethics, honesty, fair play, and concern for people were not displaced in the corporation's quest for global market leadership. It seems highly appropriate that he should be honored by the establishment of this research professorship."

$25,000 Zell/Lurie Teaching Fellowship Offered to Faculty Interested in Entrepreneurship

Conformists, traditionalists — and professors of business — need not apply for a $25,000 teaching fellowship offered through the University of Michigan School of Business Administration.

But faculty members who love risk, innovation, and non-traditional teaching situations may qualify for the new Zell/Lurie Fellowship for the Teaching of Entrepreneurship, a competition open for the first time to faculty at institutions across North America. The fellowship's sponsors — Sam Zell and Robert Lurie — own the Equity Financial Management Company of Chicago, Ill.

The competition's North American launching follows a four-year trial period during which a teaching award was offered to faculty from four Midwestern universities. Now a fellowship, it carries a $25,000 award and a full salaried academic year appointment at the U-M School of Business Administration. Non-business faculty only from any four-year college or university in North America can compete. The faculty member who submits the winning proposal for the teaching of entrepreneurship will develop and teach a course on that subject at the Business School.

"We decided to exclude business faculty from consideration because we want the teacher of the course to provide new blood, a completely new approach to the teaching of entrepreneurship," said Dean Gilbert R. Whitaker, Jr. "The fellowship is designed to attract individuals who have fresh ideas on the topic and who can bring perspectives from disciplines not normally associated with entrepreneurship.

"For example, a professor of anthropology who has experience in teaching people to change their behavior dramatically, could be just what we're looking for," said Merle Crawford, professor of marketing and member of the Zell/Lurie Award Committee. "A person who has taught primitive tribespeople to adapt to modern civilization might also inspire college students to embark on challenging business ventures," he said.

Crawford added that the fellowship program is looking for an effective method of teaching entrepreneurship, an approach that goes beyond enhancing the entrepreneurial skills of those already committed to the field.

In addition to the award money, the successful fellow will receive two-way moving expenses and a full salary and benefits. During the academic year in residence, he or she will develop and teach one course per term.

"We hope to provide an opportunity for individuals to increase the entrepreneurial impulse across a broad range of students, both graduate and undergraduate, from fields as diverse as business, art, music, social policy, and computer science," Crawford said.

From the initial entries, the committee will choose five individuals who will receive cash awards of $1,000 each and be asked to submit longer, more detailed discussions of their ideas. From these proposals, a finalist will be selected. The selection committee will include Zell, Lurie, and three U-M School of Business Administration faculty.

First Manufacturing Forum Considers Strategic Issues

The first Manufacturing Forum, sponsored by the School's new Office of Manufacturing Management Research, was held in December with senior manufacturing managers from 17 different companies attending. The Forum's purpose is the establishment of a long-term relationship between the Business School and the manufacturing sector to forge solutions to the pressing problems of manufacturing management.

Guest speakers at the Forum included Donald Frey, chairman of Bell & Howell Co., who spoke on "University-Industry Relations — The Industry Perspective"; B. Joseph White, associate dean, who spoke on "University-Industry Relations — The University Perspective"; and Paul Gelardi, vice president and COO of Shape, Inc., who spoke on "Strategic Issues in Manufacturing Management."

The Forum also included time for break-out groups to identify and discuss strategic issues in manufacturing. Material generated by these groups will ultimately be converted into researchable questions by the combined Forum-faculty groups.

A major purpose of the Office of Manufacturing Management Research is to develop applied research projects to promote sustained vitality of the manufacturing sector of the economy. Projects are currently being developed in three broad program areas. They are: quality, technology management, and manufacturing systems. Each of these areas will be the focus of one day conferences in 1988. The first, on quality, is scheduled for March 30-31, 1988. The technology management group will host a conference on manufacturing modernization on May 12-13. The manufacturing systems conference will be held in September 1988.

Funding for the Office was initiated by the School of Business Administration, and projects are currently being supported by the National Science Foundation and the National Aeronautics and Space Administration.

Manufacturing Forum members contribute $5,000 annually to support the Forum and to fund, through seed money, projects, applied research studies, and industry experiments that address the concerns of the group and use the strengths of the University's applied research community.

Members of the Manufacturing Forum include: Cadillac Motor Car Division of General Motors; Cummins Engine; Donnelly Corporation; Dow Chemical Company; Ford Motor Company; General Electric; J.P. Industries, Inc.; Knape & Vogt Manufacturing Corporation; PPG Industries, Inc.; Rockwell International; S. C. Johnson; Steelcase Inc.; TRINOVA Corporation; Unisys; the Upjohn Company; and USS, Division of USX Corporation.

Further information about the Office of Manufacturing Management Research and the Forum may be obtained by writing John E. Ettlie, Director of the Office of Manufacturing Research, School of Business Administration, The University of Michigan, Ann Arbor, Michigan 48109-1234, or by calling the Office at (313) 936-2835.

Article on B School Appears in Finance Director International

An article on the Michigan Business School's leadership role in globalization of business school curricula appeared in Finance Director International 1987 (UK Edition).

The article was written by Steven LaCivita, Marketing Director for the Executive Education Group. The publication is issued to finance directors and senior management of leading companies in the United Kingdom and Western Europe.

New Office of Tax Policy Research Is Established at the Business School

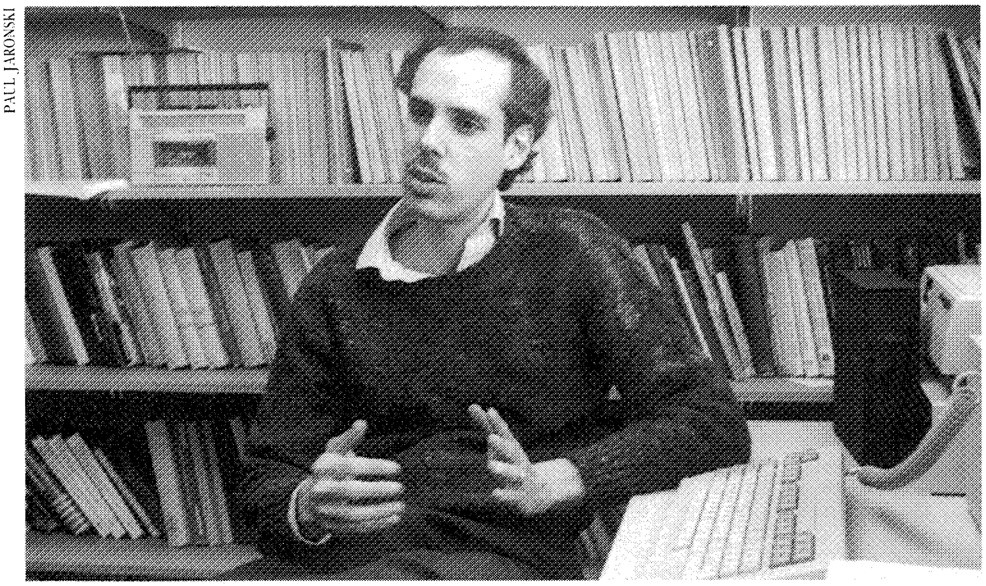
It takes us about two billion hours per year to prepare our tax returns, if you figure an average of 20 hours per taxpayer for 100 million taxpayers. That's the equivalent of 1 million extra civil servants working full-time. This mind-boggling cost of compliance does not count the hours accountants spend. If you figure their fees at $45 per taxpayer, that's another four and a half billion dollars!

These interesting numbers were just a few of the items mentioned by Joel Slemrod, associate professor of economics and business economics, when *Dividend* interviewed him about the new Office of Tax Policy Research established at the Business School this year, with Slemrod as Director. One of Slemrod's particular research interests is the cost of compliance with the tax system, and what factors influence whether or not people comply.

All of the activities of the Office of Tax Policy Research share the common goal of promoting high-quality research in tax issues, and of disseminating the fruits of this research outside of the academic community.

Planned activities of the Office will fall into two categories. First, it will initiate and coordinate large scale research projects on taxation topics of current policy interest and scholarly importance. Second, it will sponsor several continuing programs designed to promote research in taxation, such as awarding one or more thesis research fellowships, sponsoring an exchange program with government agencies, and initiating a visiting scholar program and a visiting speaker series.

Programs that the Office is interested in include a research conference on compliance with tax law and an evaluation of recent tax reform. "There was a lot of analysis before tax reform was passed," says Slemrod, "but there has not been so much analysis after, to see what really happened. For example, there were those who said the tax reform bill would have terrible effects on the restaurant business, because it would only allow businesses to deduct 80% of business meals as write-offs. However, it seems that there was no noticeable effect on the restaurant business. Why?"



PAUL JARONSKI

Dr. Joel Slemrod, newly-appointed director of the new Office of Tax Policy Research, established at the Business School this year.

"Arthur Young has given The University of Michigan money to buy all the data sets that come out of the IRS," says Slemrod. "Each of these data sets contains about 100,000 tax returns, so we have an enormous amount of valuable data. One thing we are working on now is a 'tax calculator,' which is a computer program that uses this data to simulate the current tax law and the effects of proposed policy changes. Eventually I hope our Office will have the capability to respond very quickly with analyses of the economic results of current policy alternatives."

The Office of Tax Policy Research will encourage and facilitate joint research on the tax system by economists, accountants, and scholars of other disciplines. The interdisciplinary approach of the Office will encourage broader insights into the difficult policy issues that face both the federal and state governments. It will draw on the substantial data resources and expertise already existing at The University of Michigan and also involve scholars from outside the University. The results of its projects will be made available to the public through conferences and scholarly publications, as well as publications aimed at policymakers, business, and other non-specialist audiences.

Slemrod received his undergraduate degree summa cum laude from Princeton University, attended the London School of Economics and Political Science, and received his Ph.D. degree from Harvard University. He joined our faculty from the University of Minnesota, where he was associate professor of economics. He served as senior staff economist for tax policy at the President's Council of Economic Advisers from 1984-85, and held a National Fellowship at the Hoover Institution at Stanford University from 1983-84.

In 1985, Slemrod received the James Barr Memorial Award for the Outstanding Paper in Public Policy, presented by the Association for Public Policy and Management. He has published extensively on the subjects of public policy and taxation. He is a research associate for the National Bureau of Economic Research; a member of the IRS Consultants' Panel for Statistics of Income; and was a consultant for the World Bank in 1987.

What's It Like Out There? MBA Student/Alumni Forum Gives Some Answers

Keynote speaker, Keith Alessi, MBA '79, loosened his tie, stepped away from the microphone, and spoke bluntly about what to expect when entering the business world. He was talking to a full house of MBA students who were attending the 8th annual MBA/Alumni Forum, an annual event designed to give students a chance to hear from recent alumni what they've learned about the working world since graduation from Business School. After a keynote talk, students and alumni break into small groups according to profession where more specific discussion takes place.

Alessi began his address with a review of his own career to illustrate the importance of learning on the first job. "In your first job you're at the bottom of the heap — a private," he said. "Listen to the people in the corporation. Ask what is important in their jobs." He stressed the importance of the Michigan network as a key information resource, both on the job and in the job search. There are always experts willing to help another member of the Michigan family, he said, adding, "If a Michigan student calls me, I've always got time to talk."

Alessi is senior vice president and chief financial officer of Richfood, Inc., a retailer-owned wholesale food distributor based in Richmond, Virginia. Last year, annual sales totaled nearly $1 billion, an increase of 8.4% over the previous year. He has been with the company since July '86 and currently oversees all finance and accounting functions, as well as management information systems, retail sales, retail development, and engineering.

Before joining Richfood, Alessi was executive vice president and chief financial officer of Nu-Trax, Inc., a company formed by Alessi and partner Wendell Smith to buy out 33 Chatham supermarkets and 8 Pak-n-Save food warehouse stores in Metropolitan Detroit. When Nu-Trax, Inc., was sold, Alessi went into a short retirement before returning to work for Richfood, Inc. He also has worked as a senior accountant for Deloitte, Haskins and Sells and as secretary-treasurer and CFO for Certified Grocers in Chicago.

Alessi emphasized the importance of management skills and the ability to be tough. "You have to be able to belly up to the bar and fire people. It's a war. There are people who want to take your guts out. They want to take your business," he said. "Success takes personal commitment and sacrifice," according to Alessi. "You may need to work 90 to 100 hours per week. . . . A Michigan education is a calling card but there is no free lunch."

After the keynote address, students broke into smaller groups according to profession. In each group, a panel of recent alumni, '84-'86 MBAs, gave brief introductions to their fields and answered students' questions. Fields represented included commercial banking, human resources, investment banking, small business/entrepreneurship, operations management, computer information systems, consulting, marketing, and corporate finance.

A shared theme in all of the small groups was the difference between expectations and reality on the first job. "There are a wide variety of situations. If you expect to work only in finance, be prepared to work with people. Believe it or not, you'll have to use your OBIR skills," advised Clifford Peterson, MBA '86.

"How do you decide which job offer to take?" one student asked in the corporate finance discussion. The panel consensus was to leave your options open and try for as many interviews as possible but, as a final decision, "Do what you like because you have to put in a lot of hours doing it," said Joseph DaMour, MBA '85. In reply to a similar question in the marketing discussion, Michael Malony, MBA '86, told students, "Be honest with yourself. Know how much you are willing to work and don't go to work somewhere that expects more."

Students sat amazed at answers to the recurring question, "How many hours do you work every week?" The answers ranged from 50 to 70, and, on particularly hectic weeks, even more. "At first I thought they were joking about working 100 hours a week," said one second-year MBA student after the forum.

Another major theme was learning on the job. "I like to think of myself as a sponge," Michael Jansen, MBA '86, said. But learning is more than just a benefit, according to Linda Jones, MBA '86. "At McKinsey (& Co.) it's up or out. If you aren't ready to make the next step, you can't stay where you are. You probably won't get fired," she explained, "but you'll just know that it's time to try something else."

by Lisa Cripps

Stock Market Crash Highlights Diversity of B School Students

Did the crash of Black Monday worry our Business School students? Yes. But the contraction on Wall Street will probably not have the devastating impact on our students that it may have on some business schools on the East Coast, where as many as 30 to 40 percent of any graduating MBA class take jobs in investment banking.

Traditionally, only some 9 to 11 percent of Michigan MBA graduates become investment bankers, according to Peggy Carroll, our placement director. She adds that Michigan Business School students choose fields representing a broad diversity.

The five largest fields chosen by University of Michigan MBA graduates in 1987 were consumer goods manufacturing firms, 11%; automotive companies, 11%; investment banking, 9%; commercial banking, 9%; and consulting, 13%. In addition, 4% of the students are now going into production and operations management; twice as many as chose that field three years ago.

Jesse Hill, MBA '49, Receives '87 Business Leadership Award

The 1987 Business Leadership Award is presented to Mr. Hill by Jim Glazer (left), president of the Business School Student Council, and Ed Moise, vice president of the Student Council. Both are 2nd year MBA students.

Jesse Hill, Jr., MBA '49, president and chief executive officer of Atlanta Life Insurance Company, received the 1986-87 Business Leadership Award, October 15, in Hale Auditorium. Before accepting the award, Hill spoke on "Management: Today's Challenge." A reception followed in the Assembly Hall Lobby.

Directly after graduation from the Business School in 1949, Hill began his career as an actuarial assistant with Atlanta Life, the nation's largest financial institution owned and controlled by Black Americans. In 1954, he was promoted to actuary and, in 1970, became vice president-chief actuary. The board of directors elected him president, CEO, and chairman of the executive committee in 1973.

As president of Atlanta Life, Hill is one of the best known Black business leaders in the country. His company does business in 12 states and serves nearly 585,000 policyholders with over $1.6 billion of insurance in force.

Hill, raised by his mother and grandfather, got his first business education on the streets of St. Louis. "I consider my grandfather the smartest man I have ever known," he says. "He was a peddler and I would accompany him. We sold ice and watermelons in the summer, and wood-burning stoves in the winter. You had to sell your ice before noon or it was gone. If you didn't have business acumen, you were sunk."

Hill attended Lincoln University in Jefferson City, Missouri, and knew as a college student that he wanted to work in the insurance industry. A strong friendship with one of his professors gave him the necessary encouragement and direction to seek a graduate degree, and the U-M was one of only two universities that offered an MBA in actuarial science at that time. Hill received his MBA from the U-M in 1949, and joined Atlanta Life that same year.

"The story of Atlanta Life is more than the story of a business," said Hill at the award presentation. "It is indeed a story of a quest for economic dignity and growth launched by the founder."

The founder of Atlanta Life was Alonzo Herndon, a former Georgia slave. The company began as a church affiliated organization to provide sickness and burial insurance to Atlanta's Black population. But in 1905, the State of Georgia passed a law requiring these kinds of organizations to put up a $5,000 surety deposit or lose their right to continue operations. The two Black ministers in charge of the organization could not comply with the new law. At this point, Herndon, owner of three barber shops in downtown Atlanta, put up the $5,000 through aid from friends and connections in the white community. Herndon then purchased the Association for $140. By the end of that year the company had sales in several Georgia cities of nearly $181,000 and more than 6,300 policies in force.

By 1922, the company had increased its capital stock to $100,000 and was renamed Atlanta Life Insurance Company. Alonzo Herndon died in 1927, and the presidency of the company passed to his son, Norris, an alumnus of Atlanta University and the Harvard Graduate School of Business. Under his direction, Atlanta Life expanded into 11 states in the South and Midwest, and by 1950 listed assets of $23.9 million.

Company president Norris Herndon had closely followed Hill's performance as he worked his way up the ranks of Atlanta Life. In 1973, Herndon retired and, with the board of director's approval, appointed Hill president and CEO of the company.

"Today, as I stand in this place of honor," said Hill on receiving the Business Leadership Award, "I know well that I stand on the shoulders of Mr. Herndon and other Black pioneers who have gone before, who sacrificed and struggled taking the modest but important first steps."

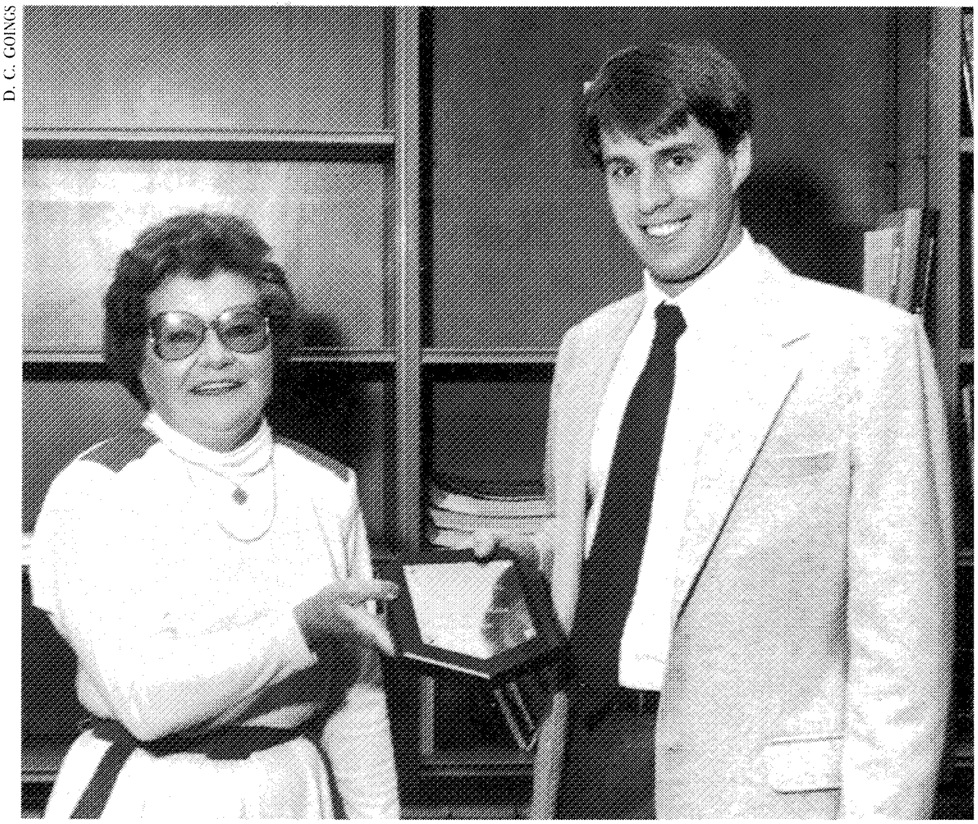
In his address Hill focused on the challenge of America's minority economic development. "Our country desperately needs more successful minority business role models," he said. "Today, among the white population, 12% work as proprietors and managers. For minorities, the comparable figure is less than 3%. By the year 2020, it is estimated that 40% of the American population will be Black and Hispanic. A growing number of minority businesses, while small by Fortune 500 standards, have sales ranging between $25-100 million. Many of the newer minority firms (Maxima; Carl Brown's Mandex; ETA Technologies of Los Angeles; Systems Management Americas of Norfolk; Ed Romero's Advance Sciences Inc.; Integrated Systems Analysis Inc. of Arlington, Virginia; Ted Adams; United Industries) are in medium or high tech fields or are computer-related. These firms have demonstrated success and many of them need new commercial markets and capital for expansion."

"American companies must reflect on the demographics of America and realize that by 1995, one-third of the college-age population of this country will be Black or Hispanic, and primarily from the cities," Hill continued. "Unless these youngsters, who are now in the second grade, are to be non-productive, they must become literate, not only in the sense of reading and writing, but exposed to science, math, and technology. Unless they acquire these skills, where will American companies find their future?"

Hill was the first Black to serve on Georgia's Board of Regents, the first Black on the board of directors of Rich's Inc. department store chain, and the first Black to become president of the Atlanta Chamber of Commerce. He has also given his abundant energy to political causes, and has been active in the civil rights movement. For almost ten years he served as chairman of the All-Citizens Registration Committee in Georgia, which raised more new voters than any other state in the South.

Hill currently serves on the Board of Directors of Delta Airlines, Morse Shoe Co., Knight Ridder Newspapers, Communications Satellite Corporation, and Trust Company of Georgia Bank and National Service Industries.

D. C. GOINGS



Thanks for Everything, Terry!

That was the message Business School Ph.D. students wanted to send Terry Jenkins, when she received their 1986-87 Ph.D. Forum Outstanding Service Award. She is pictured here along with Dan Horne, president of the Ph.D. Forum, who presented the award. Terry, who is coordinator of building services, received the award at a reception in her honor November 4.

Japan News Database and the WSJ Since 1889 Are Acquired by Kresge Library

The Kresge Business Administration Library is one of 20 sites selected nationally to receive a new English language database, Japan News and Retrieval, which offers online access to vital economic information on Japan and Japanese financial markets.

Available through NEC Corporation of Japan, the database includes the full text of news from daily newspapers, current data on stocks, bonds, and money markets, historical stock data, financial statements of all listed companies, and statistics on production, shipment, and inventory.

The Library has also just purchased the Wall Street Journal from 1889 through 1950 on microfilm from University Microfilms International. Through this acquisition, the Library will expand the collection to provide a complete run on WSJ from its beginning in 1889. Because of this purchase, the Library will be able to discard 45 years worth of brittle, deteriorating bound volumes from the years 1905-50, and thus free up 660 linear feet of shelf space in the fourth floor stacks.

At the same time, the Asian Wall Street Journal is being acquired from its beginning in 1976, and continuing on from there. University Microfilms International has given the Library a user station which can be used to play compact disc services, such as the ABI/Inform system for which the Library has been a test site.

D. C. GOINGS

Welcome to the Phelps Lounge!

D. Maynard Phelps, professor emeritus of marketing, and Dean Gilbert R. Whitaker, Jr., emerge from the new D. Maynard Phelps Lounge, named in honor of Professor Phelps. In case the Lounge looks familiar to you, it is the old executive lounge, located in the Assembly Hall building. Professor Phelps joined our faculty after graduation in 1926, and received his Ph.D. in 1931.

Scholarship Fund Created to Honor Professor Pilcher

An endowed scholarship fund bearing his name is being established to honor C. James Pilcher, professor emeritus of finance, who retired last year after being a member of our faculty since 1948.

His former students, colleagues at the University, and friends are joining the effort for the scholarship. Already, $65,000 has been raised.

Former students are contacting their classmates to secure special, one-time commitments to raise a minimum of $100,000. Ray E. "Buzz" Newton, Jr., BA '56, MBA '59, is chairing the committee of former students. Other committee members are Thomas B. Bender, BBA '55, MBA '59; John C. Grant, BBA '55, MBA '59; and Harry H. Jones, BBA '54, MBA '55.

In ceremonies at his retirement last spring, the U-M Regents cited attributes Pilcher's students enjoyed over the years: his caring and supportive attitude; his genuine interest in their success; and his personal satisfaction in keeping track of their accomplishments. He has been teacher, friend, and mentor to thousands of students over his long career.

Those wishing to make a tax deductible contribution to the fund should send their gift made out to The University of Michigan, and mailed to: The C. James Pilcher Scholarship Fund, Office of External Relations, School of Business Administration, The University of Michigan, Ann Arbor, Michigan 48109-1234.

Rob Kazanjian's paper, "The Analysis of Cross-Classification Data: A Prediction Approach," has been published in the *Academy of Management Best Papers Proceedings 1987*. It was co-authored with Robert Drazin of Columbia University. Rob also presented two other papers at the annual meeting of the Academy of Management, held in New Orleans. One, entitled "Strategy and Technology: Toward an Integrated Framework for Critical Choices," was co-authored with Sam Hariharan from The University of Michigan. The other, entitled "A Stage-Contingent Model of Venture Design and Growth," was co-authored with Robert Drazin.

Don Barclay has won the 1987 Dissertation Competition of the American Marketing Association. His dissertation was entitled "The Impact of the Organizational Context on Conflict in Organizational Buying: A Systems View." Members of his committee were **Michael Ryan** (chairman), **Claes Fornell, Ray Hill,** and **Robert Kahn.** He is now assistant professor at the University of Western Ontario.

Trevor Hopper, visiting assistant professor from the University of Manchester, England, is co-editor of the book, *Debating Coal Closures*, published by Cambridge University Press. The book reproduces articles and reports written during the 1984-85 coal dispute in the UK, and addresses general issues of industrial and national policy, including concerns about the interface of accountancy and economic calculation in industrial relations.

The Marketing faculty was well represented in the November issue of the *Journal of Marketing Research*. The issue includes papers as follows:

"Defensive Marketing Strategy by Customer Complaint Management: A Theoretical Analysis," by **Claes Fornell** (co-authored with former Business School faculty member **Birger Wernerfelt**). "Picture-Word Consistency and the Elaborative

Faculty News Notes

Processing of Advertisements," by **Susan E. Heckler** (co-authored with Michael J. Houston and Terry Childers). " 'Don't Know' Item Nonresponse in a Telephone Survey: Effects of Question Form and Respondent Characteristics," by **Claude R. Martin, Jr.** (co-authored with former Ph.D. student, James H. Leigh).

The University of Michigan played a major role in the annual meeting of the Academy of International Business in Chicago recently. Faculty members and Ph.D. students participated in 20 different activities at the meeting. Before the conference, **Vern Terpstra** chaired a junior faculty workshop on research in international marketing. **Ed Miller, Bill Moller,** and **Vlado Pucik** were other Michigan faculty presenting papers. **Joseph Yu,** now at Illinois, was a finalist in the dissertation competition.

Herb Hildebrandt was the distinguished lecturer at the World Communication Association at Norwich University, England. He also presented papers on intercultural communication issues in multinational companies for the Beijing Institute of Economic Management and the Beijing Economic Commission, and at international service symposia in Singapore and Athens. Recently he presented a paper on Asian/U.S. managerial communication differences at the International Association of Business Communication Conference in London.

Michael Johnson's 1984 paper, "Consumer Choice Strategies for Comparing Noncomparable Alternatives," was one of four finalists for the Association for Consumer Research's 1987 JCR award for the best paper appearing in the *Journal of Consumer Research* over a three-year period. **Michael Johnson** and **Claes Fornell** also report that their paper on "The Nature and Methodological Implications of the Cognitive Representation of Products" was recently published in the September issue of the *Journal of Consumer Research*.

Claude Martin has been named Chairman of the Research Committee for the American Academy of Advertising for 1987-88. He has served on the committee for the past five years. Among its activities is the administration of grants in the field of advertising research.

Vern Terpstra has had four journal articles accepted for publication in the past few months. Two articles were solo-authored and two were co-authored with Michigan Ph.D.s. — one with Joseph Yu and one with C. Min Han. They will be published in the *Journal of International Business Studies* and in the *International Marketing Review*.

Cindy Schipani presented her paper, "The Lender's Dilemma: National and International Automated Data Complications in Perfecting a Security Interest in Accounts," at the American Business Law Association National Convention in Philadelphia. This paper also has been accepted for publication in the *New England Law Review*.

Tom Schriber gave an invited 90-minute state-of-the-art address on "The Nature and Role of Simulation in the Design of Manufacturing Systems" at the 1987 European Simulation Multiconference held in Vienna this summer. While on sabbatical leave at the Institute for Operations Research at the Swiss Federal Technical University in Zurich (ETH-Zurich), he also held seminars at the University of Heidelberg and the University of Regensburg (Germany), as well as at ETH-Zurich.

Martin Piszczalski's paper, "Flexible Manufacturing Systems, Strategies for Spending Millions," was published in the August issue of *Managing Automation*. Another of his papers, "How to Plan and Build Computer Integrated Manufacturing Systems — Architectural Issues," was also published in *Managing Automation*, October 1987.

Manfred Kochen recently presented a paper on the use of fuzzy sets theory to analyze negotiation processes at an international conference on fuzzy sets and knowledge engineering in Guangzhou, China. The paper was co-authored with Yufei Yuan. He also presented another paper (co-authored with Yufei Yuan) showing that matching is a good prototype problem in "fuzzy sets theory" at the 2nd International Fuzzy Sets Association Conference in Tokyo. Kochen also gave invited lectures at Sichuan Universities in Beijing and in Tsukusa (Industrial Products Research Institute). In September, he chaired an NSF-supported workshop in clustering and knowledge organization at the Institute for Scientific Information in Philadelphia. Now on sabbatical, Kochen is a Congressional Fellow with Senator Carl Levin, helping to prepare hearings on automation in small business.

Kathy Stecke gave some FMS overview seminars at the NATO Advanced Study Institute on Computer Integrated Manufacturing: Current Status and Challenges in Istanbul, Turkey, August 30-September 12, 1987. Her paper, with Elyong Kim, entitled "Comparison of Various Approaches to Part Type Selection in Flexible Manufacturing Systems," is in the *Proceedings of the International Conference on Production Research*.

Class Notes

'48 Edward N. David, BBA '48, writes us with this news. "After graduation I returned to my home town of Grand Rapids, Michigan, and became associated with a local food brokerage company. After being associated with that firm for 14 years, I started my own food brokerage company and since have been successfully engaged in operating the Ed David & Sons, Inc. brokerage for over 23 years. We represent national, regional, and local branded food and non-food products. In 1985, our two sons, Roger and Joseph David, entered the business as full partners. The addition of younger talent has not only resulted in increased sales and distribution of the products we represent, but has also been instrumental in our acquiring new product lines of food and non-food lines to sell within the Michigan marketing area." Ed adds that he hopes Michigan graduates in the food business will read this article and contact his company.

'56 Jack A. Rounick, BBA '56, has taken a position as vice-president and general counsel with Martin Lawrence Limited Editions, Inc., Fort Washington, Pennsylvania, a publicly traded company, after having served as partner and co-managing partner of Pechner, Dorman, Wolffe, Rounick & Cabot. In his new position, he is in charge of real estate acquisition for a national chain of art galleries being established by Martin Lawrence Limited Editions, Inc. Jack also serves on the board of directors of Martin Lawrence Limited Editions, Inc. and Deb Shops, Inc., another publicly-held company. He lives in Fort Washington, Pennsylvania.

'57 Richard Y. St. John, MBA '57, of East Grand Rapids, manager of community relations of the Upjohn Company, Kalamazoo, Michigan, was appointed to the Western Michigan University Board of Trustees by Governor Blanchard for a term expiring December 31, 1994. Richard is also a member of the Kalamazoo Rotary Club, the U.S. Chamber of Commerce Public Affairs Task Force, the Great Lakes Governmental Affairs Committee, and the Kalamazoo Forum. He serves as corporate representative to the State Governmental Affairs Council and corporate liaison to the Michigan Manufacturers Association and the Michigan State Chamber of Commerce. He is a member of the Michigan Department of Natural Resources Leadership Institute.

'58 John S. Munn, MBA '58, has been president of Wheel Horse Products, Inc., since March 1982. The company manufactures lawn and garden tractors, riding mowers, and attachments. John was one of several officers of the company who participated in the management buyout of Wheel Horse from American Motors Corporation in August 1983, and the subsequent sale to the Toro Company in December 1986. Prior to 1982, John was employed by American Motors as director of corporate development, director of corporate planning, and director of

Sherwin Birnkrant, BBA '49, MBA '51, Is Elected Chair of ABA Section

Sherwin Birnkrant, BBA '49, MBA '51, has been elected chairman of the American Bar Association Section of Urban, State, and Local Government Law.

He will lead the 5,500 member section in its development of association policies that influence governmental administration and relationships.

Sherwin spent 27 years of public service in the legal department of the City of Pontiac, Michigan. He had been city attorney since 1967, and counted among achievements of the department during his stewardship the contract and finance development work for the Pontiac Silverdome, contract and finance development of Pontiac General Hospital, and the acquiring of scheduled commercial air service at Pontiac Municipal Airport. He has now retired from public service and is a member of the Southfield law firm of Schlussel, Lifton, Simon, Rands, Galvin & Jackier.

With a membership of 340,000, the ABA is the largest voluntary professional association in the world. In the ABA, Birnkrant has been vice chairman of the Coordinating Committee on a Model Procurement Code since 1974. The code covers purchasing and procurement practices for state and local government. He also is active in the Section of Public Contract Law, where he has been Michigan chairman since 1978, and is currently co-chairman of the Ethics and Conflict of Interest Committee. He holds a JD from Wayne State.

finance-product group. Before joining AMC in 1969, he served as a management consultant with the firm of Booz, Allen & Hamilton and held a variety of marketing and financial assignments with Sperry Vickers. In 1987, John served as president of the Outdoor Power Equipment Institute (OPEI), the largest trade association serving consumer and commercial outdoor power equipment manufacturers and industry suppliers in the U.S. He has been a member of OPEI's Board of Directors since 1985 and has served as chairman of its Technical Advisory and Future Plans Committees. He was elected vice president of OPEI in 1986 and president in 1987. John, who also holds a BSE from The University of Michigan, lives in South Bend, Indiana.

'60 WAYNE PATTERSON, BBA '60, is executive director of Naval Weapons Station Earle, located in Colts Neck, New Jersey. He is responsible to the commanding officer for the direction and management of the station's engineering, production, and industrial programs. Wayne says the executive director provides a senior civilian position to assist the commanding officer in overall station management and allows for a continuity of corporate management, particularly during a change of command. Patterson says he will deal specifically with internal management of the station, freeing the commanding officer to work externally, particularly with the fleet and higher headquarters. Wayne comes to NWS from Naval Air Engineering Center at Lakehurst, where he was the director of corporate planning and management. In that role he acted as principal advisor to the commanding officer and other top management on long-range planning for the center.

'62 JEFFREY JARRETT, BBA '62, is the author of Business Forecasting Methods, published by Basil Blackwell, Oxford, England, 1987. The book is described

Philip L. Smith, BBA '51, MBA '52, Featured in Fortune Magazine Article About What Sets Leaders Apart from Everyday Managers?

Business School graduate Philip Smith, CEO of General Foods Corporation, is one of the corporate leaders featured in the article entitled "Wanted: Leaders Who Can Make a Difference," which ran in the Sept. 28, 1987, issue of Fortune Magazine.

The article makes the point that mere management isn't good enough anymore. Managers do the same thing over and over, but it takes a leader to innovate, and possibly to transform the way his company does business. The article addresses, in part, the question of what sets leaders apart from everyday managers, and they use Smith as an example of a leader.

When the Board of Directors picked Smith for president of General Foods in 1981, says Fortune, they were well aware they were picking a man who wanted to change the company. Today, General Foods puts as much effort into leadership development as any corporation.

The Fortune article quotes Smith as saying that as his career progressed, he saw "rather dramatic changes in the performance of divisions when the only thing that had changed in the division was the leader." He became convinced that developing and selecting leaders was "the foundation for all growth at General Foods." In the 1970s GF had become overcentralized, Smith says; its executives spent too much time analyzing and too little time acting, and the company lost touch with its customers.

To bring out leadership qualities latent in his top management, Smith started a program for the 400 highest-ranking executives, sending them off in groups of 15 to 18 for three days at corporate retreats such as Arden House, in the hills near the Hudson River north of New York. Smith always attends these meetings to discuss his ideas about leadership and to expound his vision of General Foods as "the world's premier food and beverage company." Executives spend a day with counselors going through questionnaires that had been filled out anonymously by ten people they work with, including subordinates. The higher the executive, the more revealing the answers tend to be.

The Fortune article also discusses the work of Noel Tichy, professor of organizational behavior and industrial relations at the Business School, who has recently written a book entitled, "The Transformational Leader," with Mary Anne Devanna of Columbia University. The book makes the point that the transformational leader must be able to change things, to work a substantive difference in an organization, in contrast to the merely "transactional" manager who keeps on cutting the same kinds of deals with employees, customers, and society-at-large. It goes on to profile some of these transformational leaders and to analyze their qualities.

Can you teach that kind of leadership? Fortune quotes Tichy as saying, "Everyone can improve, but not everyone can become world class." He estimates that 80% of a leader's growth comes from his job experience, but that the remaining 20% can be shaped by training and study.

as follows: "The powerful techniques of business forecasting are increasingly important in modern industry. This new and comprehensive text for advanced undergraduate and postgraduate students of management and business examines the techniques, the mathematical basis which underpins them, and integrates throughout the use of computer software. Using numerous real life cases and examples, Jeffrey Jarrett demonstrates the advantages and limitations of the forecasting techniques being studied. By focusing on forecasting at the level of the firm and industry, the importance of interpreting results is emphasized. A major aim of the book is to bring out fully the use of computerized forecasting programs. Output from a number of powerful software systems is presented and analyzed to demonstrate the methods used. The book includes a review of qualitative methods for the forecasting of inflation and business cycles." Jeffrey, who received his MBA and Ph.D. in New York, is currently chairperson and professor of management science at the University of Rhode Island.

'65 ALFRED M. PELHAM, JR., MBA '65, is now on the faculty of the University of Northern Iowa, where he is Director of the Small Business Institute. He is the son of Doris Pelham and the late Alfred M. Pelham, who graduated from the UM with a major in business administration in 1922.

'67 ARNOLD VAN ZANTEN, BSE '65, MBA '67, was promoted to senior vice president of operations of Coastal Corporation's newly formed retail division, which has over 800 convenience stores and gas stations in 19 states, and plans to expand significantly in 1988. The company is based in Houston, Texas.

R. J. Niehaus, BBA '51, Becomes CEO of Fischbach & Moore, Inc.

Robert J. Niehaus, BBA '51, is the new CEO and Vice Chairman of Fischbach and Moore, Inc., the largest electrical contractor in North America, with headquarters in New York City.

The company is a large national contractor made up of district offices and many local companies operating nearly autonomously, with their own local identity. F & M maintains over 40 permanent local and regional offices in nearly every major market area, and is engaged in every conceivable type of electrical construction.

Niehaus previously worked at Fischbach corporation as senior vice president. During his tenure at the New York corporate office, he participated in a number of administrative projects involving marketing, real estate, and other corporate matters. He was also supervising corporate officer for W. Heath and Company.

Prior to joining Fischbach corporation in July, 1983, Niehaus held a number of management positions with Wallace-Murray corporation and Schwitzer corporation. In those capacities he managed companies and groups of companies in the tool, building products, and power components industries. As group president at Wallace-Murray, he built foreign and domestic manufacturing facilities, acquired, integrated, and divested companies, and conducted business on four continents.

'71 JEFF ASHPITZ, MBA '71, writes that he is now managing director of Cyanamid Philippines. Cyanamid is a research-based biotechnology and chemical company which develops medical, agricultural, chemical, and consumer products and manufactures and markets them throughout the world. Jeff is also on the board of directors of the Cyanamid Agricultural Research Foundation, Inc., in Calamba, Philippines, as well as the consumer company, Shulton Philippines, makers of Old Spice. Jeff, his wife Ruston, and new baby daughter Mary Madison, live in Manila.

'72 JAY AUWERTER, MBA '72, was recently promoted to senior vice president of Invacare Corporation, where he is general manager of their largest division. Invacare is the largest U.S. manufacturer of health care equipment for use in the home. Jay and his wife also report the birth of their third child (second son) in March. The family lives in Shaker Heights, Ohio.

TERRENCE M. RYAN, MBA '72, has been named vice president of sales and marketing by O'Gara Coachworks. O'Gara, a manufacturer of luxury stretched Cadillac limousines, recently relocated its manufacturing and sales operations from California to new facilities in Fairfield, Ohio, a Cincinnati suburb. In his new position, Ryan is responsible for nationwide sales, marketing, and services activities for O'Gara. He is a 20-year veteran of the automobile industry, and previously held positions with the Ford Motor Company, Toyota Motor Sales, USA, Inc., and, most recently, the Jeff Wyler Dealer Group, a Cincinnati-based automotive chain.

'74 MARK H. SEBELL, MBA '74, has been promoted to a vice president at Synectics, Inc., a Cambridge-based consulting firm specializing in innovation management. Mark, who joined Synectics in 1983, will continue to direct and manage the activities of Synectics' New Product Commitment team, the firm's division which specializes in the development of new products and services for clients. Before joining Synectics, Mark spent 12 years in advertising and packaged goods marketing in Boston and New York, working for such companies as Colgate-Palmolive, Carter-Wallace, and William Underwood Company. Most of his responsibilities at those companies included new product development. While at Colgate-Palmolive, he joined the Corporate New Ventures Group — a new business development team reporting directly to the chairman of the corporation. There he became a Synectics client and first began using Synectics' techniques to launch Fresh Start laundry detergent. Mark, who was president of the marketing club when he was an MBA student here, lives in Andover, Massachusetts.

George V. Butowick, MBA '74, received the Chartered Financial Analyst (CFA) award from The Institute of Chartered Financial Analysts. Earning this designation required a dedicated effort to pass three six-hour examinations over a minimum of three years. A successful candidate also must have at least three years of experience related to investments and adhere to the ICFA Code of Ethics and Standards of Professional Conduct. Over its 25-year history, the ICFA has given some 57,000 examinations and awarded over 10,000 charters.

M. Jane Kay, MBA '63, Is Named President of Boys & Girls Clubs

M. Jane Kay, MBA '63, and vice president for administration of Detroit Edison, has been named president of the Boys & Girls Clubs of Southeastern Michigan. The Clubs currently serve over 7,000 youngsters, age seven to fifteen, by providing guidance, recreational, and cultural activities. Over 230 community, business, and professional volunteers provide leadership, direction, and support for Boys & Girls Clubs in Detroit, Dearborn, Warren, Redford, and Highland Park. Kay has been active in the organization since 1981.

As vice president for administration at Detroit Edison, Kay is now responsible for 1,200 employees in 60 locations. She also oversees the placement of 50,000 purchase orders a year for everything from typewriter ribbons to Edison's fleet of 2,900 vehicles. "It's a non-traditional woman's job," she says, "because it gets into the line functions for delivery of electricity." Besides her MBA, she holds a bachelor's degree in industrial management from the University of Detroit and a master's degree in personnel psychology from Wayne State.

In 1960, Kay participated in one of the nation's first women's management development seminars at Cornell University. She later taught the same seminar at Cornell, Wayne State, and the U-M. "It was fun to watch the classes change from a population of clerks and secretaries sent as tokens by their companies to a group of women who had actually been recruited to management ranks," she says.

'75 Rodney R. Filcek, BBA '75, writes that in August of '87 he joined Dana Corporation in Toledo, Ohio, as manager of corporate accounting of Dana Credit Corporation, a leasing and financing subsidiary of Dana Corporation. He has overall responsibility for the financial reporting and accounting affairs of the leasing and finance subsidiary's consolidated business activities. Before joining Dana, Rodney was senior manager at Price Waterhouse's Toledo office from 1984-87, and with that firm's Detroit office from 1975-84. While with Price Waterhouse, Rod received his CPA license from the State of Michigan. He and his wife, Patrice, have three children: Kensey, Brett, and Jalynn. The family lives in Ann Arbor.

Mark W. Hafeli, BBA '75, has been named a partner in the Bloomfield Hills law firm of Beier, Howlett, Hayward, Jones, Kingsepp, Shea & Hafeli. He is primarily engaged in commercial litigation. He and his wife, Catherine, have two children — Mark and Anne Marie, and are expecting a third child in May. They live in Bloomfield Hills.

Cheryl Haselhuhn Lipper, BBA '75, has been admitted to the partnership of Coopers & Lybrand in their Detroit office. She joined the firm upon graduation. As an audit partner, she will serve clients in the health care, real estate, and manufacturing industries. She and her husband Richard live in Bloomfield Hills.

'76 Robert J. Rock, BBA '76, was promoted to partner in the Detroit office of Price Waterhouse in July 1987. His area of expertise and specialization includes retailing, emerging businesses, and litigation support services. Rob lives in Birmingham and has worked for Price Waterhouse in Detroit since graduation.

James Swigart, MBA '76, recently joined Shearson Lehman Brothers, New York City, as senior vice president in its Investment Banking Division, where he specializes in financing aircraft for domestic and international airlines. His youngest daughter, Sarah, just turned 1 year; her sister Lauren is now 3, and their brother Christopher, 5 years. The family lives in Rye, New York.

Brian Danaher, MBA '76, writes that he and his wife Rose have just moved from Chicago to suburban Schaumburg, Ill., where he has started a business under the name of Dana Group. The company's charter includes software sales, peripherals sales, and financial planning with the firm, Waddell and Reed. He says he is enjoying the independence of running his own business and adds that the potential profits make the labor worthwhile. "I should have done this long ago," he says.

'77 James Auchterlonie, MBA '77, recently joined J. & W. Seligman & Co., New York City, as vice president-senior investment officer. He is presently managing fixed income investments, which include the Seligman U.S. Government Guaranteed Securities Series and the Seligman Secured Mortgage Income Series (both mutual funds). Seligman was established in 1864 and has a long history of providing financial services to institutions, corporations, and individuals. As of March 31, 1987, the firm managed over $8 billion in separate accounts and investment companies for individuals, associations, institutions, foundations, endowments, and corporations. Approximately $1.9 billion of these assets were invested for tax-exempt clients.

Jay M. Courage, MBA '77, has moved from Houston, Texas, where he was a partner at Simmons & Company, to New York City, where he is a senior member of the Energy Investment Banking Group of Salomon Brothers. The Group provides merger and acquisitions, equity and debt underwritings, and other capital markets services to energy and natural resources companies.

'78 Wade S. Lnenicka, MBA '78, purchasing supervisor of Printpack, Inc., Atlanta, Georgia, writes that in March 1987, he was promoted to major in the U.S. Army Reserve and completed a tour of duty as company commander of a USAR unit. He was also awarded the Army Commendation Medal (1st Oak Leaf Cluster) for his duty performance in that position since January 1985. In April 1986, he was also awarded the Armed Forces Reserve Medal for 10 continuous years of active USAR service. Wade lives in Smyrna, Georgia.

Philip J. Harmelink, MBA '67, Receives AMOCO Teaching Award

Philip J. Harmelink, MBA '67, professor of accounting at the University of New Orleans, has been awarded the fourth annual UNO/AMOCO award for excellence in teaching. Philip is a specialist in federal taxation. He has a Ph.D. from the University of Iowa, and is a certified public accountant in Louisiana and Ohio.

Philip is the co-author of two books on accounting and the author of some 50 articles in professional and academic journals. He is a member of the American Accounting Association and serves on the advisory committee of the Journal of the American Taxation Association.

'80 Erm Lepley, MBA '80, was promoted to senior tax manager of Price Waterhouse's Charlotte, North Carolina office in July of 1987. His wife, Peggy, LSA 1980, was promoted to vice president of Fringe Benefit Review.

'81 Ron and Laurie Jackson, MBAs '81, write that they have recently relocated to Taipei, Taiwan. Ron has accepted a consulting assignment with a BOC Group (London, England) joint venture in the industrial gases business. They are enjoying Far East culture and are planning to tour Mainland China later. Ron says should any Fellow Michigan grads be traveling to Taiwan, his work number in Taipei is (02) 537-1780.

'82 Steven Berkowitz, BBA '82, has been promoted to group supervisor of benefits and payroll systems at Exxon Co., USA, in Houston, Texas. Steven and his wife Janet have a new son, Christopher Ryan, born September 11, 1987.

Glen Doshay, MBA '82, married Karen Zuspan in Los Angeles on September 6, 1987. Glen is currently a partner with Ardsley Partners in New York. He writes that he is an active bodybuilder and met his wife at a tournament in New York.

'83 David Flanagan, MBA '83, and Perry Peck Flanagan, MBA '82, had their first child, James Arthur, in September. David is working as a product planner for Chevrolet in Warren, Michigan, and Perry is a commercial loan officer at the National Bank of Detroit.

Doug Limberg, MBA '83, recently accepted a position as a senior business analyst with Thomas J. Lipton, Inc., working in the Marketing Financial Group at corporate headquarters in Englewood Cliffs, New Jersey. Lipton is a marketing leader in numerous food product categories and their success has been evidenced by solid growth. Doug says his new position represents an opportunity to satisfy his interest in marketing and finance. He previously worked for Container Corporation of America for four years — the first year and a half as a financial analyst at Chicago, and the last 2½ years as a controller in Boston.

'84 Richard E. Kahl, MBA '84, has been engaged in the private practice of dentistry since 1957 and in 1981 entered the evening MBA program, and received his MBA in 1984. He has now retired from the practice of dentistry to join the University of Detroit School of Dentistry as the director of the University of Detroit Dental Service at the University Health Center. This facility, a 41-chair dental clinic, located within Detroit Receiving Hospital, provides dental care for patients of the medical center as well as members of the greater Detroit community. Care is provided by staff dentists and students of the dental school. Richard's duties include the operation of the Dental Service with its professional and support staff and the supervision of dental

Please Tell Us About Yourself

We would like to include more news about alumni in *Dividend*, and hope you will help us 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: ____

Business Address: ____

Home Address: ____

Please write below some personal or business news about yourself that we can share with other alumni.

Michael Mason, BBA '69, Joins the Disney Channel as a Vice President

Michael Mason, BBA '69, has joined the Disney Channel as vice president of the southeast region. He oversees marketing and affiliates relations in a nine-state region headquartered in Atlanta. The Disney Channel is the nation's fastest growing major pay television service with more than 3.175 million subscribers and 4,300 affiliates. It is a subsidiary of the Walt Disney Company. Michael was formerly director of Home Box Office in Atlanta. He joined HBO in 1981 as a regional manager and became regional director in 1983. Before entering the pay television industry, Michael was director of development from 1978-81 at Spelman College, Atlanta, where he raised over $10 million for buildings and endowment. From 1975 to 1978, he was Emory University's director of development, and implemented a multi-million dollar annual gift program for the University and its medical center.

students. He also does some teaching at the dental school. Richard and his wife, Roslyn, live in Livonia, Michigan. Their three children all have bachelor's degrees from The University of Michigan.

SUSAN D. WARSHAWSKY, BBA '84, has been named a sales training specialist by Merrell Dow, a division of Merrell Dow Pharmaceuticals, Inc. She will be responsible for all aspects of the initial sales seminar programs, as well as having a major role in the design and development of training programs used at campaign meetings. She will be living in Cincinnati.

EDWARD A. COPPOLA, MBA '84, writes us that after three years with the Export-Import Bank of the United States, he has moved a few blocks away to the Overseas Private Development Corporation (OPIC), where he is insurance officer for Latin America and the Caribbean. He says OPIC is "about as close to the private sector as you can get and still be in the government." It is a relatively small (around 130 people, of whom about 65 are professionals), self-sustaining U.S. government agency whose purpose is to promote economic growth in developing countries by encouraging U.S. private investment in them. It helps U.S. investors in this effort by: (1) insurance of investment against certain political risks, and (2) financing U.S.-sponsored enterprises through direct loans and/or loan guaranties. As the insurance officer responsible for Guatemala, Costa Rica, Colombia, Venezuela, and Guyana, his duties are to handle the underwriting of insurance contracts for investments in those countries. OPIC insurance oversees investments against four general types of risk: inconvertibility of local currency, expropriation, political violence, and loss of income due to damage to physical assets resulting from political violence. He says as the insurance officer responsible for assessing the risks, he must wear the hats of both economist and political analyst.

'85

PAULA LITNER, MBA '85, writes that she was recently promoted from marketing research analyst to senior marketing research analyst in the New Refrigerated Products Group at Kraft, Inc. She is responsible for several new refrigerated strategy projects, one of which will be in test market in the fall. Paula joined Kraft in October 1986, after 18 months of employment with the Quaker Oats Company in Chicago.

TOM NORTHENSCOLD, MBA '85, writes that in March 1987, he was promoted to manager of operations-finance with CPI in Minneapolis, a company primarily involved with implantable cardiovascular medical devices. Operations-finance supports the manufacturing, engineering, and research and development area of CPI. He tells us that GREG DAVIS, MBA '86, who was a financial analyst in operations-finance, will be moving over to the manufacturing area of JIT (Just-in-Time) coordinator. Taking his place as financial analyst is SEAN CLEARY, MBA '87.

'86

H. CLAY SAYLOR III, MBA '86, writes that he was recently promoted to assistant manager at Citicorp Investment Bank in New York City. He is working on the money management desk of the positioning and arbitrage division. In 1986, he was selected for "Outstanding Young Men of America."

HEATHER H. MURPHY (formerly Heather Mitchell), MBA '86, writes that she and PETER MURPHY, MBA '86, were married on July 11, 1987, in Chicago, Illinois. Peter is employed by Arthur Andersen & Co.'s consulting division. Heather changed jobs in October and is now employed as an associate by Continental Illinois Bank. They live in Arlington Heights, Illinois.

'87

GENNELL JEFFERSON, MBA '87, received her BS in computer science from Washington University in St. Louis, then worked for Hewlett Packard as a programmer/analyst before coming to Michigan for her MBA. She is now a banking officer with Irving Trust in New York.

JANE SPIERER, MBA '87, has announced her engagement to JOHN BOUTELLE, MBA '86. Congratulations!!

GERARD GARDNER, MBA '87, PETER FIEDELHOLTZ, MBA '87, and HENRY GORECKI, MBA '86, report that they are doing well in their training class at Drexel Burnham Lambert.

Michael Wilson, BBA '84, Becomes the Comptroller for the Tigers

The Tigers have hired Michael Wilson, BBA '84, as their new comptroller, making him the highest-ranking Black executive in Tigers' history. He assumed his new job July 1. He oversees the club's financial budget in all areas, working with Alexander Callam, the vice-president, secretary, and treasurer.

"We've been looking for someone to fill this position for a year," said Tigers' President Jim Campbell. "We wanted someone young, and someone who is a CPA. We interviewed several people for the position, but Mike is the guy we wanted."

Wilson, who is a CPA, has been a budget analyst for Kelly Services and an auditor for Arthur Andersen & Co. While a student at the Business School, he played football for the UM as a backup tight end and defensive lineman.

"My background in sports may help me in this job, only because I'm a sports fan and I love to be involved with sports," said Mike about his appointment. "I grew up watching the Tigers."

Mike says he doesn't think the furor over the scarcity of Blacks in baseball management will affect the way he approaches the job. "Whether I'm a wonderful success, or if I fail miserably, I would hope that I'm judged as an individual, the same way a Hispanic, or a woman, or any other person should be," he commented at the time he was hired.

Steve Spoelhof, MBA '87, writes that he enjoyed his long trek across America this summer with his roommate, Tim Long, BBA '87.

Robert W. Goyer, MBA '87, has been named a broker for the Industrial Properties Group of Rubloff, the fifth largest national real estate brokerage and the largest privately-held real estate company in the nation. Currently the company is involved in developing more than $350 million in office, industrial, and retail projects throughout the U.S. The Industrial Properties Group is expanding its presence in Alameda, Contra Costa, and San Joaquin counties east of San Francisco. Before joining Rubloff, Robert served as an industrial specialist with Cushman & Wakefield, and as director of marketing for First Martin Corporation, a diversified real estate asset developer in Ann Arbor. He and his wife and son live in Contra Costa County, Calif.

Deaths

Wallace W. Gardner, MBA '47, Ph.D. '54, died August 13, 1987, at his home in Salt Lake City, Utah. From 1946 to 1970 he was a professor here at the Business School. From 1963-65 he worked to establish a graduate school of business in Taiwan, and in 1968-69 he worked for the University of Rotterdam, The Netherlands.

From 1970 to 1987, he was professor of management in the University of Utah's College of Business, and also served as department chairman and associate dean. He is survived by his wife Martha, a daughter Margaret Gregg, two grandchildren, and a sister.

Ph.D. Notes

'65 Victor J. Cook, Ph.D. '65, is now professor of marketing strategy at A. B. Freeman School of Business of Tulane University, New Orleans.

'69 Joseph P. Yaney, Ph.D. '69, has been researching the problems of plant closings and what happens to the employees. The initial study was in Post, Texas with a Burlington textile plant which closed in 1984. The study continues as Joe returns to Texas this summer to interview city council members, physicians, and the director of the chamber of commerce. Yaney is now chairman of the department of management at Northern Illinois University of DeKalb.

'70 David C. Stumbaugh, MBA '60, Ph.D. '70, is director of budget operations for the U.S. Department of Energy in Washington, D.C.

'77 H. Michael Hayes, Ph.D. '77, has a new job as director of graduate programs at the University of Colorado at Denver's School of Business Administration. Mike says the program has grown enormously and this semester had 1,118 admitted students taking MBA and MS classes. Even though he doesn't get to teach as much as he'd like, he says it's fun to work with a new and growing program. He enjoyed visiting with Ed Miller and the other folks from Michigan at the recent Academy of Management meeting in New Orleans.

'87 Gary Hansen, MBA '80, Ph.D. '87, has received the 1987 Strategic Management Society Award for Outstanding Research in Strategic Management. He is now an assistant professor at the University of Washington in Seattle.

Office of Alumni Relations
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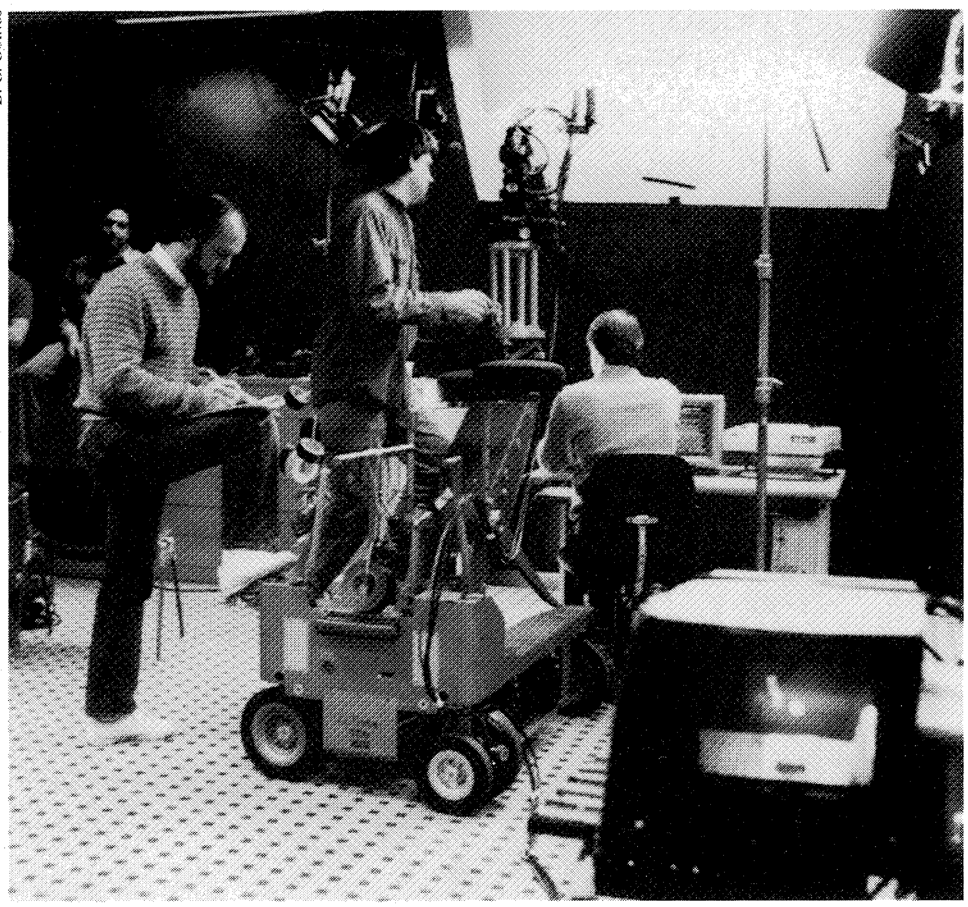
D. C. GOINGS



Lights, Camera, Action!

Crews from University Microfilms International videotaped in the Kresge Library for two days to prepare an introduction to three new CD-ROM products, including ABI/Inform Ondisc. The Kresge Library was selected for the videotaping over twelve other sites. The videotaping crew used the Reference Area for one day's filming and the Circulation Desk for the other day. Life seemed to go on pretty much as usual in the Library, even with all the cameras, lights, and film crews. The 10-minute video will be used nationally by UMI as a marketing tool for the three new products.