

ILLINOIS BUSINESS PERSPECTIVES

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EDITOR'S NOTE

Illinois Business Perspectives is a new project for the College, one that I hope you find useful and interesting. The first few issues are a chance for us to find out what resonates—and what doesn't.

I would appreciate hearing your comments and suggestions about *Perspectives*. You can contact me at hudakdav@uiuc.edu.

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BUSINESS AT ILLINOIS: GLOBAL REACH, GLOBAL IMPACT

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Madhu Viswanathan received his PhD in business administration from the University of Minnesota in 1990 and joined the College of Business that same year. His teaching program includes courses in marketing research and research methods. The author of several articles on consumer psychology and research methodology, he has published in a variety of journals including the *Journal of Consumer Psychology*, the *Journal of Applied Psychology*, and the *Journal of Marketing Research* and is currently completing a book on measurement and research methodology in the social sciences.



LITERACY AND THE GLOBAL MARKETPLACE

Estimates of functional illiteracy are sizable in industrialized countries and much higher in other countries: conservative estimates are as high as a fifth of the population in the US. In the information age, how does this very large proportion of consumers around the globe negotiate the environment, make decisions, and cope? Although skills associated with functional literacy carry important implications for buyers and sellers in the global marketplace, research on this topic is almost non-existent. Madhu Viswanathan, associate professor of business administration, has been studying this topic for more than five years. Funded by the National Science Foundation and Illinois CIBER (see related article on page 4), in 2002 he expanded his research program to India.

How US Consumers Function and Cope

Illiterate consumers in the US have difficulty engaging in thinking that involves abstractions, according to Viswanathan's observations of and interviews with illiterate or low-literate consumers. Consumers are able to perceive one piece of information, such as price, but often have difficulty relating that data to another piece of information, such as package size. This tendency to process single pieces of information without deriving higher-level abstractions such as trade-offs between attributes or between price and size is called *concrete thinking*. US consumers also

“I am surprised we pay so little attention to these tremendous disparities (in literacy and income), particularly since we espouse an international or global perspective... It is time to spend our sabbaticals studying management practices and problems in one of these [low literacy] countries where 85% of the world’s organizations exist.”

Andrew Van De Ven
2001 Presidential Address: Academy of Management Review

appear to make multiple errors in basic perception such as in reading a price, computing the price of two items, and totaling expenses. They fall back on an intuitive sense of product quality and think in pictures — sometimes viewing brand names and prices as images in a scene rather than symbols to read, and visualizing amounts of products to buy by picturing them rather than using available symbolic information.

Functionally illiterate consumers in the US have a variety of coping mechanisms. Such consumers are very dependent on others and have a network of people they trust to assist them with shopping tasks. They strive to maintain self-esteem in service encounters. Seemingly minor occurrences such as running out of money at the checkout counter can be humiliating, whereas not going over a budget on a large grocery shopping trip can be cause for celebration. They may engage in defensive practices, such as carrying only a certain amount of money, buying small amounts and buying one item at a time from a menu, often paying with all the money they have and hoping for the correct change. Comparison groups of functionally literate, poor consumers and consumers with very low levels of ability in English served to isolate the effects of functional illiteracy from those of poverty, or of difficulties with English and unfamiliarity with the US marketplace.

India’s One-on-One Environment

Viswanathan has expanded his research to India where, in 2002, his research team conducted approximately 60 qualitative interviews of low-income, low-literate buyers and sellers in urban and rural settings in southern India. He characterized his work as a fascinating journey into a marketplace of one-on-one interactions and exchange, rather than the consumer-to-large-organization interaction that characterizes much of the marketplace for higher income segments in India and in the West. The typical low-income, low-literate individual lives in a very small, usually rented, dwelling and spends a high proportion of income on necessities such as food, clothing, and unexpected expenses. The typical individual in these communities has a primary economic relationship with one store, usually a small neighborhood retail store that buys generic products at wholesale rates and sells to the local community, or a wholesaler located farther away. Both retailers and wholesalers are characterized by being very responsive to customer needs and having very detailed knowledge of individual customers, akin to, and in some ways better than, sophisticated databases.

The striking characteristic of this environment is the one-on-one relationship between and among buyers and sellers. Customized service and product returns are the norm. Several services are offered that address community needs, such as resellers going door-to-door to sell products on affordable installment plans, although at astronomical interest rates. Consumers entrust their savings with corner retailer stores, a means of keeping money secure for a fee. Corner retail stores offer credit in times of need, and sometimes charge for this service by pricing products differently. Consumer loyalty is high often because of factors such as help received through credit in time of need, and concern for the livelihood of the seller.

From a seller’s perspective, a fundamental tension exists between the one-to-one interactional context and the need to adhere to general business principles. The seller carefully manages word-of-mouth by adhering to specific pricing strategies, not writing off loans, not discriminating discernibly on price, and managing customer-to-customer communications. The transaction is often fluid, price and quantity are negotiated, installments are not paid for defective products, and prices are adjusted for personal circumstances both to buyer and seller advantages. Community-based service providers balance buyer and seller needs, enforce contracts, and are aware of specific needs and purchasing power. Consumers adapt by making, rather than buying, some food ingredients, using home-made medicine, rationing medicine to save money or to trade off lost income due to illness, and adjusting or reducing meal items.

The development of consumer skills is affected by several factors including formal education level, experience, and income. With any one of these three factors to use as a stepping-stone, individuals are able to develop consumer skills by tapping into a rich, one-on-one interactional experience base. However, when all three factors are low, individuals have very poor coping skills. Verbal counting skills develop through buying or selling experience; thus, people can usually compute totals and change received from transactions. Income is a double-edged sword because constraints and necessity lead to planning, careful purchases, and rationality about the next meal. Higher income not only enables more product trial and evaluation but also ill-advised loans.

continued on page 24

“The ingenuity and positive attitudes displayed by many functionally illiterate consumers are a testament to human resilience and creativity.”



CIBER Associate Director Lynnea Johnson confers with William Wingard, whose 2002 summer internship in Brussels was funded by CIBER.

MEETING ILLINOIS CIBER'S INTERNATIONAL MANDATE

Offering workshops for high school teachers on international economics. Incorporating business content in foreign language programs. Awarding foreign study grants to undergraduates studying business topics. Presenting global business outreach seminars to increase awareness of international trade opportunities.

Beside the clearly global focus, all of these initiatives have one thing in common: Illinois CIBER — the Center for International Business Education Research.

CIBER, directed by Business Administration Professor Joseph Cheng, is expected to offer programs in support of 10 programmatic objectives set forth by the Department of Education. The objectives include incorporation of international business topics into courses and the curriculum with a particular emphasis on language courses; increasing international experience by current faculty as well as graduate and undergraduate students; supporting research that makes useful contributions to practice; and business outreach to enhance exporting and international trade opportunities for US businesses. Illinois CIBER is also expected to collaborate with other CIBER centers around the country to keep the scope of the program national.

"The 30 CIBER programs around the country are all very supportive of each other's efforts," notes Associate Director Lynnea Johnson. "We meet annually to brainstorm ideas and to hear what worked well on other campuses."

Impacting the Curriculum

CIBER impacts curricula development on the Urbana campus by underwriting efforts to create new international business courses, revise existing business courses by incorporating international topics, and train faculty in the fundamentals of international business.

Course development projects receiving support from CIBER this year include:

- a new undergraduate course on the economy of China that will help students understand on-going reforms, emerging markets, and the impact of geopolitical economics on that country's transition to a market economy
- a Spanish business-conversation course that will be taught in Cuba this summer to undergraduate students participating in a CIBER-sponsored overseas experience program that also features visits to a cooperative, a tobacco factory, and an agricultural production unit

- enhancement of an investment simulation program developed at the University of Illinois to allow trading in international exchanges and international currencies.

Previous projects sponsored by the program include:

- the online, web-based component of an elementary standard Arabic course, one of five online and multimedia projects funded by CIBER, with a mix of standard, colloquial, and business Arabic
- a new journalism course designed to teach students how to read, interpret, and understand international financial information to enhance the quality of media coverage
- co-sponsoring a 2002 workshop for doctoral students in business fields that focused on incorporating international topics into teaching and research. As future educators, PhD students are in a unique position to enhance the traditional content of post-secondary courses. Illinois CIBER sponsored attendance by eight College of Business PhD students.

Increasing International Experiences

In 2002 the program granted 15 study-abroad travel awards to business undergraduates, supported two overseas internships in Brussels and Hong Kong, and organized three overseas study tours that included 53 students (see related story on page 8). Current plans call for underwriting 20 study-abroad travel awards and three overseas study tours to Asia, Europe, and New Zealand in 2003.

Research Support

Faculty and students alike benefit from the financial support for research provided by CIBER. The College of Business library, which serves faculty and students from across campus, welcomed CIBER funding for access to an online international database. On an individual basis, the projects funded by CIBER range from managing multicultural work teams (a faculty project) to co-adoption of technology standards in global supply chains (a dissertation project). In 2002, CIBER awarded six faculty research grants and the same number of dissertation research projects.



One faculty research grant supported a study of gender issues and employment practices in US-based multinational corporations. John Lawler of the campus Institute for Labor and Industrial Relations conducted research in Kenya, India, China, and Thailand to begin to determine how cultural characteristics of emerging markets react to corporate employment policies.

CIBER-sponsored research results are expected to be shared, either through journal articles, workshops, or the CIBER Working Papers Series. A recent cross-national human resources research workshop co-sponsored by CIBER and the University of Illinois Center for Human Resource Management, presented the latest research findings and best practices from researchers around the world and from human resource executives from such companies as Sun Microsystems, Citigroup, and Verizon Communications.

Outreach to the Business Community

Illinois CIBER cannot confine its focus to academe. It is expected to build bridges to the business community by offering relevant programs that help businesses develop their international connections and increase opportunities for trade.

In March 2003, the program sponsored three global business seminars in Chicago. Women in international business, doing business in Mexico, and doing business in the European Union were featured sessions over a three-day period. Country-specific seminars build on successful events held in 2002 focusing on the challenges and opportunities of doing business in China and India, two of the fastest growing economies in the world. The 2002 and 2003 sessions attracted more than 200 participants, including College of Business PhD students.

The 2002 China session featured alumnus Bill Barron ('66), vice president and general manager of Littelfuse, Inc.'s electronics division. A little more than nine years ago, Littelfuse had no sales in China. Today, the company has over \$20 million in sales annually and now exports from China. Passing on such stories and offering strategies for similar success can give executives valuable and practical insights. Other speakers at the day-long session represented China's Consulate General's office in Chicago, the US-China Chamber of Commerce, and a law firm.

The calendar for 2003 is already full with events such as seminars on export documentation and the basics of importing, a global business reporting institute, and a workshop on managing security risks in a global operation. CIBER outreach activities in 2002 included several International Trade Center (ITC) seminars and workshops throughout Illinois, individual export counseling by ITC staff, co-sponsorship of the central Illinois Tech 2002 trade show, and support (with the State of Illinois) for the African Business Center in South Africa.

Making a Difference

Illinois CIBER initiatives are making positive contributions now, and Director Cheng is confident that the programs will have long-term impact as well. Avijit Ghosh, dean of the College of Business, agrees. "Illinois CIBER plays an important role in our College, on our campus, and in the region and country by providing research funding and high-quality programs that support and nurture international trade and global competitiveness," he said. "CIBER is making a difference." ■

—Ginny Hudak David



The Illinois Center for International Business Education and Research (CIBER) Program was established to meet head-on the challenge of globalization in the 21st century. Congress funded the CIBER program in 1988 as a bridge linking US businesses with universities that could offer international education, language training, and research capabilities. The goal was to increase and promote the US's capacity for international competitiveness and global

understanding. The Department of Education administers CIBER and has established programs at 30 universities. Illinois CIBER was initially funded in 1993, and the project was renewed in 2002 for \$355,000 a year for four years, a total of \$1.42 million over the 2002-06 period. This award is 61 percent higher than the previous Illinois award.

Joseph Cheng, professor of business administration in the College, directs CIBER. "Being funded at the highest level available from the Department of Education was an acknowledgement of the success of our program, and it is a vote of confidence in our plans for the next four years," he said.



NEW MECHANISM FOR FOREIGN EXCHANGE

Reducing the Risk

Unlike the major stock markets, the market for foreign exchange is decentralized: foreign exchange dealers and major banks generally arrange trades between themselves and send payments electronically over one or another of the private or public systems for making large-value payments. In the course of a day these banks make trades that far exceed the total value of the bank itself. Dollars, yen, or euros flow rapidly into and out of the currency accounts.

The risk of any single transaction falling through or failing to settle is very small, but the magnitude of the market, and the magnitude of the trades—even in comparison with the size of the largest participants—makes the system vulnerable. If one major trader cannot meet its required payments, this threatens the ability of its counterparties to meet their payments, causing a domino effect throughout the entire payment system. While such failures are rare, they do occur—with serious consequences for both the participating banks and the government agencies that regulate and back them.

The centerpiece of the CLS arrangement is a provision for “payment versus payment.” Suppose that a bank in Japan and a bank in the United States make an agreement to exchange dollars for yen. Under the CLS system, each party will deliver its currency to accounts at CLS, and CLS will effect the exchange only when both legs of the transaction have been deposited. Amazingly enough, up to now no such mutuality was possible in foreign exchange transactions. Settlement of each leg of the transaction was governed by the laws and institutions of the respective nation whose currency was involved. If one side of the transaction failed—because of failure of the bank itself or even because of a computer glitch—there was often no way of stopping the other side of the transaction. So a bank might send a large sum of currency out to a counterparty and end up with nothing in return. In some instances central banks intervened by supplying large amounts of liquidity to keep the payments system afloat.

After a number of such failures in the 80s and 90s, regulators began to call for improvements to the existing system, and groups of commercial banks began to respond with innovations that culminated in the CLS system.

The market for foreign exchange is the world’s most active financial market, turning over an estimated 1.2 trillion dollars a day. Even by the standards of the financial world, where large numbers are commonplace, the foreign exchange market is enormous—its trades are five times bigger than the US Treasury market, and more than 50 times bigger than the New York Stock Exchange. To put it another way, the value of daily trades is equal to more than 10 percent of the US *annual* GNP.

In an attempt to reduce their risks, major banks have developed a new, private method for settling large-value foreign exchange payments. The CLS (Continuous Linked Settlement) Bank, owned by nearly 70 of the world’s largest financial groups, began transactions among participating members in September 2002. Already, this new bank has revolutionized large-value foreign exchange transactions.

Even before the system was in operation, Charles M. Kahn, Bailey Memorial Professor of Finance, and colleague William Roberds of the Federal Reserve Bank of Atlanta began to study it. Their research evaluated the implications of the CLS Bank for central banks such as the US Federal Reserve, the Bank of Japan, and the European Central Bank, which would have to sign on with the new facility.

Kahn and Roberds sought to “translate the legalese of the proposed provisions” of the new bank “into the economic terms that would allow the central bankers to understand the benefits and the risks of the enterprise for the financial system and the regulatory apparatus.”

“...the CLS Bank is well on its way to becoming a dominant force in foreign exchange settlement.”

Settlement through the CLS Bank would differ from the old practices in a number of ways. The settlement of trades happens in “real time” over a highly sophisticated computer network, and each side of a transaction is simultaneous and mutually conditional. If one bank fails at any moment before settlement, the transaction does not go through, and funds paid in by the other party are returned. CLS Bank is never the creditor of any other bank and, thus, is invulnerable to failures of other banks.

The CLS system incorporates many innovative arrangements for speeding up the settlement process by effectively recirculating funds in member accounts to settle multiple transactions. Although CLS allows member banks to have overdrafts during the day, it imposes limits. A transaction will not be settled if it causes either party to exceed its overdraft limits. Instead, both legs of the transaction will be held in a queue to await an infusion of funds to the bank's accounts. Of course, pairs of participants in CLS will make a large number of exchanges during the day as they repeatedly swap currencies back and forth in offsetting or near-offsetting trades.

Evaluating the Effects of CLS

But what would the effect of these arrangements be on the member banks themselves and on the potential liability of the central banks? Kahn and Roberds used the techniques of game theory to explore the various incentives that would be inherent in the CLS Bank. By penalizing the undesired behavior of counterparties, the CLS arrangement encourages banks to reduce operational risks and increase compliance. Under the old system, expectations that counterparties might fail to honor their commitments could be self-fulfilling. By making payments conditional on counterparty behavior, a payment-versus-payment system reduces the problem.

The researchers also found, however, that the CLS arrangement should raise some concerns for central banks. Under earlier systems, banks monitored and evaluated their counterparties extremely carefully. “If you are going to make a trade with hundreds of millions of dollars to lose, you are going to be very careful to make sure the other guy is reliable,” explains Kahn. Under CLS, the

responsibility for determining the quality and qualifications of trading members falls instead on the CLS Bank. Banks that want to join the system have to meet the standards that CLS sets. On one hand, setting a high barrier is good for keeping the system reliable; on the other, by setting a high barrier, the CLS Bank increases member profits by reducing competition.

Kahn and Roberds determined that the CLS Bank does not eliminate the need for central banks to backup the payments system. Although the CLS overdraft facilities increase the system's effectiveness, they also introduce the possibility for banks to fail to make payments and to suffer shortfalls. The CLS facility does specify that private liquidity suppliers stand ready to backup the system—but those suppliers are none other than the member banks themselves. Thus, the central banks, Kahn and Roberds concluded, must still serve as the ultimate backup. The advantage for the central banks is that although there may be a mismatch in funds, CLS is immune from most risks of insolvency. It will be able to back emergency borrowing in a particular currency with the value of other currencies it holds.

The authors concluded that the CLS system will have an enormous effect on the market for large-value foreign exchange transactions. Because a payment-versus-payment system reduces the costs of dealing with unreliable counterparties, it encourages banks to take on trades with other banks that would have been excluded from trading under the old system. However, because the arrangement makes it desirable for customers to deal with a single, large bank for all of their foreign exchange transactions, the already high concentration in foreign exchange transactions is likely to increase.

The record of the CLS Bank over the first few months of its existence has confirmed the significance of the innovation: the new facility may already be carrying as much as 20 percent of all large-value foreign exchange transactions. It is expected to increase its share over time. Clearly, the CLS Bank is well on its way to becoming the dominant force in foreign exchange settlement. Kahn and Roberds' research will help central banks and regulators better understand how to deal with this new force in the monetary world. ■

—Janet Fitch

Charles M. Kahn, Bailey Memorial Professor of Finance, came to Illinois in 1988 from a faculty position at the University of Chicago. He has a BA and PhD from Harvard, BA and MA from Cambridge, and was a National Fellow at the Hoover Institution at Stanford. Since joining the Economics Department, his first berth in the College, he has also been a visiting professor at Chicago and his alma mater, Churchill College, Cambridge. In 1996 Kahn joined the Department of Finance and was named to his chair two years later. He has published dozens of articles and papers in academic and non-academic journals. Among the many awards he has received are three National Science Foundation grants and grants from the Prochnow Educational Foundation and the Garn Institute of Finance.

“At the broadest level, my research interest is in the relationship between incentives and economic institutions” said Kahn. “I think people often design economic relationships to overcome lack of information available to the various parties.” Some of his early publications dealt with various aspects of labor economics from this point of view. In the late 80s he began to apply this approach to examinations of banking and financial arrangements.

He has served as a consultant to, among others, the Department of Transportation, the EPA, and the Federal Reserve Banks of Chicago, Atlanta, Philadelphia, and Cleveland.



SHORT BUT SWEET: IMMERSION CLASSES GIVE STUDENTS TASTE FOR FOREIGN LANDS

Few would dispute that travel abroad can be a key ingredient to a well-rounded education. But what if a student can't afford the time or expense of a semester or a year abroad?

There is a third option: classes with a travel component. At the College of Business, several faculty have arranged to take both undergraduate and graduate classes overseas for two weeks during spring break or at the end of the spring semester.

Assistant Professor Hamish Gow shows students the insider's view of the European Union, thanks to his professional contacts in the food sector. Professor Tailan Chi takes master's students to China to see how an economy in transition operates. Students in the Executive MBA Program at Illinois travel for 10 days to Germany and Belgium to consult with corporate executives about specific issues and problems they face.

This kind of trip is quite different from a more traditional study abroad program, where a student might go on his own to study at a foreign university or spend a semester interning for a company overseas. These classes enable students to have an intensive, immersive, and structured overseas experience that ties in very closely with their class work without missing on-campus activities and responsibilities or navigating in a foreign country on their own.

In addition, by meeting face to face with company representatives and visiting factories and corporate headquarters, students get an insider's view into the daily workings of these organizations. In many cases, students visit company representatives who will speak frankly about their company's decision-making and problem-solving efforts. This is the kind of information and insight that students could never get from a book or a professor.

Agribusiness Issues in the European Union

Gow, who teaches *Agribusiness Issues in the European Union*, worked as a consultant for many years in the agri-food sector in Brussels, the seat of the EU, and in eastern Europe. He is well informed about the issues facing companies doing business in the EU and well connected with those in the field.

Gow focuses on a single channel, in this case the food channel, and walks students through every step of the process. Students spend the semester learning what the food channel looks like in America. They take trips to farms and listen to farmers talk about how they make economic decisions; they visit a local grain elevator and talk to Archer Daniels Midland representatives about the kinds of decisions that go into selling food abroad. Then they go to Belgium.



Hamish Gow

"Actually physically being in Belgium forced me to take seriously everything we'd talked about in class," says Becky Judd, now a senior in food and agribusiness management. "Getting to see first hand the kind of effects the US and the EU have on each other now and what that could develop into in the future makes me more interested as a student and as a future employee in what's going on around the world, not only in agriculture but in other international affairs. I think it would be nearly impossible to gain that same sort of insight sitting in the classroom."

Classmate Kara Furey, a senior in accountancy, agrees. "This trip gave us a chance to see European life in smaller towns that have incredible character and to learn from the people who live there," she said. "Traveling to another country provides learning opportunities that cannot be found in any classroom."

This is no vacation, Gow points out. The students arrive, jet-lagged, at 7 a.m. and have time only to collect their luggage and check into their hotel before their first lecture at 1 p.m. During the two weeks, students visit food elevators, processing operations, feed plants, animal, soy and yogurt production facilities, grocery stores, and food brokers, as well as attend lectures about the history and structure of the European Union. They also visit the Illinois Trade Office and the European Parliament, headquartered in Brussels.

"It's go, go, go," says Gow. "We go flat out the whole time. It's like going to a country as an international manager. It doesn't matter if you're tired, you still gotta be on your toes at 7:30 in the morning. The students realize it's not a lark. They bond as a group, they lift one another up and survive as a group."

Several students have urged Gow to take a group to another part of the world, so this spring break, as part of *Doing Business in New Zealand*, a group of 18 students will travel to New Zealand to see how business responds to major political-economic changes. In 1984 the New Zealand government removed all foreign tariffs and domestic subsidies. The trip will help students see how the economy re-organized itself, particularly the dairy, textile, and tourism industries.



Topics in Management: International Business



Tailan Chi

Tailan Chi's course, *Topics in Management: International Business*, focuses on the impact of cross-country differences in economic, political, and cultural institutions on the strategies and operations of multinational firms. The MBA course examines the critical issues that arise when a firm expands overseas, such as dealing with trade protectionism and intellectual property right piracies, negotiating investment projects, and managing international strategic alliances.

China is particularly appropriate because the nature of its transitional economy magnifies many of these issues. Prior to their China trip, the students studied Microsoft, General Motors, and Caterpillar, which all have major investments in China. For example, Microsoft was used as a case study in the class to understand issues of government relations, protection of intellectual property, and the role of strategic alliances.

"In the case of Microsoft, a challenging question is how to work with the Chinese government, to push them to enforce their own laws," says Chi.

As with Gow's course, Chi's trip includes both lectures and visits to various companies and other economic institutions. During those visits, Chi consciously guides conversation along classroom topics, such as management of joint ventures and doing business in a transition economy.

Last year (2002) was the first time Chi taught the course and the first time he arranged a study tour. Chi, a native of China, has contacts within various companies and governmental agencies. Students also helped set up visits; for example, one student worked at Bank One and helped arrange the Bank One class visit in China.

In spite of the challenges of meeting educational objectives and coordinating trip logistics, he will run the study tour again in 2004.

Executive MBA

Executive MBA students, who meet every other week throughout the school year, annually travel to Germany and Belgium for 10 days. Their trip serves a different purpose. They provide consulting to companies located in those two countries and make presentations with their recommendations to company representatives. Prior to the trip, students work in teams on case studies of the companies they visit.

This year one team studied Volkswagen, another studied BASF Coatings, and the third looked at the field of mobile commerce (e.g., PDAs) for Bertelsmann executives. They presented to Volkswagen their suggestions for re-positioning the VW Beetle for the American market and their thoughts on Volkswagen's export of a new luxury car, the Phaeton. In an additional project, the entire EMBA class, along with students from the University of Münster, also presented case recommendations to DHL Worldwide Express about pricing issues in multi-national corporations.

"It's a fabulous opportunity for our students and really valuable to the companies. Students get a great experience, and the companies get free consulting from an American perspective, which is sometimes particularly helpful," says Merle Giles, director of the Executive MBA Program. ■

—Deb Aronson

To keep classes with a travel component affordable, faculty members search for underwriters. Local and regional businesses and campus offices and programs are frequent sources of funding.

For Hamish Gow's course on agribusiness in the EU, for example, funding was provided by Archer Daniels Midland, a corporation that applies technology to agricultural crops such as oilseeds, grains, and cocoa. Other sponsors included the College of Agricultural, Consumer, and Environmental Sciences and the campus Office for International Programs and Studies. The Center for International Business Education and Research (CIBER) subsidized students' travel and underwrote expenses such as lecture fees and transportation costs in China. (See related story on page 4.)

The study abroad capstone experience in the Executive MBA Program is incorporated into the program fees.

*“Expatriates and local hires ...
each have comparative advantages
at different managerial tasks.”*

DEPLOYING MANAGERIAL RESOURCES: EXPATRIATES OR LOCAL MANAGERS?

The effective deployment of managers has important consequences for the economic performance of firms. Managers play a significant role in helping a multinational firm to obtain, utilize, and develop its productive resources. A multinational firm can deploy two types of managers to top managerial positions in its foreign operations — expatriates and local hires.

Expatriates are home country and/or third-country employees sent by company headquarters to a host location. *Local hires* are host country employees. Associate Professor of Business Administration Joseph Mahoney's research has identified two strategic factors that may influence the international staffing decisions — managerial capabilities of expatriates and local managers and the extent to which the firm is able to control the managerial actions through managerial employment contracting.

Different Backgrounds, Different Advantages

Expatriates and local hires are equipped with different managerial capabilities. Thus, they each have comparative advantages at different managerial tasks. When expatriates are offered international assignments, they are likely to have worked within, and to have been socialized within, a firm for a substantial period of time. They are likely to understand the corporate policy of the multinational firm and to have developed intra-firm relationships. These experiences allow them to interact effectively with other subunits in the multinational network and to improve the knowledge and information flow within the firm.

In contrast, local hires typically have fewer working experiences within the multinational firm, and hence they have less firm-specific knowledge. Consequently, local hires generally have developed fewer relationships relative to expatriates. However, these local hires are expected to have much greater local knowledge and local business connections. Because of these

connections, they allow the multinational firm to obtain valuable local resources and to adapt to local environments. When the key managerial tasks are to implement the multinational firm's strategy, or to facilitate knowledge flow across different subunits of the firm, the skills of expatriates should better match these critical tasks. In this case, the firm is likely to place expatriates in the managerial positions of its subsidiaries. If obtaining local knowledge and making local adaptation are crucial managerial tasks, local hires should better fit these tasks and local hires are likely to be assigned to the managerial positions of the subsidiaries.

Looking Beyond Managerial Capabilities

Managerial capabilities are not the sole factor determining international managerial staffing. When the firm has serious concerns over whether particular employees are willing to do as they are required, the firm may choose not to place these employees in particular managerial positions even if they may be the most capable employees. In other words, the concern of a multinational firm about whether it can effectively control its employees' actions may affect the firm's human resource deployment decisions. Managerial employment contracts provide the basis of control that a firm can have over managerial actions by broadly defining what the firm demands from the employees. The more difficult it is for the firm to design and enforce the contract, the greater concern the firm may have about its limited control over the manager.

Challenges of Managerial Contracting

When a multinational firm enters a foreign market, it can make managerial contracts with expatriates and local hires. The problems associated with contracting include the difficulties of the firm in specifying, adjusting, and enforcing the employment contracts, and any loss due to its inability to develop a perfect managerial employment contract including corporate economic loss.



Associate Professor of Business Administration Joseph Mahoney has a BA in economics from the University of Pennsylvania and an MS and PhD in business economics from the Wharton School of Business. He has been a member of the Illinois faculty since 1988 and teaches undergraduate and graduate courses in strategic management and business economics. Mahoney has received the Executive MBA Outstanding Teaching Award four times.

Four problems have been identified that impact managerial contracting.

- First is the difficulty in designing a managerial contract that perfectly aligns the economic interests of the manager and the objectives of headquarters. A dramatic example of a conflict of interest would be when it is in the company's economic interests to shut down a particular foreign operation in order to rationalize its worldwide production. The conflict of economic interests is likely to prevail in global industries where foreign operations are highly interdependent.
- Another problem is the difficulty encountered when attempting to specify exhaustive criteria for recruiting the managers for foreign operations, and thus to identify the right people for managerial positions. This problem presents itself most frequently when the level of uncertainty facing the foreign operations is high, and thus it is difficult for the multinational firm to identify capabilities needed by its managers.
- Sometimes few managers with the necessary managerial capabilities are available. Such a problem would likely occur when effective management of foreign operations requires a high extent of firm-specific knowledge and connections.
- Managers may attempt to renegotiate the terms of the employment contracts (such as compensation and position) in their favor. The firm is likely to have lower bargaining powers vis-à-vis the managers if it has made substantial irreversible investments in recruiting and training them.

When Expatriates Are a Good Fit

Expatriation may potentially provide a solution to these business problems. First, because expatriates have been socialized within the multinational firm to a greater extent than local hires, their economic interests are expected to be more aligned with the headquarters. Second, expatriates have established track records within the multinational firm and have known work characteristics. Third, they typically have more working experience and have more interaction experiences with other managers within the multinational.

Because of these experiences, they have developed more firm-specific knowledge and connections and can be more effective when managing foreign operations requires such firm-specific capabilities. Fourth, expatriates' firm-specific knowledge and connections make them more valuable within the multinational and make it less attractive for them to seek a position with another firm. Firms, therefore, have less difficulty in renegotiating the managerial contract.

Supporting Evidence

Empirical findings based on a sample of 365 Japanese subsidiaries from various Japanese companies situated in the United States provide support for Mahoney's theoretical arguments. In conditions where managerial contractual problems are likely to be predominant — such as in global industries, in highly uncertain industries, and in industries characterized by tacit (i.e., not easily articulated) process knowledge and transferring proprietary technologies — Japanese multinationals indeed have sent more expatriates to their US subsidiaries. The researcher postulates that because of the cost of contracting with local managers, a multinational firm may over-rely on expatriates even when expatriates may not meet expectations. For example, in uncertain environments, local managers may have more valuable capabilities that can help the firm to buffer the risk and to make local adaptation. However, local hires may be underused due to the concern of multinational firms about the limited control over them through managerial contracting. Accordingly, reducing *contractual* costs associated with monitoring the actions of local hires should help improve the economic performance of its foreign operations.

Multinational firms should examine the sources of contractual concerns over international employment contracts. By developing appropriate mechanisms, such as improved economic incentives and mutual commitments by the parent firm and its subsidiaries, firms will make better staffing decisions and thus improve their economic performance. ■



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A leading researcher in information systems and electronic commerce, he holds a PhD in information systems from Purdue University, an MS in industrial engineering from SUNY-Buffalo, and a BS in industrial engineering from National Tsing Hua University in Taiwan.

THE GLOBALIZATION OF THE DIGITAL ECONOMY

Businesses are moving global in many ways, and the trend is accelerated by information technology (IT). Every firm operates in a business eco-system, usually referred to as a supply chain, consisting of various value-adding participants, such as suppliers, manufacturers, distributors, technology providers, and retailers. How to make these partners work in concert with each other to produce goods efficiently has always been one of the main drivers of the global economy. Increasingly we have seen a major transformation in the structure of most companies' supply chains: they become *global*. The structural transformation from the traditional supply chains to a new form for such business eco-systems, called *value webs*, is emerging to reshape the landscape of the global economy.

Professor of Business Administration Michael Shaw's research shows that this trend for companies to form value webs is driven by several factors. Above all, it is enabled by information technology that helps enterprises not only integrate internally but also externally with each other. The latter is especially significant and was not possible until recently. When enterprises can integrate with one another externally, it is predictable that the shift towards horizontal integration would be accelerated.

The increasing ability for companies to integrate on the value web level means that economic activities are also spread across the value web. For any given company, even the original equipment manufacturers (OEMs) who coordinate the value webs, the majority of the economic value is created outside the company. In some estimates, no more than 10 to 20 percent of the economic value in a value web is created within a single enterprise.

That means it has become important to consider the value web as a unit of analysis in making corporate strategic decisions because *the competition today is between value webs*, rather than between companies. While academic researchers and practitioners spent an enormous amount of energy optimizing production lines, factory floors, and processes, they now need to work to make the value web more effective.

IT for Global Coordination

To understand the strategic imperatives of the digital economy, it is important to keep in mind the separate *digital space* existing in an enterprise's operations, in addition to the traditional physical space. To meet the needs for horizontal integration among global partnering companies, there must be effective management of their joint digital space and the common inter-organizational infrastructure for them to communicate, coordinate, and execute their business transactions. More specifically, there are several different degrees of collaboration between global value-web partners; in increasing extent of collaboration, they are: (1) transactions support, (2) information sharing, (3) IT standard adoption, (4) process sharing, and (5) alliance building.

As the partners begin to share more information, they need to agree upon common IT standards to reduce the communications overheads. Stronger supply-chain collaboration requires far more than adopting the same communications standards. Major business activities among supply-chain partners are carried out by joint business processes, such as collaborative product development and order fulfillment. The collaboration can be greatly facilitated if these processes are standardized and shared. An example of such process standards for sharing is the RosettaNet standards for processes in partnership, or PIPs. (RosettaNet is a global business consortium creating the electronic commerce framework to align processes in the IT supply chain.) Having this kind of shared processes for companies to work together quickly is a new trend made possible by IT, which will further facilitate globalization.

Global Fulfillment

The value web model provides opportunities for companies from different parts of the world to work together, link their joint processes, and form a virtual enterprise. An example is how Ingram Micro Inc., the largest

“Developing interoperable supply chains has the potential to fundamentally transform the structure of many industries.”

distributor in the PC industry, teams up with contract manufacturers and electronic manufacturing specialists. Their goal is to help brand-name PC makers — OEMs such as Hewlett-Packard — build PCs to customer orders. Instead of the PC companies handling orders and manufacturing, Ingram serves as the coordinator to facilitate order fulfillment and shorten response time. PC “makers” like HP still have their brand-name labels, but they no longer make computers. Instead, they focus their efforts in marketing, quality assurance, product development, customer service, and building the whole value web.

The story of forming a value web is more than outsourcing the manufacturing operations. Through the linking of their infrastructure and processes, companies in the whole value web act as one. The customers cannot tell that many companies are involved in the value web. To them, the products are made by one company bearing the brand name.

Is Your Company Ready to Plug-and-Play Globally?

The benefits of interoperable supply chains sharing standardized business processes have become so attractive that companies that are competitors may adopt the same supply-chain platform and processes. That interoperability is analogous to the need for computer components to readily plug-and-play into a system on the fly. In the IT and computer industry, RosettaNet is leading the effort. Other industries are jumping on the bandwagon.

The use of sharable processes greatly increases a company's ability to work with its business partners even if they use different enterprise systems internally. It means more flexible business relationships with more partners linked by sharable processes, lower set-up costs when working with new supply-chain partners, and easier-to-explore business opportunities with greater bargaining power. It means greater visibility and information-sharing across the supply chain, making the supply chain more efficient with less inventory. It also means greater integration in executing main supply-chain processes, such as order fulfillment, thus reducing cycle times, and improved operational efficiency enjoyed by all supply-chain participants. The idea of developing interoperable supply chains has the potential to fundamentally transform the structure of many industries. This trend will continue, and it will force companies to adjust their practices accordingly.

Companies are unbundling their enterprises into modular business processes so that they can focus on their core competencies while outsourcing the non-core businesses. Furthermore, the standardized global information infrastructure enables these same companies to open up the borders of the enterprise in order to share processes and information with their partners in the global value webs. Successful sharing of business-to-business communications standards and inter-organizational processes is the key to the seamless formation of such global value webs. The ability of a company to participate in or to form a global value web quickly and effectively to explore a window of business opportunities will be one of the important strategic imperatives for executives in the years to come. ■



As part of his research on digital economy strategy, Michael Shaw is working with a group of colleagues and doctoral students to study the strategic imperatives and business values underlying value webs in general and the RosettaNet technology. In November 2002, RosettaNet awarded the UIUC team an award for “Continued Thought Leadership in Advancing B2B Standards.” The plaque bearing the inscription is a replica of the original Rosetta Stone after which the organization is named.

So what is the historical significance of the Rosetta Stone and how does it

become the symbol for global business communications? For 1400 years, no one knew how to read the ancient Egyptian script called hieroglyphs. The breakthrough to the decipherment of hieroglyphs came in 1799, when a French soldier from Napoleon's army found a black basalt stone slab carved with inscriptions in a small Egyptian village in the Delta called Rosetta (Rashid). The Rosetta Stone was carved with an inscription in three different scripts: Egyptian hieroglyphs at the top, demotic script (a late cursive form of hieroglyphs) in the middle, and Greek at the bottom. The Greek inscription was a translation of the upper two Egyptian passages and thus provided the key to deciphering ancient hieroglyphs.

A modern-time leader of setting business-to-business collaboration standards, RosettaNet is a non-profit organization founded by a consortium of major semiconductor and IT firms to develop and promote technology for sharing communications and process standards. Just as the Rosetta Stone helped link disparate civilizations, RosettaNet strives to link enterprises with varied business environments and software capabilities. The research by the U of I team helps RosettaNet's partners identify the strategic imperatives, opportunities, and business value of the RosettaNet standards and technology for business-to-business collaboration.

Shaw Delivers Keynotes at Two International Conferences

Michael Shaw delivered keynote addresses at two international conferences in October 2002. Early in the month Shaw gave a keynote address at the International Symposium on Robotics, held in Stockholm, Sweden. His address focused on e-value-based growth and productivity. Later that month, he gave his perspective on B2B collaboration and the emergence of value webs at the International Conference on Electronic Commerce in Hong Kong. ■



Study Abroad Director Teresa Dorsey (left) meets with Amy Ramsey (center) and Micaela Klein (right).

INTERNATIONAL EXPERIENCE BUILDS CONFIDENCE — AND RÉSUMÉS

Studying abroad conjures up exciting mental images of the Egyptian pyramids, the Eiffel Tower, or the fjords of Norway. Still, the idea of being off campus for a semester also raises a fair number of questions. Is it expensive? Can I survive in a country where I don't speak the native language? Will all my classes count toward graduation? With thoughtful planning and an adventurous spirit, students discover that studying abroad can be a positive experience and a valuable addition to a college education.

An average of 200 students each year from the College of Business have jumped at the opportunity to study abroad. Since the College began its program in the mid-1990s, a growing number of business students have realized the advantage of having experience in international relations before graduation.

"Given the impact of globalization on business, we would like all of our students to have an international experience through any means possible. If they feel they can't be away from campus for a year or semester, I suggest they look closely at the summer and short-study programs," said Teresa Dorsey, director of the College of Business Study Abroad Office.

Class Credit

Classes at foreign universities are equally challenging, and students quickly realize that only the scenery has changed. The challenge of learning remains even though the College's partner schools might organize their classrooms and academic structure differently. "Studying abroad should not be treated as a blow-off semester," said Micaela Klein, who studied at City University in London in 2002. "Even taking classes pass/fail, we were required to turn in term papers and attend lectures."

Students are urged to start researching programs early and to carefully consider the timing of their study abroad experience. Although students can study abroad after one year on the Illinois campus, the College recommends they travel in their junior year when they are generally prepared to take advanced-level courses, and the semester is least likely to interfere with their ability to graduate on time.

Dorsey believes that if students plan ahead, they will not have any problems making progress toward their degree. "We go over their educational plans before they leave the country. For our own programs, we have course catalogs and solid information on course content and assignments and can, with the help of faculty advisors in each of our departments, readily align the overseas class with an equivalent one here on campus."

Klein, a senior in accountancy, agrees. "The counselors are great and find a way to make it work."

Some students worry that their credits will be lost in the transfer of paperwork. In some cases, contracts are signed between the University of Illinois and international partner schools, which means that the University has pre-approved all the credit awarded by the partner institution. "Our agreements virtually guarantee the transfer of all credit from abroad," said Dorsey. If the students prepare for their upcoming experience adequately, course equivalencies are approved in writing before leaving campus. The cooperative system allows for some course flexibility once students are overseas.



“I felt that if I could go to any country in Europe and find my way around on my own, I could tackle anything.”

Mary Kate Fischer



Money Matters

Added costs are a concern for many students contemplating an overseas study experience. But the expenses are not as high as many students think and program costs vary widely. Bilateral exchange programs are the most cost effective because the visiting school does not charge tuition — universities merely “exchange” their students. These cooperative agreements with international partners encourage students to go abroad by letting them pay the lowest range of tuition at Illinois. Dorsey’s office estimates that for Illinois residents, a semester overseas will cost between \$7,000 and \$10,000, which is less than the estimated total cost for in-state residents to attend Illinois.

A fiscally responsible student can make studying abroad even cheaper. Fifth-year accountancy student Mary Kate Fischer traveled to Barcelona, Spain, but still had summers available to intern at the major accounting firms. “The great thing about studying abroad is that you create your own experience,” said Fischer, who will be taking an auditing position in May with PricewaterhouseCoopers. “If you don’t want to travel on the weekends because you think it will be too expensive, the city you are in will hold endless adventures. And if you do decide to travel (outside of your host city), there are many ways that you can make it affordable.”

In the post-9/11 political environment, many students are concerned about a different cost — their personal security. However, students who traveled abroad in 2002 reported no anti-American sentiment. “As long as you use common sense and listen to government warnings, I don’t feel there is any danger in studying abroad,” said Amy Ramsey, a senior marketing major who studied in both Scotland and Norway.

If necessary, students can seek help locally because someone from the College’s Study Abroad Office has met with a representative at each school Illinois students attend. “Knowing a real person at our affiliated colleges and universities is incredibly valuable. Those colleagues form a support and information network for me and for our students,” Dorsey said.

Learning the Language

The attitudes of local community members are especially important to students who are traveling to countries where English is not the primary language. Many students have found that even the difficulty of being immersed in a foreign language is exaggerated.

“It’s not very difficult even if you don’t know their language,” said Chris Burns, a senior in marketing who studied in Oslo, Norway, in 2002. “Honestly, pointing and smiling goes a very long way.” This fall, the program Burns attended in Norway will be taught completely in English because many European countries are discovering that their students must have a good command of English in order to compete in the American and Asian markets.

While it may not be easy for all students to adapt to different languages and customs, most can get by with a little effort. Ramsey points out that almost everyone speaks English quite well in Europe. Most students report that it is easy to find people willing to help students wherever they choose to travel. However, for those who still prefer to study in a country where English is the native language, the choices are not limited to England or Australia. The College and campus together have almost 100 programs that offer business courses in English.

The Payoff

Although students go to various parts of the world and have different experiences, they all seem to come back with the same message for students at Illinois. They see their time on their own in a different country as a memorable and life-changing experience. And they become evangelists for the study abroad program. Once home, the travelers realize that their experiences can make an equal impact on their résumés.

“One story that I always repeat is what happened on my final interview (for a summer position) with Deloitte & Touche,” said Michaela Klein. “My interviewer asked about a major change in my life and how it affected me. I related the question to my transition to England and back. After answering the first question, my interviewer put down his clipboard and we spent the remaining 45 minutes talking about Europe. We really had a great conversation. I do not know how it changed my chances for the job, but it definitely influenced my opinion of the firm.” (Klein landed the position as a summer tax intern.)

The intangible qualities that never make it on a résumé are often the most important effects of studying abroad.

“Overall, I learned to be much more independent and assertive,” Mary Kate Fischer said of her experience in Spain. “When I came back from Barcelona, I felt much more confident offering opinions in class. I also came back with more ambition and motivation. I felt that if I could go to any country in Europe and find my way around on my own, I could tackle anything.” ■

—Christopher Boyce



Joseph Cheng received his BS in industrial engineering from the University of Wisconsin-Madison and his PhD in business administration from the University of Michigan. He is the current chair of the Academy of Management International Management Division, which has more than 2,000 members worldwide. He serves on the editorial boards of several academic journals and is co-editor of the JAI research series, *Advances in International Management*. Cheng is the director of the Illinois Center for International Business Education and Research (CIBER) (see page 4) and teaches courses in global management, international business, and strategic technology management.

RESEARCH AND DEVELOPMENT ACROSS NATIONAL BORDERS

The management of research and development (R&D) has long been of interest to those concerned with a nation's economic development and a firm's competitiveness. Until the early 1980s, most of the research attention had been given to the conduct of R&D within a national context, with emphasis on identifying the various domestic factors (e.g., government regulations, market incentives, educational systems) that affect R&D productivity. Since then, research attention has shifted toward gaining an understanding of the conduct of R&D across national boundaries. This change is primarily in response to the growing involvement of multinational firms in foreign-based R&D operations. While this development has opened up new opportunities for businesses to tap into innovation resources abroad, it has also made their job of managing across borders more complex and difficult.

According to statistics reported by the US Department of Commerce and the National Science Foundation, both US and non-US firms substantially expanded their international R&D operations in the 1990s. For US firms, total foreign R&D expenditure almost tripled from \$5.2 billion in 1987 to \$14.7 billion in 1997. This rate of increase in foreign R&D expenditure was faster than domestic R&D spending. For non-US firms, total R&D expenditure spent in the US by foreign-owned companies more than tripled from \$6.5 billion in 1987 to \$19.7 billion in 1997. Again, this rate of increase was faster than the growth in total domestic R&D expenditure by US firms. In both cases, US and non-US firms conducted high value-added basic and applied research in their foreign-based R&D labs, not just product or process adaptation work to meet local requirements. Many experts predict this trend of R&D internationalization to continue and intensify in the 2000s.

In 1993, Professor of Business Administration Joseph Cheng, then at Ohio State University, published one of the first articles calling attention to the emerging trend of R&D internationalization and proposing a comprehensive research agenda for its investigation. When he joined the Illinois faculty in 1996, Cheng established the Illinois Global Innovation Management Project using research funds from the National Science Foundation's Center for Innovation Management Studies. This multi-year research effort is designed to

address international R&D issues using field data collected from headquarters and subsidiaries of multinational firms active in international R&D. The investigation started with an in-depth case study of 10 major firms — five from the US (AMP, Dana Corp., Frigidaire, Goodyear Tire, NCR) and five from Japan (Casio, Honda, Kobe Steel, Matsushita, NEC), followed by a survey of more than 150 firms headquartered in Asia, Europe, and North America that have overseas R&D operations. Initial research findings include:

Motives for R&D Internationalization

Traditionally, firms internationalize their R&D operation to meet local demands related to customer or manufacturing needs. More recently, supply factors such as availability of talented local scientists and engineers and supportive regulatory environments for research have become more important drivers. While political factors such as host government requirements for market entry may also affect the internationalization decision, particularly in the case of developing countries, their influence sometimes has the unintended opposite effect of sending potential foreign investors away.

Types of Foreign R&D Operations

There are different kinds of foreign R&D operations and many firms conduct more than one type in their foreign subsidiaries. The most common operations are those involving technology transfer and product modification or development for local markets. Increasingly foreign subsidiaries are conducting more advanced R&D operations in global product/technology development and worldwide technology scanning and acquisition.

Impact on Firms' Competitiveness

Firms obtain different benefits depending on the kind of international R&D operation they conduct. Those active in technology transfer and local product modification or development tend to introduce more new products than their competitors. Firms that are more involved in global product/technology development or worldwide technology scanning and acquisition tend to receive more industrial patents, with significant spill-over effects benefiting R&D operations in other subsidiary locations.

“Foreign R&D expenditures by US firms almost tripled in 10 years.”

Management Challenges

Many firms have difficulties responding to the new organization and management challenges that result from R&D internationalization. This is particularly true for those involved in operations that integrate subsidiary activities across geographical areas, such as linking the operations of R&D labs located in the US, Japan, and Germany on a 24-hour development cycle. Firms that are able to harmonize the often conflicting cultural forces in the parent, subsidiary, and R&D environments are more successful in achieving their international R&D missions.

Cross-national Differences

How firms organize and manage their international R&D operations reveals significant cross-national differences. US firms tend to cluster their R&D operations within product divisions both at home and overseas. Japanese firms tend to maintain separate R&D labs at both the corporate and product division levels, a pattern repeated in their foreign-based R&D operations. US firms tend to hire more locals as directors of their foreign-based labs and have greater variation in their reporting relationships. Japanese firms tend to use more expatriates from home to serve as overseas lab directors and employ a matrix reporting structure to coordinate their international R&D operations. Finally, US firms tend to allocate more advanced R&D resources to their overseas labs, but Japanese firms more often provide cross-cultural training to their R&D staff before sending them abroad on assignment.

Currently, Cheng's Global Innovation Management Project is collecting longitudinal data tracking the organization and management changes that the sample firms have undergone as part of their R&D internationalization process. When completed, the research findings will provide a comprehensive knowledge base to advance theory and practice in the global management of innovation and technology development. ■

Implications of International R&D

The increased involvement of multinational firms in international R&D has important implications for both academics and practitioners. First, it raises serious questions about the validity and usefulness of some established theories. For example, the predominant perspective on firms' internationalization process treats involvement in foreign production as the final stage and does not consider international R&D as the next step. The traditional view of technology transfer has been that it originates from a firm's national headquarters and moves to the subsidiary, which can be a potential source of new knowledge.

Second, little systematic research has been done on R&D internationalization, leaving managers unsure about the value of this development and how they might facilitate the process. Many firms have extended their domestic R&D management practices to foreign subsidiaries while others have applied their international production and marketing practices to international R&D. Neither of these approaches has been shown to be effective.

Finally, the trend of R&D internationalization also attracts attention from public policy makers from home and host governments who see costs and benefits. Major concerns are the potential loss of high-paying R&D jobs, relocation of advanced technologies to other countries, and possible security concerns about advanced technologies being transferred to “unfriendly countries.” On the positive side, home and host governments recognize the potential economic benefits of international R&D. The challenge for public policy makers is to find the right balance.

Note:

The first part of this article draws from a recent book chapter published by Cheng and Rhee (2002).

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ANALYSIS OF BUSINESS MEASUREMENT PRACTICES WORLDWIDE

In this era of spectacular rises and equally spectacular collapses of companies once perceived as impervious to failure, new means of measuring business risk and new reporting models are essential. The scholarly analysis of business measurement and assurance is not a US-centric concern. No one knows that better than the Department of Accountancy faculty involved in the ground-breaking KPMG and UIUC Business Measurement Research Program that was established in 2002. The Program is poised to become a leading contributor influencing future worldwide business practices.

Last year, KPMG LLP pledged \$2.8 million in financial support for the KPMG and UIUC Business Measurement Research Program in a second collaboration between KPMG, a provider of audit and assurance services, and the College of Business. The Program supports scholarly research on new concepts and practices in business measurement and assurance, including financial and non-financial measurement and reporting models for the future, business risk assessment and measurement techniques, and techniques for measurement of the performance of business controls.

Ira Solomon, chair of the Department of Accountancy at Illinois and the holder of the Robert C. Evans Endowed Chair in Commerce, believes that measurement should be a function of the causes and effects that determine the extent to which an entity creates value. "Business models provide a finer partitioning of the space and they may offer a superior way to think about business measurement."

The Program is sponsoring research that is expected to significantly improve the information available to decision-makers such as executives and outside stakeholders. According to Tim Bell, director of Assurance Research at the KPMG Assurance and Advisory Services Center and a member of the Program advisory board, the Program is expected to be "a market for ideas to advance knowledge in the broad area of business measurement reporting. Organizations in the US and Europe have been promoting new measurement and reporting frameworks for some time. At KPMG, we believe that high-quality academic research is needed to help inform business leaders and the assurance profession on the best models and practices for effective decision-making in the 21st century business environment."

Because of the international reach of business measurement as a subject of intellectual investigation, and to better define the leading research challenges in the field, the Program coordinated several conferences to bring together researchers and practitioners for debates and discussions.

The first conference, held in Copenhagen in 2002, was an opportunity to hear the perspectives of European scholars and business persons and to debate research directions in the areas of business performance and measurement. In Denmark, conference participants identified the major problem areas for research, including modeling business to learn what to measure; designing appropriate measures; adaptability of measurement systems to changing business environments; understanding user needs and behavioral impacts of measures; and validation/evaluation of measurement systems. A second conference in San Antonio, TX, in August 2002 further refined the topics that were included in a call for proposals issued later in the year.

The Program's inaugural grant competition attracted 74 proposals, 12 of which were funded. The average award amount was \$82,000. (See the list at right for the successful proposals.) The solicitation for proposals, issued in October 2002 and closed in February 2003, encouraged projects with an international component. Principal investigators were invited to combine multiple perspectives, experiences, and skills by including business managers and accounting professionals in addition to academicians.

Said A. Rashad Abdel-khalik, managing director (academic) of the Business Measurement Research Program, "We wanted proposals that extended accounting boundaries and dealt with other issues that are related to business processes and business models in general. The submissions were as interdisciplinary as we had hoped."

The multi- and interdisciplinary teams that were successful were noted for their novel and complementary perspectives. Some of the research projects are scheduled to be completed by the end of the calendar year; others will require a longer period to complete. ■

—Michelle Loyet

Zimmerman Center

The international focus of the KPMG and University of Illinois collaboration is one of the reasons the Program is housed in the Vernon K. Zimmerman Center for International Education and Research in Accounting. Vernon K. Zimmerman, a former dean of the College of Business, was a leading force in the establishment of international accountancy education in the 1960s. He established the Center for International Education and Research in Accounting (CIERA) in 1962 and was its director from 1964 to 1996.

Well before the phrase "global marketplace" became commonplace, Vernon Zimmerman and CIERA were at the forefront of international accountancy education. The Zimmerman Center continues to serve the academic and professional communities through leadership in international accountancy, business research, and educational support. Publication of *The International Journal of Accounting* and coordination of conferences both locally and internationally are among the initiatives pursued by A. Rashad Abdel-khalik, director of the center, and his staff. Conferences sponsored by the Center will be held at Georg-August University in Göttingen, Germany, in 2003 and at the Athens University of Economics and Business in 2004.

*Ira Solomon and
A. Rashad Abdel-khalik*



Grant Recipients, March 2003

During the first submission period, 74 proposals were received requesting funds totaling approximately \$5,940,000. Twelve proposals totaling \$991,265 have been selected for funding, with an average award of \$82,605.

Estimating the Cyclical Components of Business Metrics: Operational Risk, Catastrophic Risk, and Credit Risk Measurement

Linda Allen, Turan G. Bali, Baruch College, CUNY; Dr. Ruth Arad, Bank Leumi International, Tel Aviv, Israel

Relating Financial Performance to Customer Satisfaction and Operational Performance: An Integrated Analysis of Cost and Revenue Drivers for the US Airline Industry

Shannon W. Anderson, Lisa R. Klein, Sally K. Widener, Rice University

Performance Measurement and Incentives in Loss-Making Firms

Michal Matejka, Kenneth A. Merchant, Wim A. Van der Stede, University of Southern California

Measuring Valuable Transactions in Global Companies

Marcus Brem and Heinz Rehkugler, University of Freiburg, Germany

Voluntary Environmental Disclosure and the Cost of Equity Capital

Darrell Brown, Scott Marshall, Portland State University; Marlene A. Plumlee, University of Utah; in consultation with Shannon G. Tocchini, Louisiana-Pacific Corporation

Separating Facts and Forecasts in Business Performance Measurements: Intertemporal Financial Statements and SEC's Safe Harbor Rules on Forecasts

Jonathan Glover, Yuji Ijiri, Carolyn Levine, Pierre Jinghong Liang, Carnegie Mellon University; in consultation with James L. Murdy, Allegheny Technologies, Inc.

Embedded Environmental Metrics

Jeffrey Cohen, Boston College; Steven A. Melnyk, Michigan State University; Frank Montabon, Iowa State University; Robert P. Sroufe, Jr., Boston College; in consultation with an industrial advisory board

Business Performance Measurement at Southwest Airlines

Shannon W. Anderson, Rice University; Mark Young, University of Southern California; in consultation with Southwest Airlines

The Value Relevance of Disclosure on Intangibles: An International and Comparative Study

Michela Cordazzo and Stephano Zambon, University of Ferrara, Italy

Linking Customers, Strategy, and Activities: An Empirical Investigation of the Metrics Alignment Process

Roger J. Calantone, Joan Luft, Steven A. Melnyk, Douglas M. Stewart, George A. Zsidisin, Michigan State University; in consultation with Masco Corporation

Performance Benchmarking in Financial Services: Evidence from the European Insurance Industry

Stephen Diacon, Paul Fenn, Chris O'Brien, University of Nottingham, UK; Paul J. M. Klumpes, University of Warwick, UK

Reporting on the Business Model: A Comparison of Management and Analyst Points of View

Per Nikolaj Bukh, The Aarhus School of Business, Denmark; in consultation with Carsten Lonfeldt, Coloplast A/S, Humlebaek, Denmark

Illinois Journal Covers the World



The International Journal of Accounting, coordinated by the Zimmerman Center, advances scholarly and professional understanding of accounting theory and practice from an international perspective. Edited by Center Director A. Rashad Abdel-khalik, the journal encourages a broad view of the origins and development of accounting with an emphasis on its functions in an increasingly interdependent global economy.

Recognizing that international accounting is influenced by governmental, political, and economic forces, the journal works to foster understanding of the present and potential ability of accounting to aid in the recording and interpretation of international economic transactions within profit and nonprofit environments. Manuscripts that help explain current international accounting practice are encouraged as are articles with a broad view of the origins and development of accounting in an increasingly global economy.

Other than occasional commissioned papers for special issues, manuscripts are selected by the editors after a rigorous refereeing process. The journal is published by Elsevier Science.



INTERNATIONAL ACHIEVEMENT AWARDS PRESENTED

From left: Dean Avijit Ghosh, Prime Minister Atef Ebeid, and Associate Provost for International Affairs Earl Kellogg

A world leader and a leading expert on Latin American economics were named recipients of international achievement awards presented by the University of Illinois at Urbana-Champaign.

Atef Ebeid, the prime minister of Egypt and an alumnus of the College, received the 2002 Madhuri and Jagdish N. Sheth International Alumni Award for Exceptional Achievement during a ceremony held in January in Cairo.

The 2002 Distinguished Faculty Award for International Achievement was presented to Werner Baer, the Jorge Paulo Lemann Professor of Economics at Illinois, during a banquet in February.

Both awards are sponsored by the Office of the Chancellor, Office of the Provost, University of Illinois Alumni Association, and International Programs and Studies. This is the second year of the awards program.

Atef Ebeid's Impact on Egypt

Ebeid, who is credited with leading Egypt's efforts to shift to a more market-based economy, received his doctorate in business administration from Illinois in 1962. After graduating from Illinois, Ebeid returned to Egypt, where he joined the faculty of Cairo University's department of management and worked as a management consultant to various ministries within the Egyptian government. In 1973, he formed the International Management Center, a consulting firm that helped restructure failing construction firms. He was president of that company until he entered government service in 1984. He served as state minister for administrative development from 1984-1993 and minister of private enterprises from 1993-1999.

He was appointed prime minister by Egyptian President Hosni Mubarak in 1999. As prime minister, Ebeid has continued his efforts to liberalize the economy, increase economic growth, foster trade links with the European Union and the United States, streamline government, and initiate social reforms.

"Dr. Ebeid is well known in the Middle East for his intellect, business acumen, and managerial skill, as well as for his honesty and integrity," said Earl Kellogg, associate provost for international affairs at Illinois. Kellogg was part of a delegation from the University that traveled to Cairo to present the award to the prime minister. Business Dean Avijit Ghosh was also a member of the delegation.

Although Ebeid's career is marked by many accomplishments, he told the visitors that he recalled his time at Illinois as "the five best and most productive years of my life."

"Dr. Ebeid told me he owes much of his career to the education he received at Illinois," Kellogg said. "He also mentioned a management professor at Illinois who mentored him and taught him many things about how to manage. He genuinely loves the University of Illinois."

Werner Baer Honored for Research on South America

Baer, who taught at Harvard, Yale, and Vanderbilt universities before coming to Illinois in 1974, is regarded as one of the world's leading experts on the economic development problems that have plagued a number of South American nations, most notably, Brazil.

The professor, who received his bachelor's degree in economics from Queens College and his master's and doctoral degrees from Harvard, has written and edited numerous books and scholarly articles on economic conditions in Latin America. His reputation as a leading scholar of economic development was forged with the publication of his book "Industrialization and Economic Development in Brazil." Another book, "The Brazilian Economy: Growth and Development," is now in its fifth edition, and is one of the most widely used books on the economics of a Latin American country.



Werner Baer

Baer has made major contributions to the study of import substitution industrialization, the Latin American inflationary process and stabilization programs, the role of state in economic development, and the impact of privatization.

Baer also is known as a dedicated teacher and mentor, and his efforts to recruit outstanding Latin American students to Illinois have yielded graduates who now teach in some of the region's most prestigious universities and work in key positions for the International Monetary Fund, the World Bank, and the Inter-American Development Bank. He also co-founded the economics department's master of science program in policy economics, designed for young policy-makers from developing countries.

Baer has received a number of awards for his contributions to research on the Brazilian economy and to its academic institutions, including honorary doctorates from universities in Brazil and Portugal. He also is the recipient of the Southern Cross Medal, the highest honor conferred by the Brazilian government to a non-Brazilian, and the Rio Branco Medal, awarded by Brazil's Foreign Affairs Ministry. ■

— Melissa Mitchell, University of Illinois News Bureau

College Formalizes Executive MBA Program with Warsaw University



Executive MBA students at Warsaw University, beginning with the cohort entering October 2003, will again receive a University of Illinois at Urbana-Champaign degree, the result of a renewed partnership between the two institutions, a partnership that leaders of the programs say weaves theories and reflection with discussions and action.

The initiative builds on a decade-long collaboration that has graduated more than 450 EMBA students in Poland. Since 1996, the collaboration between the University of Warsaw's International Management Center (IMC), part of the School of Management, and the University of Illinois College of Business has resulted in a Warsaw degree and a certificate from Illinois. Between 1992-1995, graduates received an Illinois degree.

Students entering the program this fall will receive their MBA from Illinois upon completion of the 16-month, 18-unit curriculum. In addition to classes — half taught by Illinois faculty and half by faculty from Warsaw University — students develop their expertise through case studies, problem solving exercises, and a comprehensive consulting project. Professors Krzysztof Oblój and Tomasz Ludwicki are the coordinators of the EMBA program at Warsaw University. Main corporate partners include Cap Gemini Ernst & Young, Millenium Corporation, and Asea Brown Boveri.

Warsaw University created the International Management Center in 1990 to offer an MBA degree as well as executive short courses tailored to the needs of Polish businesses. IMC was also charged with exploring collaborations and joint programs with top US and Western European universities. Professor of Economics Case Sprenkle was the first Illinois coordinator for the program. The revamped collaboration with Warsaw results from the efforts of Professor Alojzy Nowak, deputy dean of the School of Management at the Warsaw University, Oblój, director of the program, College of Business Dean Avijit Ghosh, and an Illinois faculty and administrative team.

The demographics of the class are interesting: 95 percent of the students are Polish nationals; 20 percent are women; and the average age is 32. Most of the participants work for international companies and a minority for Polish-owned companies. Ludwicki comments that it is important to keep in mind "that today there are fewer and fewer 100-percent Polish companies." Recent classes have averaged 50 students and, of that number, two to five are entrepreneurs.

The list of companies employing the graduates read like a global who's-who: General Motors, Hewlett-Packard, IBM, IKEA, Lucent Technologies, and Mobil Oil are on the list along with scores of European companies. More and more graduates are working abroad, in the US, UK, Italy, and Germany and are being promoted by their companies to executive positions responsible for entire operations in Central and Eastern Europe. An executive in IBM Global Services summarized the benefits of the program succinctly: "The money and time spent on this program were the best investment in my life." ■



Q&A with Howard Engle:

BALANCING AN ACTIVE PROFESSIONAL LIFE WITH A PASSION FOR THE UNIVERSITY

1 You have been an adjunct faculty member in the Department of Accountancy since the graduate tax program was launched in the late 1980s. Yet during this period, you have also been an international tax partner with Andersen and now Deloitte. How do you find time for these activities and your other civic and professional responsibilities?

I have many interests and the areas of international taxation, teaching, and the University of Illinois are three of my favorites. Balancing my time has actually been relatively easy. My class has for many years met on Fridays during the fall semester; on most days, I drive down from Chicago and spend three hours with my class. The students get a concentrated dose of selected material and we have enough time to cover some interesting topics in detail. On my end, I have the delightful opportunity of interacting with some incredibly bright graduate students who, in most cases, are getting their first taste of how competing tax jurisdictions complicate the international business arena. I tend to base my comments on real-life examples and have no shortage of material to illustrate key points. It is fascinating to see the students' interest and knowledge grow dramatically in a relatively short period of time. My business partners have encouraged my continued participation in the program and been very supportive.

Teaching is a terrific way to stay current in areas you do not see on a day-to-day basis. The international tax arena has become critical to businesses of almost any size. The demand for graduate tax knowledge has increased steadily and my classes are bigger than ever. It's a fascinating area — and one that will be more and more important in years to come.

Howard Engle was honored in April with the 2003 CBAA Appreciation Award, given annually to a friend of the College and its alumni association who has performed outstanding service to the organization. Among his numerous contributions to the College, Engle served an unprecedented three terms as president of the College Alumni Association from 1995-98. Engle received his accountancy degree in 1972 and a master's in taxation from DePaul University. He and his wife Debra ('71 elementary education) have two sons, David and Andrew, who are both graduates of the University of Illinois.

2 What do you consider to be the most significant challenges in the field of international taxation and how do you address these in your class?

The field of international taxation is incredibly dynamic. Companies and individuals that do business internationally are subject to the laws of their home country as well as the laws of those countries that have, or claim to have, jurisdiction over their transactions. Given that the determination of an approach to taxation is the right of each country, and that each country will develop its tax policy based on a variety of factors, it is likely that conflicts between and among differing tax systems will arise. This necessitates the need for evaluation, planning, and, at times, the resolution of controversy to minimize the true tax costs of operating internationally.

We spend considerable time in class discussing the current status of these issues and how the competing objectives of different jurisdictions can be addressed. We also evaluate the incremental administrative costs of doing business internationally (e.g., added effort in planning, complying with local laws, structuring transactions, and securing competent local advice). While most areas of taxation are complex, the international arena is especially demanding and involves multiple jurisdictions with competing objectives. Understanding the dynamics of these competing forces and how taxpayers may minimize their impact on business activities is an important "reality check" in our classroom discussions.

3 What do you enjoy most about your teaching and educational work?

My interaction with the students and faculty has been an important complement to my professional responsibilities for many years. I have enjoyed playing a small part in the educational process through teaching as well as through the relationships I have made with some wonderful people. I have served on education-related committees for various organizations and served for many years as a Trustee and then as the Chair of the Andersen Foundation. I now have the pleasure of serving as a Trustee of the Deloitte Foundation, an organization deeply committed to the support of higher education. Staying close to the educational scene has been valuable in developing insight into the needs of our young professionals, who make up the majority of our talent and who, of course, are the future of the profession.

“The field of international taxation is incredibly dynamic.”

4 In what other ways are you involved with the College of Business?

For the past 25 years or so, I, like many alums, looked for ways to be involved. My initial efforts were largely tied to recruiting activities at Andersen, which gave me the opportunity to share my experiences with others who were facing some of the same decisions I had confronted just a few years earlier. Additional opportunities to play a role through alumni and related activities led to my participation on the College of Commerce Alumni Board, which I had the pleasure to lead for several years in the mid-1990s, and to the Dean's Advisory Board, which I led in the late-1990s. Currently I serve on the Dean's Board of Overseers and the University of Illinois Alumni Association Board. All of these activities have given me an enormous appreciation for the special nature of the University of Illinois and have been among my most rewarding experiences.

Moreover, the need for additional resources for the College is more acute now than ever, resources that will preserve and enhance our world-class faculty, improve and expand our facilities, and complement the talent and skills of our wonderful students with leading-edge technology. The College has a wonderful reputation and status in many key business-related disciplines. Building on this legacy is important not just to alums like me, but also to future generations of students.

The College's alumni base is an incredible potential source for the resources needed to supplement funds that will be available from public sources. I am very pleased with the efforts that have been undertaken to date to convincingly tell the College's story to interested alums. Still, more is needed. I hope to play an active role in this effort and raise the College's stature to even higher levels in the years to come. ■

GIORGI KVIRIKASHVILI: MSF Graduate is Member of Georgia Parliament



A 1998 graduate of the MS in Finance program is a member of the Parliament of Georgia who also serves on that body's Committee on Economic Policy. Giorgi Kvirikashvili, known as "George," is also one of the founders of Georgia's New Rights Party.

The Republic of Georgia, which became independent in 1991, is currently facing serious economic and political challenges, both within its borders and as part of the bigger geographic region. Significant international projects, including gas

and oil pipelines, infrastructure development, and World Bank initiatives, have created a demand for local experts with western educations, a role Kvirikashvili fills with alacrity. His Illinois MSF has, he reports, made him competitive and "capable of making a positive contribution in Georgia's on-going economic and political life."

Kvirikashvili said that his education has been instrumental in communicating with international organizations. Coursework in international finance has proven to be "absolutely essential to analyze and understand huge amounts of statistical and economic information produced by International Monetary Fund and World Bank experts."

Kvirikashvili has high praise for the MSF program. In an email to Director Roger Cannaday, he noted, "I am always proud to mention that I am an alumnus of UIUC. The program is a unique opportunity to study and meet wonderful people from around the world." He pointed out that "doors are open for me" in such far-flung locations as Taiwan, Thailand, Mexico, Brazil, Saudi Arabia, and, of course, the US.

Asked about his fondest memory of studying on campus, he wrote: "[The MSF program] was the first time I had to study *in English* subjects like business statistics and microeconomics. I started to worry whether I could cope with the rigorous schedule and sophisticated subjects. I had many sleepless nights in August, when I had my first finals. When I learned I received an 'A' in Microeconomics, I was so delighted and inspired! This sense of confidence, achievement, and inspiration made me run from Commerce West until I reached Green Street. ...I recall this to cheer up myself whenever I have a hard time in my life."

Kvirikashvili expects to serve out his term in office through October 2003, and then work as a consultant. ■



LINCOLN PARRA: MBA Graduate Reflects on His Graduate Education

There are three key factors every international student should consider when choosing a US MBA program, according to Venezuelan Lincoln Parra, a 2002 graduate of the MBA program.

"First, the core curriculum must fit the student's professional needs," said Parra. "Second, a balance of international and domestic students will give a broad vision about business. A city with a low cost of living—that is also close to an important business center—is the third factor."

Now in the International Research Office at the Central Bank of Venezuela, Parra said that the Illinois MBA Program had the necessary requirements for his success.

"Right now, I am an advisor in sovereign fixed-income matters and in charge of monitoring the emerging market risk of countries like Brazil and Mexico," said Parra. "My reports and analysis are a part of the bank's decision making. I get a good mix of economics and finance (in my work), and a lot of (my experience) I got from UIUC."

Parra had long heard about the innovative curriculum at Illinois, which turned out to be as challenging and comprehensive as he had hoped.

"The way the first-year curriculum is organized in a seven-week rotation program gave me the opportunity to gain a lot of knowledge in general management and other subjects like information technology, international management, and ethics," said Parra.

He cites the week-long, intensive Applied Business Perspectives (ABP) seminars, sandwiched between the courses, as opportunities to "wrap up what we learned during those five, seven-week periods in the first year." Getting to work with all the members of his 200-person class was another advantage of the first-year schedule. But Parra said the most rewarding aspect of his graduate program was the "opportunity to take classes with outstanding professors."

Despite being back home and far from the University, Parra has not forgotten his time at Illinois. "My overall opinion is that the Illinois MBA is an excellent program for international students," Parra said. "It gave me the opportunity to work with people from around the world and make good friends." ■

continued from page 3

How Culture Impacts Consumer Learning

Viswanathan's research in the US and in India notes some interesting differences. Consumer skills appear to be generally higher for an individual with a low level of formal education in India when compared to the US. A key factor in India is the rich, one-on-one interactional experience base from which consumers can learn. Dealing with vendors requires developing the ability to judge products and mentally count money. Frequent one-on-one interactions with sellers and other consumers lead to the development of such skills as deciding what to buy, where to buy it, and how to get a bargain. Consumers commonly seek advice from neighbors and people on the street, a sort of perceptual, *off-line* community. Because many generic products are not packaged or presented with nutritional information, consumers have to learn to judge the products for themselves.

In contrast, in the US, consumers typically deal with large chain stores with package information about nutrition and computers to add up bills. Ironically, the US environment — rich in symbolic information and technology — is not necessarily conducive to the development of skills for low-literate consumers. Consumer skills also develop from learning skills as sellers, often the way out economically for many individuals in India in contrast to working for a larger organization in a certain clearly defined capacity as is common in the US.

Advanced societies have wrestled in some ways with maintaining one-to-one communications while evolving toward layered organizations. Yet, these consumer communities, where the old and the new rub shoulders, offer some lessons of value, including the essence of marketing and pure exchange.

Ideas to Make a Difference

Viswanathan's research in the US will be disseminated in several ways through the Consumer Literacy Project. In the US, this research will be used as a basis to develop educational materials for consumer literacy in adult education. Findings will also be disseminated to businesses. The broad implication of this research for marketers is careful consideration and research of the functionally illiterate segment of their market to enhance all elements of the

marketing mix. Such efforts are likely to result in enduring customer loyalty, thus leading to competitive advantage. Implications extend to various aspects of marketing such as customer service, product design for ease of use and adherence to instructions, and pricing for ease of understanding. This research raises a host of policy issues in the realm of information disclosure and display in promotions, pricing and product design, and deceptive practices.

In India, his research is providing a foundation to develop and disseminate instructional materials and training guidelines for business and consumer literacy for low-literate, low-income buyers and sellers through the Marketplace Literacy Project. Such training can be transformational experiences that open the door to an altogether different existence both as buyers and as sellers or as entrepreneurs. His concept is to develop a training program in marketplace literacy that combines a top-down approach based on generic business education with a bottom-up approach based on grounded research. The challenge here is to glean core business concepts across functional areas and communicate them through innovative pedagogical methods and concrete examples. The educational program is expected to make possible some level of abstract thinking and innovation. Wide dissemination of the results of his research across cultures is expected to offer practical implications for adult educators, businesses, and policy makers. Long-range outcomes include enhanced competitiveness and economic development in these communities in meeting the challenges of globalization.

The ingenuity and positive attitudes displayed by many functionally illiterate consumers are a testament to human resilience and creativity. They challenge the conventional presumptions and assumptions of literate decision-makers in business, government, and education. Moreover, referring to functionally illiterate consumers as a homogeneous group glosses over nuances and variability that is apparent in this research. Creative public policy solutions can enable this group to make more informed choices. And businesses that address the needs of this group of consumers are likely to be rewarded with enduring loyalty. ■

Steven Miller Delivers Leighton Lecture on Ethics



Steven Miller, retired president, CEO, and chairman of the board at Shell Oil Company, focused on the inherent characteristics of a successful business and the challenges in the 21st century when he delivered the Leighton Lecture on Ethics in February to more than 280 students, faculty and staff, and community members.

Among the five elements that Miller identified as part of his framework for success is a focus on diversity, calling it a business imperative. "As we look to the future," he said in his remarks,

"horizons expand as globalization brings a new set of opportunities. We are in the era of a global talent pool." Miller also discussed his belief that corporations need to do more than simply acknowledge the positive aspects of diversity, a "central force that is shaping and reinforcing values that are vital to business" and one that is driven by globalization, technology, transparency, and changing demographics. Uncompromising business ethics, a commitment to sustainable development, an understanding of strategic planning, and using the "power of collaboration" were the other elements in his framework.

Miller is now the chairman and president of SLM Discovery Ventures, Inc. in Houston. The Leighton Lecture is named in honor of Richard and Grace Leighton who contributed funds to endow the lectures, which focus on ethics in business. Miller's talk is available on the web at www.business.uiuc.edu/publications/Features/.

Gentry receives Fulbright to Italy



James Gentry, Professor Emeritus of Finance, was selected by the Fulbright Committee in Italy to serve as the Tusciana (Viterbo) Distinguished Chair in Business Administration in fall 2003. Gentry will teach a case discussion course on leveraged buyouts (LBOs). Cases will be used throughout the course to actively involve students in learning about the important role that LBOs play in financial management. Students will write cases about Italian LBOs and will work with Italian business leaders and investment bankers who have had direct LBO experience. In the closing weeks of the course, selected student cases will be discussed in the presence of Italian bankers and business leaders.

Gentry retired at the end of the 2002 academic year after a distinguished career at the University of Illinois. He was a member of the faculty for more than 35 years and was IBE Distinguished Professor of Finance at the time of his retirement. This is Gentry's third Fulbright award: he received an award in 1994 to Japan and to India in 1979-80.

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Bristol University Honors Magelli



Paul Magelli, director of the Office for Strategic Business Initiatives, will be awarded an honorary doctor of law degree from the University of Bristol in July. His fellow honoree is British Prime Minister Tony Blair.

Magelli and Paul O'Prey, associate chancellor for research at Bristol University, co-authored successful proposals to the UK's Science Challenge Fund to establish the Bristol Enterprise Centre. The Centre is viewed among the most successful efforts to

commercialize intellectual property from an alliance of universities in the UK. Magelli is on the Board of Directors of the centre.

Executive MBA Program Now Based in Chicago



The Executive MBA Program has announced its relocation to Chicago. Effective in August, classes will be held at the Illini Center, 200 South Wacker Drive. Three weeks are spent on the Urbana-Champaign campus and a 10-day international study tour (see pages 8-9) concludes the 15-month program.

"We believe strategically that we should have this degree where the action is, where the companies are," said Merle Giles, director of the program, in March when the change was announced. "We need to be in Chicago."

The Executive MBA at the University of Illinois has been ranked number eight of all Executive MBA programs in the US and number 13 in the world, according to the *Financial Times* (October 4, 2002). It was also ranked as the number one public institution Executive MBA program in the country. A springboard for many senior-level careers, the program has provided a solid academic grounding of higher business education for more than 27 years.

International Versions of Textbooks Offer Challenge to Author



In March, Joseph Finnerty, professor of finance, received a copy of the latest version of "Foundations of Financial Management" (West Publishing), which he published in 1999 with co-authors C.F. Lee and Edgar Norton ('80 MS Finance, '84 PhD Economics). Because this latest version is in Chinese, which he does not speak or read, he is limited to admiring the cover art and verifying the graphs and charts. The Chinese version sits on Finnerty's bookshelf next to another one of his books, "Corporate Finance: Theory, Method, and Applications," which is available in English and Russian editions.

classes NOTES

1930s

George C. Boddiger '39 was honored in December 2002 by the National Multiple Sclerosis Society's National Capital Chapter for his exceptional leadership. He has volunteered for the chapter for the past 40 years.

1940s

John M. Hunter '43, MS '47, professor of economics and director emeritus at Michigan State University, was awarded a gold medal for civil merit by the Universidad de los Andes, Bogotá, Colombia. He was the first director of the Center of Development Studies from 1957-59.

1960s

Wallace W. Creek '60 was nominated by DPL Inc., Dayton, OH, to its Board of Directors. He previously held senior positions at Pontiac Motor Division, Corporate Finance, the Cadillac Motor Car Division, and GM España.

Steve Goldman '65 retired this spring after spending 23 years at Paramount. He and his wife, Sandra, will be running a B&B in Chatham, MA. He also joined the Board of Trustees at Emerson College.

James R. Cantalupo '66 was elected as McDonald's Corporation's chairman and chief executive in February. He is a 28-year veteran of McDonald's.

Frank J. Doti '66 was named to the William P. Foley II Chair in Corporate and Taxation Law at Chapman University School of Law in CA.

Jerry D. "J.D." Wetterling '66 is an elder in the Presbyterian Church, a business columnist and op-ed writer, a popular speaker, and a guest on talk radio and television shows. He has written about his Vietnam fighter pilot experiences in his book *Son of Thunder*.

William W. Austin '67, Law '70, was elected vice chairman of the Board of Directors of Attorneys' Title Guaranty Fund, Inc. He is a partner in the Effingham firm of Parker, Siemer, Austin, Resch & Fuhr, focusing on real estate, business and banking law, and related litigation.

George R. Biderman '68 joined Raider Precast Concrete, Inc., West Burlington, IA, as regional sales manager to oversee sales and marketing initiatives in the Midwest. He is a Fellow of the Society of Marketing Professional Services.

Ephraim P. Smith PhD '68 is vice president for academic affairs at California State University, Fullerton. He has been at Fullerton since 1990.

1970s

Alan D. Feldman '74, MBA '76 was elected the president and CEO of Midas, Inc. He joined Midas after nearly 20 years in the food and restaurant industries, including senior management posts at McDonald's Corporation.

John V. Tibensky '74 MA is a representative of the Northwestern Mutual Financial Network. He is a Chartered Life Underwriter, a Chartered Financial Consultant, and a member of the National Association of Insurance and Financial Advisors.

J. Mark McKinzie '75, MBA '76, is a partner at the law offices of Riley, Bennett & Egloff focusing on service to the insurance industry. Previously he was senior VP and general counsel of Indiana Lumbermen's Mutual Insurance Company.

Scott J. Poteracki '75 was appointed vice president – finance and CFO by Cray Inc., provider of supercomputing solutions for scientific and engineering problems.

Thomas M. Siebel LAS '75, MBA '83, MS '85, continues as chairman and CEO of Siebel Systems Inc., which makes e-business applications software.

Thomas J. Dutt '76 joined Chicago-based Peryam & Kroll Research Corporation, a national marketing research firm, as VP-consumer insights in December 2002. He was formerly with the William Wrigley Jr. Co.

Paul A. Motenko '76 is Co-CEO at the Huntington Beach corporate headquarters of Chicago Pizza & Brewery Inc., the parent company of BJ's Restaurant & Brewery.

Jeffrey A. Golman '77 is an executive with investment firm Mesirow Financial, Inc. and is working primarily on small-scale 'tuck-in' deals.

George Repa '77 is an administrator with SunBridge, a 162-bed long-term care, skilled, and rehabilitation facility that was named the Facility of the Year in 2002. Repa has 20 years of healthcare administration experience.

John E. "Jack" Sullivan '77, MS '79, received his second Media All-Star award and was also on two award-winning creative teams. He is senior VP and out-of-home media director for Starcom.

Keith A. Bandolik '78 is president of Switchcraft. He has been with Switchcraft for almost 25 years, beginning as a customer service rep in 1978 and advancing to the president position in 1989 at the age of 33.

1980s

Laurence P. Birch '80 was named CFO by Seurat Company, a leader in precision marketing outsourcing.

In January, Michaels Stores, Inc. announced that **Jeffrey N. Boyer '80** is the company's new executive VP and CFO, responsible for all financial aspects of its \$2.9 billion specialty retail business.

Jeffrey R. Suchomel '80, MBA '83, joined the Los Angeles office of Deloitte & Touche as director of internal audit services. He will also be a member of the national telecommunications, media, and technology team.

Mark D. Waltermire '80 has been elected VP – operations and marketing planning for Laclede Gas. Laclede is the largest natural gas distribution company in Missouri.

Robert W. Benson '81, MBA '83 was named manager of the Burlington, WI, regional office of Baxter & Woodman, Inc., consulting engineers, a planning, design, and construction management firm. He joined the firm in 1995.

marriages

1980s

Christopher B. D'hondt '88 and Christine A. O'Neil, April 13, 2002

1990s

Linnea M. Herbst MAS '92 and Michael Zimmerman, September 7, 2002

Mark D. Brelje '94 and Marcy Benoit, June 22, 2002

Rachel M. Gildner '95 and Brandon J. Olson, September 14, 2002

Eric M. Alexander '96 and Stephanie A. Malin, June 22, 2002

Richard A. Sherman '96 and Julie A. Buscaglia, September 27, 2002

Kristen J. Berg '97 and Ryan R. Radosh, August 17, 2002

Kevin W. Beth '97 and Susan E. Black, September 7, 2002

Corey A. Covert '97 and Davin L. Born, October 26, 2002

Ethan D. Hafner '97 and **Melissa B. Tegman '98**, May 26, 2002

Ian P. Kernan '97 and Jennifer L. Schaefer, September 14, 2002

Douglas B. Patterson '97 and Emily Morgan, September 28, 2002

Captain Kirk M. Spangenberg '97 and Sallie E. Baldwin, October 12, 2002

Brian D. Buckley '98 and Amy A. Hummelsheim, September 14, 2002

Steven C. Galminas '98 and Kelly Gierman, October 19, 2002

David C. Seneczyn '98 and Michelle A. Weber, July 12, 2002

Erin K. Shields '98 and Timothy M. Benoit, April 13, 2002

Amy D. Freeman '99 and Wyatt A. Cline, September 14, 2002

Daniel C. Gnolfo '99 and Shelley N. Eide, May 11, 2002

Charlotte Izsak '99 and **Scott M. Weissman '98**, September 1, 2002

Jill S. Whitlow '99 and **Matthew E. Luallen '98**, May 25, 2002

2000s

David Glenn Farmer '00 and Angela Marie Oriti, June 22, 2002

Jodi Jean Park '01 and Jonathan David Wright, December 23, 2001

in memoriam

The College of Business notes with regret the deaths of the following alumni.

1920s

Joseph E. Pehlman II '26, November 21, 2002, Malden, MO

1930s

Helen M. Horney '31, January 12, 2003, Columbus, OH

Dorothy C. Pelzer Lierman '32, November 8, 2002, Burlington, NC

Cecil A. Moyer '32 MS, '38 PhD

, December 10, 2002, Urbana, IL

William F. Newell '33, October 22, 2002, Elmhurst, IL

Everett Fitzjerald '34, December 24, 2002, Arthur, IL

Dale R. Peterson '34, October 15, 2002, Rock Island, IL

Leonard H. Ziehm Sr. '36, December 3, 2002, Franklin, WI

Stanley E. Olszewski '38, November 29, 2002, Whiting, IN

Ellsworth H. Myers '39, October 21, 2002, Elmhurst, IL

John H. Rennels '39, August 18, 2002, Monterey, CA

1940s

Ralston H. Deffenbaugh Sr. '40, November 14, 2002, Sun City West, AZ

R. Neil Fulk '40, November 13, 2002, Phoenix, AZ

William R. Todd '40, November 5, 2002, Effingham, IL

Jerome S. Gore '41, February 19, 2003, Phoenix, AZ

Henry J. Holquist '41, December 30, 2002, Marion, IN

John Trevor Sr. '41, October 31, 2002, East Moline, IL

Roger C. Wike '41, November 23, 2002, Milwaukee, WI

Charles F. Fahler '44, December 22, 2002, Mendota, IL

William H. Owens Jr. '47, November 1, 2002, Decatur, IL

Roland D. Sandel '47, November 28, 2002, Lincoln, IL

James R. Whitlock '47, May 26, 2002, Greenville, IL

Walter L. Throgmorton '48, November 15, 2002, Cheyenne, WY

Amy Christine Radosevich MBA/JD '01 and Jonathan Wayne Pressler, August 11, 2001

James J. Hulslander '00 and Carla L. Guerra, July 28, 2002

Jennifer A. Zumbahlen '00 and Shanon D. Barthelemy, September 14, 2002

Miel H. Fryers '01 and David Johnson, June 8, 2002

Meeta B. Jain MBA '01 and Marco Kratz, March 3, 2003

Melvin E. Cary '49, December 10, 2002, Danville, IL

Robert W. Hammack '49, November 25, 2002, Mahomet, IL

1950s

David M. Rund '50, March 1, 2000, Machesney Park, IL

Thomas Buck '51, December 3, 2002, South Bend, IN

Levert L. Fillingim '51, December 3, 2002, Ridgway, IL

John W. Gorman '51, February 21, 2003, Rockford, IL

Marvin O. Johnson '51, September 14, 2002, Sandwich, IL

Glen A. Williamson '51, November 28, 2002, Newport, OR

William R. Todd '53, November 9, 2002, Flora, IL

Robert K. Jamieson '54, November 28, 2002, Champaign, IL

Lawrence R. Chapman '55, March 6, 2003, Frontenac, IL

John E. Gillstrom '56, October 24, 2002, Hartland, WI

Russell D. Serzen '56, October 4, 2002, Phoenix, AZ

1960s

Neil L. Murphy '60, February 23, 2003, Lake in the Hills, IL

Penelope A. Flugger '64, December 9, 2002, Marco Island, FL

Joseph E. Edell Jr '65 MAS, October 20, 2002, Roseville, MN

Theodore Alex Pedas '66, November 19, 2002, Knoxville, TN

Dr. Jeremy A. Klainer '67 MBA, '68 PhD, April 17, 2002, Rochester, NY

Larry E. Murphy '68, November 15, 2002, Libertyville, IL

1970s

David J. Byrd '75, March 5, 2003, Eden Prairie, MN

John A. Nordheden '76, October 29, 2002, St. Louis, MO

2000s

Thomas F. Nensel Jr. '02 Senior, December 24, 2002 ■

Benjamin L. Jeckel '01 and Suzette T. Vetter, August 31, 2002

Susanne G. Stoll '01 and Timothy J. Lavery, September 28, 2002

Lisa M. Warriner '01 and Christopher D. Cheely, November 9, 2002

Bradley J. Clousing '02 and Kathryn M. Kennedy '02, July 6, 2002

Michael D. Kramer '81 MBA/Law '85 has been appointed an associate judge in the 21st Judicial Circuit Court in Kankakee. Kramer was selected for the bench from a field of 15 candidates.

Anna G. Sereiko '81 is a principal with AGS Financial Management firm, providing financial consulting and management services to businesses.

Ken Kunze '82, marketing director for the Heineken brand at Heineken USA, has been named to the 2001 "Marketing 100" list compiled by *Advertising Age* magazine.

Integra Bank Corporation, headquartered in Evansville, IN, named **Charles A. Caswell '84, MS '87, CFO**, responsible for Integra's financial unit that includes budgeting, accounting, and strategic planning.

Knight Trading Group, Inc. has announced the addition of **David S. Lehmann '84** to its institutional sales trading team. He is a member of the Board of Directors for Upaid Systems, Ltd., a wireless communications software company.

Kathi A. Grafe Kabbara '85 and husband, Karim, have a new son, Ali Jibril Karim, born June 26, 2002. He joins sister Yasmine. Kathi is a broadcast technician at WCVB-TV in Boston.

In January, **David R. Wenzel '85** was named the executive director of Catholic Social Services of Southern Illinois, a non-profit agency of the Diocese of Belleville.

Michael B. Witte MBA '85 is chairman of the board and CEO of AlphaGraphics, Inc.

James H. Buckler MBA '87 joined USFilter Indianapolis Water as president and operations manager. Buckler has more than 20 years of senior management experience in the water utility industry.

Brian C. Lawlyes '88 and Douglas R. Lawlyes have opened a law office in Westville, IL. Brian Lawlyes is also a CPA.

Steven Joerg '89 started AUM Fidelity, a jazz recording label in NYC.

Michael D. McKnight MBA '89 retired in March as Peoria City Manager. He started with the city in 1972.

National City announced that **Michael A. O'Gorman '89** was named community president of National City Bank in Kankakee. O'Gorman joined National City in March 2000 as VP and group manager of the middle-market banking group.

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Karin (Hutzler) Cokenour '90 and **Michael R. Cokenour '89** welcomed son Nicholas last September. The O'Fallon, IL, family also includes brother, Nathan. Mike is site director at Dental Network of America's Belleville facility, and Karin is an application support analyst with ADP.

Winston L. Langston '90, MBA '94, was elected to a two-year term as VP of the Chicago chapter of the National Black MBA Association, a non-profit professional organization.

Pia M. Orrenius '90 received her PhD in economics in 1999 from UCLA. She is now employed as a senior economist at the Federal Reserve Bank of Dallas.

Bruce J. Gold '91 was promoted to VP of the Healthcare Finance Group at BNP Paribas in NYC. BNP Paribas has offices in over 85 countries.

Laninya A. Cason '92, '93 Edu, of East St. Louis was elected associate judge in the 20th Judicial Circuit. She is a partner in the Belleville law office of Hinshaw and Culbertson.

Sandra M. Thometz McMaster MBA '93 and spouse, Rob, recently moved from Wayne, MI, to Canton, MI. Rob is with Visteon.

Matthew J. Clark '94 was named compliance officer and assistant to the president of Federated Bank, Loda, IL. He is currently working on an MBA and expects to receive his degree this May.

Jeffrey R. Klabish MBA '95 and Begona Mora have relocated to Madrid, Spain, from Wilmington, MA.

Robin E. Pritts '95 published a book, *From CP to CPA*, about living with cerebral palsy. Pritts works as a speech coach at College of DuPage, Glen Ellyn, IL.

Oscar Segura '95 has announced his candidacy for Alderman of the Third Ward, Aurora, IL. Segura is currently working on his MBA degree at DePaul University and is employed at MetLife as a financial analyst.

In April, **Alex D. Zoghlin '95** left his position of CFO at Chicago-based online travel company, Orbitz Inc., a company he co-founded. Current plans include competing in an iron-man competition in May.

Charles F. Baren MBA '96 and wife, Gerolyn, welcomed son Michael David this January. Chuck is with Fieldglass, Inc. The Baren family lives in Chicago.

Colleen H. Braun '96 was appointed director of business development for Fox Development by Fox/Atkins. Her primary responsibility will be for the U of I Research Park. She relocated to Champaign-Urbana with husband Paul Braun, who joined the College of Engineering faculty.

The Cincinnati Bengals signed **Kevin L. Hardy '96** to a four-year contract. The former Harrison High School and University of Illinois standout spent seven seasons in the NFL.

Siddhartha S. Singh MBA '96 was appointed as an assistant professor in marketing at Jesse H. Jones Graduate School of Management starting this fall. Singh is scheduled to receive a PhD in marketing from Northwestern this spring.

Jeffrey D. Azuse '97 joined the Chicago headquarters of Sheldon Good & Company International (LLC) where he is a project manager. Previously he was operations manager/director of real estate development for a national real estate development company.

The website **Jonathan M. Goldsmith '97** developed for Andersen alumni has over 6,000 members from all over the world. He has received favorable press on the website and reports positive results from the "Job Posting" section.

Mark E. Wolters '99 is currently a teacher at Lithuania Christian College in Lithuania. His globetrotting to more than 40 countries has helped him become fluent in six languages.

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Amy E. Richards '00 joined the advertising sales department of the Regional Publishing Corporation.

Michael S. Possedi MBA '00 is a consultant for the Hawaii Health Care Business Incubator, a new organization located in Honolulu.

Mehmet T. Yilmaz MBA '02 is with Alcoa Business Support Systems, Pittsburgh, which oversees the technology requirements of the procurement groups. He previously worked as an eProcurement Consultant at Alcoa.