Taking a Closer Look
Forensic accountants focus on fraud
From my office window, I can see sparks flying as the steel infrastructure takes shape in our new instructional facility across Sixth Street from Wohlers Hall. It’s a view that allows me to watch an exciting physical transformation take place. What was once just a parking lot is becoming a campus landmark—what was once just a vision for the future is becoming a reality.

Exciting transformations are also taking place in our classrooms and centers. In our newly established Center for Professional Responsibilities in Business and Society, we are developing innovative curriculum resources to teach and to research ethics, accountability, and required competencies of business professionals. In that same vein, student projects with financial trading organizations have inspired a Markets Information Lab in the new building where faculty and students will integrate sophisticated trading exercises into an innovative classroom experience. New multidisciplinary courses on new product development, technology management, and private equity are other examples of innovative ideas transforming the College.

One innovation sparks another and surely impacts how students and future business leaders will approach ideas in their professions and the world around them.

Structural progress on the Business Instructional Facility, a marvel of green technology, is an obvious sign of our commitment to innovation and stewardship. But the real progress will begin when we open the doors to our new building in the fall of 2008. Watching from my window, as students walk into the Business Instructional Facility for the first time, will be the best view of all.

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In today’s accounting environment, not taking things at face value has become especially good advice. Fallout from the Enron, WorldCom, Tyco, and other such scandals early in the decade has redefined auditing, setting new standards and creating new responsibilities for auditors in detecting fraud. According to Nekrasz, a healthy skepticism has always been an important attribute for auditors, but now it’s an absolute necessity.

“You can’t be afraid to ask challenging questions or to go toe-to-toe with someone when necessary,” he says. “You can’t settle for BS answers or ones that don’t match the figures. People will get angry with you, but it’s part of the job to have the personality to handle that and to not let it deter you. For this job, milquetoasts need not apply.”

Certainly, no one would ever accuse Nekrasz of being a milquetoast.

Like many auditors, Nekrasz developed an interest in forensic accounting after uncovering a fraud himself. Less than a year after graduating from the University of Rhode Island with his bachelor’s degree, Nekrasz was working for a public accounting firm when he discovered inconsistencies in a client’s inventory. “The CEO had a tirade when I brought it to his attention, exhibiting the classic defensive reaction that is true in most situations,” he says. “But, as I tell my students, you can’t let that get to you. You have to continue to investigate inconsistencies until you’re satisfied that they’re resolved. The evidence doesn’t lie—and it’s the evidence and the numbers that should tell the story, not the client.”
Truth or Consequences

Today, those numbers tell an interesting tale about fraud and its implications for businesses, both large and small, across the country. In their 2006 Report to the Nation on Occupational Fraud & Abuse, the Association of Certified Fraud Examiners (ACFE) estimates that fraud cost U.S. businesses more than $650 billion last year alone.

These losses stem from two general types of fraudulent behavior: the misappropriation of assets and fraudulent financial statements. Asset misappropriation, which essentially is theft, is the most common type of fraud, accounting for more than 90 percent of the cases in the ACFE 2006 study. Financial statement fraud, on the other hand, is far less common but far more costly. Where a business would lose an average of $150,000 in a theft scheme, the median loss for an instance of financial statement fraud is $2 million.

With such high costs, what can be done to better detect fraud? Call in the forensic accountants—people like Frank Nekasz and University of Illinois graduates Kim Richmond and Brian Goetsch.

Inquiring Minds Want to Know

Richmond, a 1993 accounting graduate, developed an interest in forensic accounting while working as an auditor with Arthur Andersen. She was assisting a client with an issue and became hooked on the challenge of the field and the ability to help a client in crisis. When the Enron scandal broke in 2002, she and 200 other Arthur Andersen consultants helped to form the Huron Consulting Group, a provider of independent financial and operational consulting services. In just five years, Huron now has nearly 1,000 employees assisting a wide variety of both financially sound and distressed organizations.

“The field has expanded exponentially since 2002,” says Richmond. “As a result of what happened with Enron, there is a greater need for forensic accounting services. The regulatory environment demands it, and companies have to respond. Businesses need the assistance of more professionals to do that.”

According to Richmond, preparing these professionals begins with a strong, well-balanced undergraduate business education. “Accounting majors who are interested in this field really benefit from taking finance courses as well. They are a good balance to the detailed accounting curriculum and help to provide skills in looking at the financials from a broader perspective,” she explains. “Then you need to get auditing experience. It’s invaluable if you’re focusing on financial statement fraud.”

Classes like ACCY 593, “Fraud Examination,” which Nekrasz developed and teaches each spring semester, are also important, says Richmond. Goetsch, who completed the B.S./M.S. in accountancy in 2004 and is now an associate at Huron, agrees. He says the introduction he received as a student in Nekrasz’s auditing class and Kentaro Koga’s ACCY 304 class on control systems is essential to understanding the opportunities available in the field and the mindset needed to pursue the profession.

“Both classes gave me insight into the control function and how important it is to be aware of the business as a whole,” says Goetsch. “In this field, you’re always going to have incomplete information, so what really matters are the assumptions you make and where they lead you. The ability to think critically, to challenge assumptions, and to think on your feet is especially important.”

And so is instinct, says Richmond. “As a forensic accountant, you’re often working in an environment where information doesn’t exist or it’s been destroyed, or the people you’re relying on for information may be the same people who are trying to hide a fraud. In those situations, even all the great technology and search tools we have at our disposal won’t be enough. You have to rely on your instincts.”
“Fraud is about information that’s in view and it’s talking to you, but you don’t know what it’s saying unless you discover the pattern.”

Don Rabon, the deputy director of the Justice Academy for the North Carolina Department of Justice and an instructor for the ACFE, also believes that instinct plays an important role. He has been teaching investigative training techniques to law enforcement and professional organizations for more than 30 years. He estimates that a forensic accountant’s job is one-third personal style and instinct and two-thirds knowledge and experience.

“People can be taught the skills of accounting and the mechanical details of interviewing, building rapport, and detecting deception,” he says. “But to be successful in this field, you also have to have other innate qualities like persistence, an open mind, and an attention for detail.” It’s what Rabon says turns the mechanical into an art form.

Nekrasz agrees. “Intellectual curiosity is an especially important quality,” he says. “I tell my students that the natural tendency to ask questions, to dig deeper, to want to understand makes you extremely valuable in this profession—especially if you also have the personality to keep going until you’re satisfied that something is correct.”

The ability to recognize patterns is also important. “Fraud is about information that’s in view and it’s talking to you, but you don’t know what it’s saying unless you discover the pattern,” says Nekrasz. “There are certain patterns that become readily apparent, but often not until you have some experience behind you.”

Raising a Red Flag

That experience also comes in handy when developing other fraud detection techniques, namely, interviewing and discourse analysis skills. Rabon, who is the author of two books on the subject, says the ability to be nimble while conducting an interview and to spot linguistic indicators of deception comes with education—and practice. “For instance, say you’re interviewing a manager about how they handle night deposits, and she says ‘Normally, we do this.’ The qualifying word ‘normally’ indicates that that’s not always how they do it and should be a red flag that the auditor needs to go back and revisit this articulation to find out what the exceptions to ‘normally’ are.”

Richmond believes that another key to success in interviewing is the ability to refine your skills by watching others, by reading verbal and nonverbal cues, and by adapting your style depending upon whom you’re interviewing. “Some of your best information will come from people in the organization who are not at the top. They’ll tell you all kinds of things that can be relevant to an investigation.”

But you have to be listening carefully and skeptically and you have to be prepared to ask probing questions. As Goetsch says, “One thing I learned in Dr. Frank’s class was not to take anything at face value but to keep asking myself, ‘Does this pass the smell test?’”

That’s music to Nekrasz’s ears. “I want students to leave my classes taking that sense of curiosity with them,” he says. “And when they’re getting the run-around from management, I want my face to pop into their heads and I want them to think, ‘Dr. Frank wouldn’t want me to settle for that answer or to be intimidated.’”

– Cathy Lockman
Shining a Light on Responsibility

Congress can enact legislation to curtail fraud, the accounting profession can prepare auditors to detect it, and companies can establish hotlines and procedures to ferret it out, but changing the behavior that leads to fraud requires different measures.

At the heart of those measures is educating future leaders about their professional responsibilities. And that’s the mission of the Center for Professional Responsibilities in Business and Society at the University of Illinois.

With rotating fellows drawn from across the University and throughout the world of business, the staff will represent a cross-section of disciplines from philosophy to law to environmental science. The focus will be on “responsibility” in its broadest sense.

“This is a time when lots of universities are shining lights on initiatives in ethics,” says Ira Solomon, head of the Department of Accountancy and a member of the Center’s governing board. “We intend to have a larger scope than a typical center for ethics might have. For example, let’s take the notion that in society there is a responsibility for voters to become informed. If the voter isn’t informed, then he can’t exercise his vote in a meaningful way and the system breaks down. In that case, we would be showing that the entire way of life that Americans aspire to requires that we be both responsible and accountable.”

As the Center does its research, the University wants to use its findings to infuse the concept of responsibility throughout the curriculum. “It will set the agenda,” says Avijit Ghosh, dean of the College. “It will sponsor the creation of materials and modules that will be accessible to teachers to integrate into their courses.”

But this is not just about classes. In addition to the focus on students and faculty, “we also want an external audience that includes business leaders, policy makers, regulators, and people who influence the creation of regulations,” says Ghosh. “It is important that this Center take a national leadership position on the issue of professional responsibility. We want to provide a forum and to bring influential people together to debate ideas that are very important to the whole realm of professional responsibility.”

The Center is funded by a $4 million commitment from the Deloitte Foundation and a $4 million grant from The U.S. District Court of Chicago, as part of a penalty levied against five former executives of Waste Management Inc. for inflating that company’s earnings by $1.7 million.

Field of Schemes

The growth of the forensic accounting field comes on the back of some widely publicized frauds, including schemes perpetrated by executives at Enron, Tyco, WorldCom, and Adelphia. A report by the Association of Certified Fraud Examiners on 1,134 cases of fraud reveals interesting data on the impact this behavior had on companies across the country during 2004-2006.

Fraud losses for U.S. business in 2006 were estimated to top $650 billion.

Theft is by far the most common type of fraud, but financial statement fraud is far more costly per occurrence, with a median loss for such cases over $2 million.

Fraud schemes are very difficult to detect, taking an average of 18 months from the time the fraud began until it was exposed.

Anti-fraud controls, such as tip hotlines, surprise audits, and anti-fraud training for employees, lessen an organization’s exposure to fraud.

Industries with the highest average losses per scheme were wholesale trade ($1 million), construction ($500,000), and manufacturing ($413,000). Those with the lowest were government organizations ($82,000) and retail businesses ($80,000).

Small businesses have disproportionately higher losses and are most likely to be detected by accident. In many cases, this is because they do not have systems for detecting fraud proactively.

Only 20 percent of the perpetrators of fraud are owners/executives, but they are responsible for the largest losses, with a per-scheme loss averaging $1 million. This is five times more than a loss perpetrated by a manager and 13 times more than one committed by employees.
Restatement
Huron Consulting Group’s A Review of Financial Reporting Matters documents the impact that the new reporting requirements of Sarbanes-Oxley and SAS 99 have had on financial restatements. The most recent statistics in the Review indicate that between 2003 and 2004, the number of restatements filed with the SEC climbed 28 percent, from 323 to 414. According to the Review, the most common causes for these restatements were misapplications of accounting rules, human error, and ethical lapses.

Expanding the Auditor’s Job
The Sarbanes-Oxley Act and SAS 99, “Consideration of Fraud in Financial Statements,” issued by the Auditing Standards Board are part of the regulatory response to the frauds that occurred 70 years after Kreuger & Toll. Ironically, these changes, like the ones before them, expand the scope of the auditor’s job, actually moving the profession forward. “The profession continually tries to learn from its mistakes and make responsible changes,” says Frank Nekrasz, a faculty member and a certified fraud examiner. “Prior to Sarbanes-Oxley, the biggest obstacle to detecting fraud was that no one was looking for it because of the conflicts of interest inherent in the system. Separating out these potential conflicts maintains the integrity of the enterprise.”

What a Fraud
Long before WorldCom and Enron, there were McKesson & Robbins and Kreuger & Toll—frauds that set in motion regulatory changes and auditing procedures that shaped the accounting profession for decades.

In 1932, investigators discovered that Kreuger & Toll, a match company, had reported nearly $250 million in assets that had never existed. The company had loaned money to foreign governments in exchange for an exclusive right to sell matches in that country. To fund these loans, Kreuger & Toll began selling stocks and bonds to U.S. investors. But when investors stopped buying shares in the early 1930s, the company ran out of cash. This fraud created an outcry that built support for the establishment of the Securities and Exchange Commission.

Seven years later, fictitious inventories and accounts receivable on the books of McKesson & Robbins, a pharmaceutical distribution network, led to additional reforms, including the establishment of new auditing procedures recommended by what was then called the American Institute of Accountants.
American executives routinely complain about the regulatory burden their businesses face. They cite red tape and the legal costs of complying with the myriad securities laws that have piled up over the last seven decades. But while American executives find our regulations burdensome, many foreign companies have voluntarily listed their stocks on United States exchanges. When they do so, they put themselves under the jurisdiction of U.S. securities laws, U.S. regulators, and, potentially, U.S. courts.

Why would they do this when they could so easily avoid this web of oversight by staying out of U.S. stock markets? The answer is that it saves them a lot more than it costs.
Paying the Price

Paul Vaaler, an associate professor of international business, has spent years researching the influx of foreign listings on American stock exchanges. As a lawyer, he has an appreciation for the role the regulatory environment plays in a firm’s operation. He believes investor psychology plays an important part in the growth of such listings and the willingness of foreign companies to take on the burden of regulation.

According to Vaaler, investors are willing to accept lower returns on corporate bonds if they think their money is safe. And it is more likely to be safe when invested in companies that are under tough regulatory oversight—as are companies that register their stocks on U.S. exchanges. Lower interest on bonds translates into hefty cost savings for the corporations that issue them.

Vaaler offers this example. “Let’s say you’re a one-billion-dollar-a-year company, and your weighted cost of capital is 10 percent before you list here. After listing, it goes down to nine percent. You could save millions of dollars in financing costs. These savings far outweigh the legal fees and other costs associated with complying with U.S. laws.”

And by listing on U.S. exchanges, you increase the number of potential investors who will bid on your stock. “Whenever you bring more people into an auction, the price goes up,” Vaaler says.

This means that a growing company based in a country with lax regulations isn’t stuck with the financial consequences. “Our research shows these companies can go abroad by establishing a U.S. presence legally and financially and still keep their offices and their factories back home. For example, the headquarters can remain in Sao Paolo, even as the company maintains a securities listing on the New York Stock exchange. Where you’re from doesn’t necessarily determine the corporate rules of the game your company will follow.”

So even if investor protection in many foreign countries is flimsy at best, companies from those countries can gain a seal of approval by listing their stocks on U.S. exchanges.

Of course, U.S. laws and regulations don’t guarantee absolute security for investors—witness the huge investor losses from the debacles at Enron, WorldCom, and other companies caught up in recent waves of corporate accounting scandals. But this happens much less frequently here than it does in countries with less stringent investor protections. When investors do get burned here, they can seek redress in American courts and criminal action by federal and state prosecutors. Conspirators in the Enron scandal, for instance, received long jail sentences. In other countries, they might have escaped punishment.

The Need to Raise Money

The ability to raise capital and sell stock is vital to a growth company. But investors won’t buy if they fear they will lose their shirts because of an inadequate regulatory and legal system. This is a particular problem for growth companies located in emerging markets such as Brazil, Russia, India, and China. To get that capital, they need to go global, at least in terms of where their securities are registered.

“This is part of globalization,” says Vaaler. “It means that standards of corporate governance across the world have some tendency toward convergence. But it’s not a race to the bottom (in terms of standards). It’s more of a race toward the top.”

There are, of course, many other reasons why foreign firms might want to list their stocks here. Listing increases name recognition among investors. It also increases the ease with which stocks can
At one time, business in the United States was basically unregulated. That changed with the formation of huge manufacturing and financial firms in the 19th century. As these firms grew, so, too, did widespread reports of abuses, which affected consumers, financial markets, and the environment. Legislation and government crackdowns followed.

One of the earlier laws on the books was the Sherman Antitrust Act of 1890, which made it a crime for a firm to monopolize or attempt to monopolize its business sector. At the beginning of the 20th century, President Theodore Roosevelt used the Sherman Act to crack down on financial machinations by business trusts.

As the century progressed, the layers of regulation grew thicker. For instance, the financial manipulations that were partly responsible for the Stock Market Crash of 1929 led to the passage of the Securities Act of 1933 and the Securities Exchange Act of 1934. The Securities Act mandated public disclosure of significant financial information on securities offered for sale, while the Securities Exchange Act set in place the regulation of financial markets.

But the laws that impact business were not limited strictly to trust or securities matters. For example, the federal minimum wage was passed in 1938 at the tail end of the Great Depression, and waves of environmental legislation followed the 1962 publication of Rachel Carson’s Silent Spring, which documented the damage of chemical pesticides on the environment.

A look back in time suggests that problems tend to lead to more laws and more regulations. In that context, Sarbanes-Oxley is the latest installment.
Paul Vaaler received his law degree from Harvard University in 1988 and his Ph.D. in strategic management and organization from the University of Minnesota in 1997. He holds a joint appointment in the College of Business and College of Law.

His research on foreign corporations that have registered with U.S. stock exchanges is detailed in a technical paper entitled: Legal System and Rule of Law Effects on U.S. Cross-Listing to Bond by Emerging-Market Firms. Burkhard Schrage, an assistant professor at Singapore Management University, is coauthor of the paper. The article can be accessed on the web at www.law.uiuc.edu/academics/pdf/vaaler.pdf. Vaaler and Schrage built their research on work done by three of Vaaler's University of Illinois colleagues—Michael Weisbach, professor of finance, Larry Ribstein, professor of law, and Ruth Aguilera, associate professor of business administration.

There are also benefits for the United States when foreign firms list their stocks on American exchanges, says Vaaler. One is that it helps to financially strengthen U.S. stock exchanges because the new foreign firms pay hefty fees for stock listings here. The new arrivals also help to pump up trading volume, which generates business for brokerage houses, and the influx of foreign listings helps to keep American stock exchanges at the center of the financial world.

The Common Law Advantage

Of course, tough regulations on paper are meaningless unless they are enforced, and that's where the United States, Britain, and Canada often have a decided advantage. Their legal systems are grounded in common law, which is based on local legal customs and on precedents established by court decisions. It evolved over many centuries in Britain and was incorporated into the laws of the United States and Canada.

For investors, common law provides a day in court and a legal framework for seeking to be made whole when they have suffered losses as a result of illegal behavior. When a corporate scandal hits in common law countries, it doesn't take long for investors who have been burned to stream into court seeking justice. Investors in civil law countries, which is most of the rest of the world, don't necessarily have the same right of redress.

“In civil law traditions, you might not be able to go to court,” says Vaaler. “You might have to go to legislators or regulators. The net effect is that in civil law traditions, there are fewer judicial remedies for the aggrieved shareholder. The common law tradition means more protection, particularly for aggrieved small shareholders.”

What's the Bottom Line?

The U.S. regulatory environment is particularly demanding, a fact foreign companies have come to accept. Yet it is a system that American companies often resent, and one that may not be fully appreciated by American investors who don’t understand how tough U.S. standards are in comparison to most other countries—and the benefits of those tough standards.

“People complain about the scandals at Tyco and Enron, or WorldCom,” says Vaaler. “But these are exceptions. In many emerging markets, these types of self-dealing and corruption are all too frequent, and they are accepted.”

-Doug McInnis
Will More Regulations Mean Fewer Foreign Companies on U.S. Stock Exchanges?

Businesses that operate in America live under one of the strictest webs of laws on Earth, laws that govern everything from the use and disposal of toxic chemicals to the ground rules for mergers and acquisitions.

The most recent major business legislation, the Sarbanes-Oxley Act, was passed in 2002—following accounting scandals at Enron, WorldCom, and other major corporations. The act mandated the creation of the Public Company Accounting Oversight Board, tightened insider trading provisions, required additional financial disclosures by public companies, and toughened criminal and civil penalties for securities law violations. It also required that the chief executive and chief financial officers of public firms certify their companies’ financial reports. The goal of the legislation is to protect shareholders by improving the accuracy and reliability of corporate reporting and accounting. Yet the law is not without detractors who question the time and costs involved in complying.

While U.S. companies have felt the added weight of these regulations for the past three years, foreign companies with market valuation exceeding $75 million that list on a major U.S. stock exchange only recently became subject to the Sarbanes-Oxley Act, causing some to speculate that foreign firms may opt to drop their listing on American exchanges rather than take on the burden of trying to conform to the stricter regulations.

The jury is still out on the impact Sarbanes-Oxley will have, but Paul Vaaler, an associate professor of international business, doesn’t think emerging market firms are likely to delist.

“The people are saying Sarbanes-Oxley may cause foreign companies to delist their stocks on American exchanges because the cost of compliance has gone up,” Vaaler says. “I haven’t looked in detail since the passage of Sarbanes-Oxley, but anecdotal evidence suggests that emerging market firms are not scrapping their U.S. listings.”

A recent report by Mazars, an international business advisory and auditing firm, supports Vaaler’s view. In 2006, they surveyed 88 companies in 13 countries that list on American stock exchanges, asking about the impact Sarbanes-Oxley would have on their businesses. In the emerging market countries of Brazil, India, and China, there was overwhelming consensus that the benefits of complying with Sarbanes-Oxley outweighed the costs, and there was unanimous agreement that the regulations would not cause them to delist from U.S. markets. Russian companies were not quite as convinced, with 50 percent answering that they would not delist and 50 percent undecided.

There is more concern on the part of European firms, who may not have the same issues with credibility or raising capital as the companies in emerging markets. Only 43 percent of European firms surveyed for the Mazars report believe that the law’s benefits outweigh its costs, and 17 percent say they would consider delisting. American companies, too, have complained about some of the act’s provisions and its costs and may seek to have it watered down. But foreign firms may be willing to live with it because it helps them gain credibility and has financial advantages.

“Our research suggests that firms from emerging markets may perceive higher benefits along with those higher compliance costs,” says Vaaler. “It appears that the tougher the regulations, the more investors are likely to trust firms from these markets.”
“We have to envision the kind of world we want to live in... For my students and the business community, I hope that means seizing the opportunity to lessen poverty and find sustainable solutions.”

To Madhu Viswanathan, understanding the 4 billion people who live in poverty and the potential they represent as consumers and entrepreneurs is all about life lessons first, business lessons second. That’s because, as Viswanathan puts it: “Unless you understand the life circumstances of those living in subsistence, you cannot design quality products for them.”

As a researcher who has spent almost a decade studying the implications of poverty and literacy on marketplace behavior, he’s passionate about what can be done to make a difference. As an associate professor of business administration at Illinois, he’s also encouraging that passion in his students through “Product and Market Development for Subsistence Marketplaces,” a new two-semester course, co-taught by Ali Yassine, an assistant professor in industrial and enterprise systems engineering. The course focuses on business principles and product development that will serve the world’s poor.

“We have to envision the kind of world we want to live in,” says Viswanathan. “For me, that means conducting research, educating students, and developing curricula that has the potential to open people’s minds and improve circumstances for those living in subsistence. For my students and the business community, I hope that means seizing the opportunity to lessen poverty and find sustainable solutions.”

The View from the Bottom

Getting a handle on how businesses can meet the needs of subsistence markets means starting with a new frame of reference. “The way I see it,” says Viswanathan, “the economists are like the planes flying at 30,000 feet. My interests have always been at ground level.” His micro-level approach is based on a bottom-up understanding of market development that he’s formulated through his work with low-literate, low-income consumers, and it’s at the heart of the curriculum he and Yassine have developed for their course.

“The bottom-up approach begins with understanding how individuals live, how the buyers, sellers, and markets behave, how literacy and income impact their circumstances, and what it means to live in subsistence,” explains Viswanathan.

Between the economists’ top-down approach and Viswanathan’s bottom-up approach is the research of C.K. Prahalad, a professor at the University of Michigan, and Stuart Hart, a Cornell University professor. Their work provided the intellectual impetus that Viswanathan believes is extremely valuable in its own right and yet complements the other two approaches. Plus, it has provided substantial exposure for the idea of developing the subsistence marketplace.
“Prahalad and Hart are leading management thinkers,” he says. “They have brought intellectual attention to this topic in a way that no one else has been able to.”

And that’s why students in Viswanathan and Yassine’s course study their work, a basic premise of which is understanding the value at the bottom of the pyramid. From a numbers perspective, the concept is simple and straightforward. The top of the pyramid consists of the nearly 100 million people with the highest incomes. At the bottom of the pyramid are the 4 billion people who live on less than $2 a day. Despite the differences in spending power, the sheer number of consumers represents significant market potential for businesses willing to think creatively. And, according to Viswanathan, those businesses that collaborate with the consumers and potential entrepreneurs at the bottom of the pyramid have an opportunity to make a difference as well as a profit.

Charting a Course

For Viswanathan, the opportunity to make a difference started by examining the behavior of low-literate consumers in the United States. His research eventually took him to India, where he interviewed buyers and sellers to learn how low-literate, resource-poor, subsistence markets operate.

“I am really trying to understand the psychology—the life circumstances in subsistence that affect participation in the marketplace and the economic realm,” he says. “As soon as I went there [India] and began my research, I started thinking in terms of ‘Is there a give-back here?’”

That give-back came in the form of an educational consumer and entrepreneurial literacy program that was developed for people who cannot read or write—a program that has been offered on a small scale in urban and rural areas in south India. This emphasis on marketplace literacy complements other educational efforts, such as those that focus on microfinancing. Together, these efforts empower individuals to participate in the marketplace and engage in mutually beneficial exchanges. Another give-back is through the subsistence marketplace initiative aimed at developing and disseminating knowledge about these issues.

The goals are straightforward: create knowledge about these marketplaces, stimulate research on the topic, and give back to the people with affordable, quality products and direct marketplace literacy education. But something was missing: teaching. Encouragement from College of Business Dean Avijit Ghosh led to the conception of the new “Product and Market Development for Subsistence Marketplaces” course.

“The dean said, ‘Why don’t you start with a course?’” says Viswanathan. “This is the best thing that could have happened—to be able to teach a course that is a direct product of my research is just an amazing opportunity.”

“Subsistence-based marketplaces are an important, though often overlooked, piece of the global economy,” says Ghosh. “Educating our students while simultaneously helping subsistence communities thrive benefits everyone.”

In the fall of 2005, Viswanathan teamed up with Yassine, whose research deals with the interdisciplinary issues of development and managing complex engineering systems, and together they began to lay the foundation for the new course.

“Subsistence-based marketplaces are an important, though often overlooked, piece of the global economy,” says Ghosh. “Educating our students while simultaneously helping subsistence communities thrive benefits everyone.”

The support of Ghosh, the College, and the University was an integral part of this process. Viswanathan and Yassine received fellowships from the Academy for Entrepreneurial Leadership and grants from the Hoeft Technology and Management Program to fund the course, and Illinois Business Consulting promoted the course through informational sessions.

Establishing the curriculum for such an interdisciplinary, underrepresented topic, however, was difficult.

“Avijit gave us great advice—Start small with engineering and business students, and go from there,” says Viswanathan.
The result is a unique course—not just because of the subject matter, but also because of the integrative, cross-discipline approach to teaching and the philosophies behind the lessons. Business and engineering students work together in a two-semester course sequence with the option to spend ten days in India for hands-on research and immersion into the subsistence environment. Then, working with established companies, students create a business plan and develop a product prototype by the end of the second semester.

“The cross-discipline, collaborative nature of this course is an example of the innovative work that happens in this College and at this University,” says Ghosh.

**Excursion**

Viswanathan believes that for students to truly understand how a business can be successful in the subsistence environment they must first understand the environment and the plight of the people. “When dealing with subsistence markets, conventional notions of research and practice or even of what is considered rational may have to be set aside,” says Viswanathan. “You don’t know how it is until you immerse yourself with the specific purpose of understanding.”

The first five weeks of the course are spent doing just that. The class explores subsistence marketplaces through analysis of qualitative interviews conducted by Viswanathan, analysis of videos, and wide-ranging discussions of poverty, literacy, and culture. After participating in a simulation of life in poverty conducted by Robin Orr from the University’s Office of Extension, students write first-person accounts of people’s lives and build models of what poverty is, the consequences of living in it, and of needs, products, and markets interactions.

Over the next six weeks, students learn the general principles of buyer and seller behavior, market research, marketing, and business elements for subsistence marketplaces through case studies and a range of guest speakers including social workers, technologists, and entrepreneurs. According to Viswanathan, these exercises lead to an understanding of principles for subsistence markets. In parallel, students work on product ideas for specific companies in group projects.

“The bottom-of-the-pyramid philosophy is difficult to execute because it requires a lot of change in terms of the business model, distribution, product development process, and organizational structure,” says Margretta Angdjasrin, an M.B.A. student enrolled in the course.

But it was the January trip to India that provided the ultimate immersion experience. While there, students visited rural and urban areas near Madras to conduct both group and one-on-one interviews with buyers and sellers about specific product ideas, and they observed various facets of subsistence marketplaces. And although the students were there to learn about the buyers, sellers, and how the markets operate, Viswanathan reminded them that they could learn from them, too.

“You can’t think of subsistence contexts as just markets,” says Viswanathan. “If you do, perhaps you miss the point. They are also markets and individuals to learn from. If we can design an affordable cell phone that works in these adverse conditions—it pushes you, but in the end, we have a quality product at an affordable price that may be lead to innovations in other markets as well.”

In addition to the nearly five days of interviews and observations, the group visited the Indian Institute of Technology, the GE Research Center, the Microsoft Research Center, and the Indian Institute of Science. Each program or center is working on technological initiatives for subsistence marketplaces.

“The trip gave us a good overview of India, from poor communities to rich individuals, from big corporations to small entrepreneurs, and from technical institutions to non-governmental organizations,” says Angdjasrin.

**Products with a Soul**

When they returned to campus, it was time for the students to put the immersion into action through product development by brainstorming product possibilities, creating business plans, and building prototypes with the help of sponsoring companies Motorola, Kraft, and Unilever.
Heading in a New Direction

ow can businesses be successful in subsistence marketplaces? More than anything, businesses must change their thinking. They must look at new business models and produce products and services that are culturally sensitive and environmentally sustainable, so that they then can be economically profitable.

“Innovation is very important,” says Madhu Viswanathan, an associate professor of business administration, who has spent more than a decade researching subsistence marketplaces. “These markets are largely neglected, so there is considerable potential. However, to be successful, businesses have to act in the best interest of the people and that begins with learning from them. We need businesses that are willing to co-create products with the consumers, who will be collaborative and help those at the bottom of the pyramid become entrepreneurs themselves.”

Product development and innovative business strategy at Unilever, and its subsidiary Hindustan Lever Ltd. (HLL), provide an example of how businesses can be successful at the bottom of the pyramid. HLL, seeing a rival company winning the detergent market in India, reexamined their traditional business model to try to capture the market. They examined the habits of the potential consumers and seeing that the poor often washed their clothes in rivers or public water systems, formulated their detergent, called Wheel, to reduce the ratio of oil to water in the product. Then using the large supply of Indian labor, they reinvented their production and distribution channels. Unilever has set up a unique distribution system for their products, providing poor women in small villages with the opportunity to serve as resellers.

Viswanathan and other researchers also point out that it is important for businesses to recognize that cheap, low-quality products are not the way to go. There is plenty of potential for emerging technologies and high-tech businesses to flourish at the bottom of the pyramid. In addition, businesses must rethink how they look at profitability. In subsistence marketplaces, you can’t look for high margins; instead, you have to focus on volume. And you even have to think outside of the box when considering such basic ideas as packaging because consumers at the bottom of the pyramid don’t buy in bulk. They have neither the money nor the storage space to stock up, so single-serve packaging is an important consideration.

The best advice for businesses is not to try to tweak existing approaches to make them fit a subsistence marketplace, but instead to understand the local context.

“Individuals living in subsistence are resourceful and innovative customers and entrepreneurs,” says Viswanathan. “They have to be in order to survive. We can’t afford to pay attention to them and to what they think will work in their environment. And the lessons learned may well be needed for all markets.”

According to Yassine, who is overseeing this segment of the course, one group is working on a product idea that would connect the poor to the Internet. Another group is designing packaging for a new ready-to-drink beverage to be introduced to the rural poor, and the last project deals with providing poor, young children with health facts through information technology.

“The cross-discipline structure of this course has been quite helpful,” says Michael Bloem, a graduate student in electrical and computer engineering. “The business student in my group is helpful in the development of our business plan, the industrial design student comes with a great wealth of knowledge regarding product development, and our engineers are coming in handy as we’re working on a prototype.”

Viswanathan agrees. “We’ve got unbelievable talent in this class,” he says. “If you have that desire to learn and the idea that what you are doing can actually benefit somebody beyond making a profit, that makes everything worthwhile.”

Trent Garner, a graduate student in industrial design, has described this as designing ‘products with a soul.’ That’s extremely gratifying to hear. I want the University to be at the forefront of this initiative. And with this course, I believe we are already there.”

- Cathy Lockman and Erica Rothmier
A mere generation or two ago, a strong back, stamina, and loyalty were a guarantee of regular employment. But with the rise of the high-technology sector and the gradual shifting of the economy away from agriculture and manufacturing, brainpower is the name of the game these days.
“We live in a knowledge economy,” says Michael Pratt, an associate professor of business administration. “What really differentiates high-performing organizations from less successful ones is the quality of their people.”

This in itself comes as no surprise; who hasn’t heard businesses tout the idea that “Our people are our greatest asset”? But this time, business leaders really mean it.

“As knowledge workers become more important, this idea has come back in fashion and is no longer just a philosophical position; it can mean life or death to a business,” says Pratt.

New Players

And who are the players in this new game? The key players now are what Peter Drucker dubbed, back in 1959, “knowledge workers”—those people who can work independently while bringing a body of special knowledge to the work situation and who can solve complex problems and create brand-new solutions.

As the Oldsmobile ads might say, “These are not your father’s employees.”

Knowledge workers can be found anywhere from the corner office to the factory floor, says Alice Martin, a 1981 M.B.A. graduate and vice chairman of human resources at NIBCO, an Indiana-based manufacturer of sophisticated plumbing and flow products. She tells of a machinist on the factory floor who designed and built a machine that reduced the number of people needed for a particular task and also reduced the set-up time.

He was recognized with NIBCO’s Associate Recognition of Excellence award, one of the highest honors at the company.

But as valuable as these employees are, they can be challenging to manage. Let us count the ways: they have minds of their own, which creates both opportunities and challenges for a company; they must feel empowered or otherwise engaged in the process to do their best work; they can’t be powered simply by being plugged into an outlet; finding just the right fit of employee to task is more difficult than finding the proper cog for a wheel; and routine maintenance—that is, a regular paycheck—is not, typically, enough to keep these new players happy.

In addition, today’s workers have skills that are complex enough that the cost of replacing them has become a very expensive undertaking. Although estimates vary widely, the cost of replacing an employee can range from one-third of an employee’s annual salary to as much as 150 percent of a manager’s annual salary. As the balance shifts toward organizations with “brainpower,” these assets of people and their ideas have become harder to interchange and more valuable than ever.

Playing by the New Rules

And the new rules? Well, they are definitely not the old rules, which were: get hired at our company; subsume your identity into ours; and we will give you a paycheck and job security for your entire working life.

Corporations broke those rules with massive layoffs over the last several decades, and, consequently, employees’ sense of loyalty to a company has waned. The new rules are more about looking out for number one; talented employees move from company to company to increase their knowledge base and skill set. Longevity at an organization used to be, by definition, a good thing; changing jobs frequently was suspect. That is no longer true.

The rule change in employer-employee dynamics has really hurt organizations when it comes to recruiting and, especially, retaining knowledge workers, says Pratt.

“These are folks that have a high level of skill or expertise in a particular area, which means they are eminently employable somewhere else,” he says. As Daniel Pink, author of Free Agent Nation, puts it, “Talented people need organizations less than organizations need talented people.”
Not only might this talent go to work for your competitors—witness the recent exodus of talented software designers from Microsoft to Google—but they might even start their own business, creating yet another competitor.

**Pass Go, Collect $200**

So, what are companies doing “to stay in the game”? There is no easy answer or “Get out of Jail Free” card. And, in fact, the answer varies from company to company and employee to employee. Economic theory contends that money is a key motivator of an individual’s behavior, however, for knowledge workers, money alone is not always the answer.

“Although there is disagreement in the field about whether and how much money is a motivator, I have argued that money is not the way to do it,” says Pratt. “Money tends to be the easiest, but not always the most effective motivator. Because if that’s all that’s keeping your employee, someone can offer them more and they’ll leave.”

On the other hand, sometimes a bonus, when given spontaneously, sends a great message. At NIBCO, for instance, Martin has authorized managers to give out $500 spot bonuses for jobs well done, an initiative that has generated new ideas as well as employee enthusiasm.

**Retaining Workers: No Trivial Pursuit**

When considering what satisfies and motivates knowledge workers, managers might find some surprising revelations. In many cases, knowledge workers are yearning less for money or prestige and more for meaningful work and the autonomy to get it done to the best of their ability. This means that good managers find themselves removing institutional or logistical obstacles for these employees so they can put their powers to use, rather than riding herd on them.

“That’s a different role than managers are used to,” says Pratt.

Managers who recognize that most people are driven to improve themselves also will find that riding herd is unnecessary.

“People love training; they love to be able to improve themselves,” says Martin. Among the new programs Martin has developed at NIBCO, several involve training opportunities. For example, she has hired a bi-lingual trainer to help guide new supervisors on the factory floors of NIBCO’s plants throughout the United States, Poland, and Mexico.

“Often a good operator gets promoted to manager, but they might not know how to be a good manager,” says Martin.

“Who are the best people? They are the ones that best fit the needs of your particular company, or a particular segment of a company. What is needed or what works in one place won’t work in another.”

—JOSEPH BROSCHAK

While knowledge workers value autonomy and self-improvement, they also value their work community.

“Managers tend to underestimate the importance of working with people you like,” notes Pratt. “Workers like to have a sense of community, to have good relationships with each other.”

“There’s a saying in human resources,” notes Martin. “People join you for the paycheck, but they leave because of the people. Our goal is to create a community where employees know their colleagues, value that environment, and don’t want to leave.”

**Part of the Team**

That sense of community can sometimes extend to the organization as a whole. If employees feel that their workplace reflects who they are as a person, that increases their sense of identity and loyalty, says Pratt, who has studied this dynamic in several companies.

For example, a person who sees himself as young and hip might seek to work at a company like Google, while someone who sees herself as a little more “establishment” might prefer to work at an organization like IBM. Self-identification is not the same kind of blind loyalty the quintessential “organization man” of the 1950s was expected to have, but it does...
increase an employee’s sense of belonging and, thus, loyalty. If, as a cultural system, a company gives workers something they can believe in and feel good about, that is good management.

Another aspect of good “brainpower management” is actually no brainer, and that’s open and honest communication, even when—or especially when—delivering bad news.

Speaking of tough tasks, Martin describes having to close one plant and one distribution center last year. She traveled to both places and made the announcement herself.

“At the end of the day, people came to thank me for coming myself to make the announcement,” she recalls. “People appreciated that.”

NIBCO also put its money where its mouth was, offering every single employee at the two closing locations either a $20,000 bonus to move to another NIBCO location—and a $10,000 donation to the employee’s charity of choice—or a large bonus for staying at the current location until it closed.

Human Resources: No Longer the Benchwarmer
With all this focus on quality employees, it stands to reason that human resources divisions have become more involved in helping to identify, recruit, develop, and retain knowledge workers.

“The role of human resources has begun to change,” says Joseph Broschak, an assistant professor of business administration, who notes that the executive vice president of human resources is now often a management level position. “Businesses are recognizing that the way you manage your human resources can have a bottom-line impact.”

This is certainly true at NIBCO.

“Human resources had been an area that had not gotten a lot of attention, and I was brought over to be a change agent,” says Martin. Much of that change has involved boosting morale, such as publicly recognizing a job well done. NIBCO’s Excellence Award program, mentioned earlier, recognizes people involved in creating a new product, saving the company money, or creating a safety innovation. Last year’s candidates for the awards saved the company a total of $1.6 million.

In addition to saving the company money, says Martin, the award was one of several set up to energize NIBCO employees, who are known as “associates” at NIBCO.

Another morale booster was an award specifically for customer service representatives. “Customer service can be a thankless task, dealing with unsatisfied customers,” says Martin of the new award. “The representatives get very discouraged.”

The representative of the month, chosen for high-quality service, receives a $1,000 bonus and three runners-up receive dinner for two at a nice local restaurant. At the end of the year, a customer service representative of the year receives a $5,000 bonus.

“In human resources so much of what we have to do is negative, and our goal is to balance that out with positives,” says Martin of her company’s efforts.

“Human resources: ‘People join you for the paycheck but they leave because of the people.’ Our goal is to create a community where employees know their colleagues, value that environment, and don’t want to leave.”

— Alice Martin, a 1981 M.B.A. graduate and vice chairman of human resources, NIBCO

Battle for Brainpower
Articles like a recent one in The Economist titled “The Battle for Brainpower” suggest that the thirst for talent is becoming insatiable at the same time that the reservoirs of knowledge workers are running dry. This idea was also famously put forward in the book The War for Talent, published in the early 1990s. Yet, despite this hand wringing, it appears that the premise is not universally accepted.

In some ways it comes down to basic, personal philosophy. Some believe that talent is a finite resource and that someone either has it or doesn’t. Others believe that talent can be nurtured and grown and that sometimes home-grown talent is the best kind of all, since it is steeped in the values and culture of the organization.

“If you say ‘don’t develop your own talent,’ then yes, there’s a limited pool,” says Broschak. “But for the companies that say, ‘we know what we want and we can develop our own employees,’ that is a successful company.”

Another argument that weakens the premise of the talent pool running dry is the position that talent, unlike money, is not the same across all industries or organizations. Broschak notes that what qualifies as talent at one organization is not necessarily the same as at another organization.

“It really comes down more to fit, rather than just pure talent,” he says. “Who are the best people? They are the ones that best fit the needs of your particular company, or a particular segment of a company. What is needed or what works in one place won’t work in another,” he says. “That in itself increases the availability of talent.”

Ultimately, even though managing people has not gotten any easier, businesses are paying closer attention to the practice. This benefits both employers and employees, and that’s a game where everyone wins.

- Deb Aronson
American business runs on money. Without it, the best inventions will never become tomorrow's promising startups, and even mature businesses will wither and die. But the sources of business financing are rapidly changing. Hundreds of billions of dollars from private equity financing have poured into the business world, bringing about a fundamental restructuring of the American economy in ways that should help U.S. businesses profit in the blistering competition of the global economy.

“Private equity investment is huge,” says Dan O’Connell, a 1968 graduate of the University of Illinois and director of the Golder Center for Private Equity and Entrepreneurial Finance at the College of Business. “It’s everything from investors who finance the guys working in their garage on what may become the next Apple Computer to the group of investors involved in international transactions. And it’s everything in between.”
"We look for problems that need a solution, and then we go to universities and federal laboratories and see if they have technologies that might solve them."

– John Banta

You only have to look down the road from the College of Business to see how the concept of private equity funding is being put to work to reshape the economy. The University’s Research Park on the south edge of campus is home to 50 companies that employ nearly 1,000 people. Many of these companies are startups working to commercialize technologies that originated in labs at the University of Illinois, which has gained a reputation as one of the nation’s top ten invention factories. The money for many of these startups comes from Illinois Ventures, a private equity firm with offices in Chicago and Champaign. The firm draws its capital from the University, the state of Illinois, and from private and institutional investors. By helping to jump-start the tech companies of the future, Illinois Ventures is helping to grow new companies that will replace old-economy jobs that are being lost.

“We’re active in life sciences, information technology, and the physical sciences,” says John Banta, a 1983 graduate in finance and the CEO and managing director of Illinois Ventures. “But we’re particularly interested in areas where those domains converge. That’s where interesting problems tend to get solved, because people who don’t normally work together do work together. And that’s where the real innovation takes place in areas like energy, advanced materials, new media, and specialized software.”

Moreover, the fund takes an activist role in funding innovation. “Traditionally, universities have relied on an approach where ideas were thrown out into the marketplace and then they would see which ones stuck,” explains Banta. “We look for problems that need a solution, and then we go to universities and federal laboratories and see if they have technologies that might solve them.”

According to Murillo Campello, an associate professor of finance, the United States is about the only country where you could have this kind of emergence of the private equity market: “In America, complete strangers are willing to look at someone else’s idea,” he says. “They can come in with plenty of money and make the thing a reality.”

Campello, whose teaching focuses on international corporate finance, explains: “Other countries do use private equity, but not to the extent found here. That gives the United States an edge.”

Something Old, Something New

New firms looking for startup capital aren’t the only beneficiaries of private equity funding. Old-line firms are also being reshaped through leveraged buyouts (LBOs), which are often partially financed by a pool of private equity capital.

Giant LBO specialists, such as Kohlberg Kravis Roberts & Co. or the Carlyle Group, for example, may swallow a company in its entirety, or they may buy a division or subsidiary of a large company looking to shed a unit that no longer fits its corporate goals. After the buyout takes place, private equity may take an active role in trimming fat or selling off units that don’t fit.

“Private equity makes U.S. firms more efficient and that helps them compete in the global economy,” says Michael Weisbach, who holds the Golder chair in corporate finance at the University and serves as academic director of the College’s Golder Center for the Study of Private Equity and Entrepreneurial Finance.

Because the investment is privately done, private equity investments aren’t subject to the same pressures for quarterly profit growth as investments made by public firms. This is an advantage because it allows firms financed by private equity to seek substantial long-term growth rather than simply trying to better the previous quarter’s results. This strategy allows fragile startups to develop their products and find a place in the marketplace without pressure from bankers or investors for quick results. It is an ideal arrangement to nurture the new economy.

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– Murillo Campello
Private Equity by the Numbers

Private equity includes both venture capital and buyout investing, with venture capitalists investing in innovative startup companies, and buyout firms focusing on investing in mature companies. Both pump billions of dollars into business.

There are approximately 700 venture capital firms in the United States.

At the beginning of 2004, the venture capital industry was managing approximately $252 billion, with the average venture fund size at $145 million.

A boom in buyouts in 2006 helped fuel a record dollar total for worldwide mergers and acquisitions. By mid-November, the value of M&As exceeded $3.4 trillion, beating the previous mark of $3.3 trillion for all of 2000.

The year 2006 was marked by at least eight buyouts topping $10 billion. There were just three buyouts exceeding $10 billion in 2003 and none in 2000.

The proposed $43.8 billion buyout of TXU, announced in February, would be the largest in history. It easily eclipses the two previous record setters, both announced in 2006—the $38.9 billion buyout of Equity Office Properties and the $32.7 billion buyout of HCA. Before these recent record setters, the largest buyout had been the $31 billion buyout of RJR Nabisco in 1988.

Sources: National Venture Capital Association, Forbes, and news reports.

Investing in the Future

The Golder Center for the Study of Private Equity and Entrepreneurial Finance was in large part made possible by gifts from the late Stanley Golder, who graduated from the College in 1951, and his wife, Joan, an English major who graduated in 1953. Golder entered the private equity area in the 1960s as a senior executive at First Chicago Capital Corporation, the private equity arm of First National Bank of Chicago. In 1980, he formed Golder, Thoma and Cressey, a $60 million fund that evolved into GTCR Golder Rauner, LLC, which now manages more than $8 billion in equity capital invested in a wide range of companies and industries.

Golder was an active mentor and frequent lecturer to students at the College of Business. In addition to their gifts to establish and endow the Center, the Golders also endowed a chair in finance. After Stanley Golder's death in 2000, a number of benefactors made substantial donations to the Center's endowment in his memory.

Risky Business

In many ways, private equity is the polar opposite from most bank lenders. “A bank loan officer is not trained to know much about the fundamentals of the businesses they finance,” says Campello. “They think in terms of red light, green light. Banks look at accounting ratios (an indicator of a company’s financial health). They think in quarterly terms, never more than a year. Private equity investors think in terms of three years to five years and beyond depending on the type of investment. With private equity, you’re more involved with the idea behind a venture, rather than accounting ratios.”

But there is a price. Private equity firms often insist on a hefty ownership stake in the firms they finance.

For private investors, the rewards are potentially huge. So too are the risks. “When you invest in a startup, the investment may go nowhere,” says Weisbach. “You’re betting on a home run. You’re looking for the next Google.”

With that in mind, it’s not surprising that the major players in private equity deals include wealthy individuals and institutional investors such as pension funds. Typically, though, these investors only put a portion of their portfolios into private equity. The balance tends to be in safer investments.

Tending to the Herd

Private equity is not without controversy because reshaping old-line companies often means fewer jobs, at least in the short term.

“The hardest thing a private equity investor has to do is shrink a company,” says the Golder Center’s O’Connell. “Really good private equity investors realize they are dealing with human beings. They do not casually shrink a company because they understand the impact. The good investors say, ‘We can either have a lingering death for all 1,000 of a company’s employees, or we can let 200 or 400 of them go so that the other 600 can survive and prosper.’”

So as the years have passed, private equity has given life to countless new companies and reshaped many others. O’Connell likens private equity to tending a herd of cattle over the long term. “There are two things you have to do to keep the herd healthy. The first thing you need is new calves. The venture capitalists provide the cash for that. The other thing that’s needed is to tend to the existing herd. The buyout guys do that by finding ways to make old businesses more efficient.”

– Doug McInnis
Opening the Door to Private Equity Opportunities

While private equity is playing an ever-growing role in shaping the U.S. economy, it is a field not well understood by undergraduates. The College of Business is changing that through a variety of programs offered by the Golder Center for the Study of Private Equity and Entrepreneurial Finance.

The Center wants undergraduates to know about the numerous job options in private equity and related fields. Encouraging students to consider the field falls to the Center’s director, Dan O’Connell, a 1968 University of Illinois graduate who has worked for more than 30 years in the private equity world.

“I ask the students, ‘What do you know about private equity?’” says O’Connell. “Often they reply, ‘I don’t know anything about private equity.’ So, I’ve been creating a family of programs that inform students on what the private equity world is all about.”

The programs offered cover lots of ground. “We hold case competitions, we bring in guest speakers. We have them meet with private equity practitioners to learn what their firms do. We hold workshops to tell them what to do to get into the business,” says O’Connell. “Our long-term goal for the Center is to help the University become the preeminent source of undergraduate talent in the field of private equity in the United States.”

O’Connell says employers want someone who understands the language of private equity, understands the players involved in a deal, understands the process of deal making, and understands how value is created through private equity investment.

Let’s Make a Deal

When students are aware of the field, they often want to aim for the very highly paid position of deal maker. Deal makers are the stars of private equity, but those jobs are few in number.

There are many more jobs in the supporting cast—a community of well-paid players who are critical to the industry’s success. These jobs include alternative investment managers at pension funds and other institutional investors, accountants, lawyers, and due diligence officers.

O’Connell wants undergraduates to take a look at these jobs as well as the coveted post of deal maker.

“Students need to broaden their awareness of what constitutes the private equity community,” he says. “It’s not just the people who are doing the deals. We want the students to understand that the deal makers are just the tip of the iceberg.”

The best way to do that is to illuminate all the possibilities for the students. “I tell the students that if they want to be a deal maker in the private equity world, then go for it,” says O’Connell. “But I also tell them to have a backup plan, which puts them somewhere in the deal flow. For example, they might be a loan officer who makes loans to firms in the buyout stream. There are lots of ways to get into this field, and the more likely way to become a deal maker is to go through one of those gateway jobs. You learn the business by being part of the deal, and then at some point you move over to make the deal.”

“Our long-term goal for the Golder Center is to help the University become the preeminent source of undergraduate talent in the field of private equity in the United States.”

— Dan O’Connell
New Majors in the Department of Business Administration

For more than 40 years, College of Business students with interests as diverse as marketing and management information systems have majored in the same thing—Business Administration. That will change this fall, as the department responds to feedback from employers, alumni, and current students, shifting needs in the business world, and trends in business education.

Instead of seven concentrations within the Business Administration major, students will choose from the following five majors:

- Management (with three concentrations—International Business, Entrepreneurship, and General Management)
- Marketing
- Business Process Management
- Information Systems and Information Technology
- Supply Chain Management

Starting in August 2007, the Business Administration major will disappear. New students will select from the revised list, while current students will have the option to select any of these majors or remain BA majors. In addition, students will now be able to double major in any of these areas—another added benefit of the change.

“The reorganization will help individual students to take more specialized courses in their majors and will provide a more accurate representation of our programs to recruiters,” says Huseyin Leblebici, head of the Department of Business Administration.

Sougiannis Honored at Investiture

College of Business faculty member Theodore Sougiannis was named the KPMG Distinguished Professor of Accountancy at an investiture ceremony on April 12, 2007.

Sougiannis focuses his research on the use of accounting numbers in stock market valuation, the choice of financial accounting rules, and accounting regulation. His research papers in these areas—often at the interface of accounting and finance—have had significant impacts on the literature and the understanding of accounting phenomena.

The KPMG Professorship was created to recognize excellence in business research and education, as part of KPMG LLP’s ongoing commitment to fostering knowledge and thought leadership in partnership with faculty and institutions of higher learning.

“KPMG LLP and the University of Illinois have partnered many times over the years to enrich accounting education,” says Ira Solomon, the head of the Department of Accountancy. “Endowing this professorship sends a signal of their continuing confidence in our educational, research, and service initiatives.”

Chicago Mercantile Exchange Gives College $1 Million Grant for Markets Information Lab

The College was awarded a $1 million grant from the Chicago Mercantile Exchange (CME) Trust to support a markets information laboratory.

The laboratory, to be housed in the Business Instructional Facility under construction on the southwest corner of Gregory Drive and Sixth Street, will conduct research on financial risk and markets and develop coursework on the subject.

“The CME grant recognizes the high-quality education provided by the College and the important role it plays in educating the next generation of business professionals,” says Avijit Ghosh, the dean of the College.

The four-year grant was part of $4.75 million awarded by the CME Trust to five Illinois universities for education in financial markets. The other recipients are DePaul University, Northwestern University Kellogg School of Management, University of Chicago Graduate School of Business, and the University of Illinois at Chicago.

Finance Faculty Recognized for Scholarly Output

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The 2005 Faculty Scholarly Productivity Index ranks doctoral programs in 104 disciplines at 354 institutions. The Department of Finance ranked third out of all universities.

“This is one of the few rankings that carefully considers the scholarly impact of a group on a per-faculty basis and does not rely on simple metrics largely affected by overall department size,” says David Ikenberry, the interim associate dean of the College and chair of the department. “While this approach is innovative, the results are not surprising.”

The 24 faculty members who were evaluated in the survey have published widely in the fields of Capital Markets, Financial Derivatives, Insurance and Risk Management, and Corporate Finance, Banking, and Real Estate.

The rankings were recently highlighted in The Chronicle of Higher Education.

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