

# KELLOGG

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**Spring/Summer 2014**  
VOL. 21 ISSUE 2

## *Nation Building*

Cesar Purisima '83 helps the Philippines reconstruct its economy following a super typhoon and decades of corruption



| FOOTPRINT |

## SQUAW VALLEY

It's one thing to call a mountain resort "world-class;" it's another to be a proving ground for the world's finest athletes.

Squaw Valley, home of the 1960 Winter Olympics, is controlled by affiliates of KSL Capital Partners, LLC, a private equity firm co-founded in 2005 by **Michael Shannon '83**. Since acquiring Squaw Valley, KSL has made extensive improvements to enhance the guest experience, including installing new high-speed chairlifts, creating new terrain parks, expanding snowmaking capacity and adding new amenities in the base village.

KSL, which owns and operates hotel and resort properties across the United States and United Kingdom, recently announced plans to invest more than \$50 million in the Village at Squaw Valley, including creating new lodging options, restoring Squaw Creek, preserving key Olympic buildings and developing additional family services and amenities such as the Mountain Adventure Center.

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PHOTO BY KEOKI FLAGG

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**KELLOGG INITIATIVES: Public-Private Interface**

Governments. Corporations. Advocacy Groups. These are public and private entities that work together — by choice or obligation — to lead global change while capitalizing on investment. It's all about the double bottom line. The question is: *Who's the leader?*

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### Kellogg School of Management

Northwestern University  
2001 Sheridan Road  
Evanston, IL 60208-2001

P: 847.491.3300  
KelloggMagazine@kellogg.northwestern.edu

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Dean  
**Sally Blount**

Global Chief Marketing and  
Engagement Officer  
**Tim Simonds**

Managing Director,  
Marketing Strategy & Design  
**Claire Lundin**

Managing Director,  
Digital Marketing  
**Margaret Douglas**

Chief Communications Officer  
**Amanda Samuels**

Director, Content Strategy  
**Mary-Jo Lipman**

Associate Director, Design  
**Lindsay Anderson**

Editor  
**Glenn Jeffers**

Associate Editor  
**Paul Dailing**

Editorial Coordinator  
**Fred Schmalz**

Kellogg Magazine  
Lead Designer  
**Kay Meyer**

Photo Editor  
**Rebekah Raleigh**

Senior Graphic Designer  
**Carol Forsythe**

Web Manager  
**Andrew Walker**

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NORTHWESTERN  
UNIVERSITY

## IN RECENT DECADES, CORPORATIONS HAVE REPLACED STATES AS THE LEADING AGENTS FOR GLOBAL CHANGE.

The rise of social media, globally integrated supply chains and the increasingly important role of NGOs have further accelerated this trend of private involvement in the public realm. While navigating the public-private interface remains fraught with difficulties, business leaders have learned how to recognize and embrace these challenges.

These are the issues the Kellogg Public-Private Initiative seeks to address. In short, the initiative is for every business that wants to interact with the social and political environment — or has to.

Why is this conversation happening at Kellogg? Kellogg has outstanding faculty recognized as among the most influential thought leaders researching how private companies operate alongside government agencies. Many combine academic rigor with a passion for leading change within both public and private sectors. Finance Professor **Jan Eberly** returned from serving as chief economist at the U.S. Treasury; Strategy Professor **Leemore Dafny** spent a year at the Federal Trade Commission; and Strategy Professor **Craig Garthwaite** has been one of the top academic commenters on the Affordable Care Act. In my own area of research, Kellogg has emerged as a leader in the areas of crisis and reputation leadership.

Many Kellogg alumni lead social change in a variety of leadership roles. In this issue, you will read about **Cesar Purisima '83**, the finance secretary for the Philippines, who has navigated the gamut of challenges from public officials behaving badly to natural disasters devastating communities.

These and other stories are just a few of the examples of the public-private interface playing out in everyday life.



**Daniel Diermeier**  
IBM Professor of Regulation and Competitive Practice  
Faculty Director, Kellogg Public-Private Initiative

# FAILURE IS ~~NOT~~ AN OPTION

Alumni weigh in on ‘failing fast’

## BRAD MOREHEAD & SREENATH REDDY

There’s no doubt the concept of failing fast is useful. At its core, failing fast amounts to testing out ideas on a small, low-cost scale to pinpoint potential risks. But can that failure backfire and compromise much-needed funding for a fledging startup? Is failure a good objective for an established firm? Should “fail” even be part of the nomenclature?

Two individuals well-versed on the matter are **Sreenath Reddy '08**, senior director, Marketing Strategy, at Orbitz Worldwide, and **Brad Morehead '05**, president and CEO of LiveWatch Security, a residential home security service. Reddy’s mantra to “fail fast and scale out the successes rapidly” has led to his group identifying several high-impact opportunities in the area of online marketing. Morehead similarly uses the approach to iron out marketing and product development strategies for LiveWatch.

### What about failing fast do you think is most useful?

**Morehead:** Entrepreneurs have limited resources, whether it’s time, money or people to throw at the problem. What’s important about failing fast is to figure out what’s the one thing you’re trying to solve with this solution. The operative word here is fast. What’s the other option, failing slowly? If you do anything slowly — except hiring — as an entrepreneur, it will really limit what you can accomplish.

**Reddy:** When it comes to making choices of where to invest, I think failing fast is the best way to identify areas of opportunity. In many ways, it’s a risk-mitigation strategy for entrepreneurs who don’t have a cushion. In your earlier stages, you’re trying to validate your business plan and weed out things that don’t work. But it’s not just for the entrepreneurs; I think it’s also essential for an established business.

### How have you used failing fast to your advantage?

**M:** We’ll look at new product launches, new applications that we’re building, new marketing channels or messages and the idea is to change one variable at a time, or one thing that you want to test in the market. It’s a mentality that works, whether it’s small, little experiments where you’re tweaking things or bigger shifts when you’re launching a new business or new product and looking for the product-market fit.

**R:** We focus on a few [travel] destinations, and we experiment a lot in figuring out growth drivers for us. Let’s say there’s a specific market tactic and we try it on the Chicago market. It’s much cheaper to do so, and I can quickly get a read before I scale it out to the entire business.

### Has failing fast ever backfired on you?

**M:** There is one example when it backfired. We rolled out a prototype for a new LiveWatch product and we had a great response. But we didn’t follow up that fast success with another fail-fast test. We ended up putting way too many resources into that initial success and we forgot that failing fast is a continuous process. You don’t want to get ahead of yourself.

**R:** If you’re in an offline world or making a product where there’s a significant investment involved, maybe there is a different approach. But if you can spend 10 percent of the investment, and eliminate 70 percent to 80 percent of the risk, why wouldn’t you do that?

*Interviews condensed and edited for clarity.*

BY PATRICIA RIEDMAN YEAGER ILLUSTRATION BY NICOLE LEGAULT



### BRAD MOREHEAD '05 CEO, LIVELWATCH SECURITY

Before joining LiveWatch, a firm specializing in providing low-cost home security services, Morehead was CFO of Feldco Factory Direct, a home improvement retailer.

#### MOREHEAD ON CONTINUED USE OF “FAILING FAST”:

“Succeeding fast is ideal. The next best thing is failing fast. You can turn that failure into success faster.”

### SREENATH REDDY '08 SENIOR DIRECTOR, MARKETING STRATEGY, ORBITZ WORLDWIDE

Before joining Orbitz in 2007, Reddy co-founded Amandee Inc., an enterprise software startup catering to the contract manufacturing industry.

#### REDDY ON CONTINUED USE OF “FAILING FAST” :

“If I’m not failing fast, I’m not doing my job.”



PHOTO ©JEFF SCIORTINO

# INVESTING IN KELLOGG'S FUTURE

## KELLOGG'S NEW ASSOCIATE DEAN OF DEVELOPMENT LOOKS TO RAISE DONATIONS IN A CHANGING WORLD OF PHILANTHROPY

After years of heading development efforts for law schools at Stanford, the University of Chicago and the University of Denver, Kellogg's new Associate Dean of Development **Eric Lundstedt** is taking on raising contributions for a business school amid a changing — and more competitive — philanthropic environment. Here, we talk with Lundstedt about those changes and his plans for Kellogg.

**K: What attracted you to Kellogg?**

EL: The ideas Kellogg is focusing on — particularly how Kellogg approaches collaboration — resonate not only in the world of business, but in my world of philanthropy. To be able to apply the techniques the school is pioneering to the very activities that help fund it is very exciting for me. As higher education evolves, Kellogg will remain a catalyst for helping leaders think about how to do their work in new and innovative ways. I get to benefit from that thought leadership and those new insights just by coming into the office in the morning. It's an exciting place to work and an exciting place to help support.

**K: How is higher education changing in terms of stewardship and what are some of the new challenges? What are some of the new opportunities?**

EL: Donors in general are getting a lot more discriminating about how they're allocating their gifts. There's a lot

more competition in philanthropy, so there are many more nonprofits and worthy institutions competing for the philanthropic dollar. While alumni donate to many direct-service agencies, investing in Kellogg also offers a chance to go an order of magnitude beyond that. We are educating the leaders who will then go on to found the organizations tackling social problems around the world, such as **Andrew Youn '06** and the One Acre Fund and **John Wood '89** with Room to Read. Investing in that structure allows your dollar to have impact on a truly global level.

**K: Much of your background is in fundraising for law schools. How is it different moving to a business school environment?**

EL: Law school has been taught the same way since the early 20th century. There are certain schools that are introducing some more innovative concepts, but it's basically been done the same way as it has always been done. Business schools in general — and Kellogg in particular — are really pushing the boundaries on how we educate. Does it have to be done the way it's always been done? Some of the clinical experiences we offer, such as real-world consulting opportunities and laboratory environments, are concepts embraced perhaps better here at Kellogg than any other place. That's really exciting to me.

# KELLOGG EXPANDS PREMIER EXECUTIVE MBA GLOBAL NETWORK

SCHOOL PARTNERS WITH GUANGHUA SCHOOL OF MANAGEMENT IN BEIJING

Kellogg recently launched a new Executive MBA program in partnership with the Guanghua School of Management at Peking University, one of the top academic institutions in China. The Guanghua-Kellogg program will be fully integrated into Kellogg's Executive MBA Global Network, which includes partners Hong Kong University of Science and Technology (Hong Kong), Tel Aviv University (Israel), WHU (Germany) and York University (Canada), as well as Kellogg's programs in Chicago and Miami.

Taught by Guanghua and Kellogg faculty, the program will equip executives for success in China and the global market by focusing on the following themes: megatrends and opportunities, analytical skills and decision-making, strategic leadership, globalization, and understanding stakeholders.

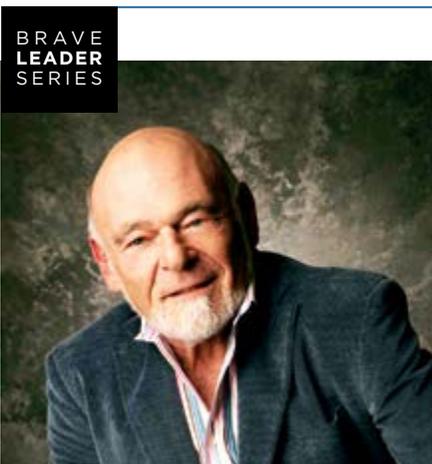
"Through our unique global EMBA network, which now includes Guanghua, we offer students a distinctive learning experience, preparing them to lead in the complex global economy," said Dean **Sally Blount '92**.

Based on Peking University's main campus in Beijing and at its new facility in Shanghai, the program will offer courses primarily in weeklong segments to reduce the amount of travel required for students and faculty. Students will also take classes at Kellogg's Chicago-area campus with other students from around the global network, and will have the opportunity to take electives at Kellogg's four other global partner schools.

Applications for the 22-month Guanghua-Kellogg program are being accepted now. The first cohort will begin in September.



Learn more about Kellogg's new EMBA partnership at: [kell.gg/guanghua](http://kell.gg/guanghua)



**"Obviously, self-confidence is a very important part. I don't know too many insecure, successful entrepreneurs."**

### **SAM ZELL**

Equity Group Investments founder and chairman, on the mindset of entrepreneurs as a speaker in Kellogg's Brave Leaders Series.



Visit [kell.gg/braveseries](http://kell.gg/braveseries) for exclusive video and content.



## **MCGUIRE HEADS TO THE DEAN'S OFFICE**

**Therese McGuire** will join the dean's office in July as the new senior associate dean for curriculum and teaching.

McGuire, who holds the ConAgra Foods Research Professorship in Strategic Management, replaces **Michael J. Fishman**, the Norman Strunk Professor of Financial Institutions, whose three-year term ends this summer.



# CAMPAIGN REACHES \$200 MILLION MARK

As of April, Transforming Together: A Campaign for Kellogg has reached \$200 million in contributions, with half of the funds committed toward the new building.

This significant progress toward the campaign's \$350 million goal is a direct result of the hard work and dedication of the campaign's leadership, which includes the steering and regional committee members, says Campaign Director **Julie Allen**.

"Our campaign leaders have worked tirelessly to reach these impressive targets," Allen says. "They are true partners who've encouraged our community to support Kellogg's bold ambitions by hosting dinners, advocating on our behalf, making their own generous commitments and soliciting their peers for support."

## **Class of '83 sets Annual Fund record; endows memorial scholarship**

The class of 1983 set a new record for class participation this past year with 40 percent participation and \$917,000 total in cash and commitments. The percentage beats the previous record of 38 percent, set in 2008, also by the class of '83.

The gift will go to establish a memorial scholarship in memory of classmates **Douglas Basta, Ravi Bhavnani, Joseph Bowen, Hans-Henrik Hansen, Julia Hanson, Thomas Hargett, Michael Horn, John Kernaghan, Kevin Madden, Steve McIntyre** and **Kevin Murphy**.

"I was incredibly impressed by the way the reunion committee swung into action," 30-Year Reunion Co-chair **Jeff Cohen '83** said. "Thanks to their incredible efforts, we made it."

## **Hitting the road**

As the public campaign moves into its first full year, Dean **Sally Blount '92** is heading up a new thought leadership series designed to educate alumni on the exciting research being conducted by Kellogg faculty.

The Kellogg Insight Live series travels to major alumni markets in the United States throughout the year. The first event – "Entrepreneurship from the Trenches" – took place on March 12 in San Francisco with the dean, Clinical Associate Professor of Marketing **Carter Cast '92, Tod Francis '83** of Shasta Ventures and **Sam Shank '04** of HotelTonight.

The next event is scheduled for May 15 in New York.



▲ **Tod Francis '83** and **Carter Cast '92** talk entrepreneurship at the inaugural Kellogg Insight Live series event in San Francisco.

 Learn more about the campaign at [transformingkellogg.com](http://transformingkellogg.com).



PHOTO © JUSTIN RUNQUIST

“When you’re hiring, you need people who are open minded, experienced in the problems around the industry that you’re addressing, flexible and optimistic.”

**CARTER CAST '92**

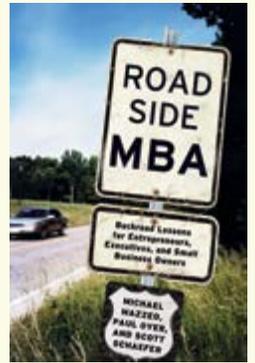
Clinical Associate Professor of Management on lessons learned in entrepreneurship.

**MIKE MAZZEO**

(with Paul Oyer and Scott Schaefer)

**Roadside MBA:**  
*Backroad Lessons for Entrepreneurs, Executives, and Small Business Owners*

While in Boston for a conference, Mazzeo and his colleagues drove up to Maine for lunch. They stopped at a local shop and discovered a program where employees were marked down for not interacting with customers. The results: an enthusiastic sales force and an idea. Six road trips and 100-plus companies later, the trio wrote a book that combines humorous anecdotes with lessons on product differentiation, team building and more.

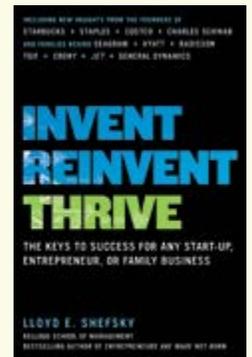


Available June 2014  
(Business Plus)

**LLOYD SHEFSKY**

**Invent, Reinvent, Thrive:**  
*The Keys to Success for Any Start-Up, Entrepreneur, or Family Business*

Football coach Vince Lombardi once said, “Winning isn’t everything. It’s the only thing.” Shefsky took that old chestnut and reinvented it as the framework of his new book. Told through real-life success stories, Shefsky’s book examines how entrepreneurs can find success by reinventing antiquated systems — from products and services to business practices — as well as how to reinvent to enable the continuity of family businesses.

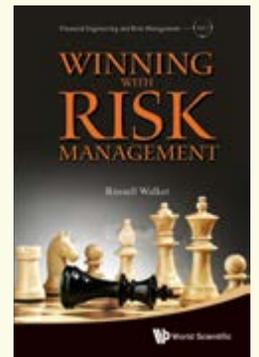


Available August 2014  
(McGraw-Hill)

**RUSSELL WALKER '06**

**Winning with Risk Management**

In the post-credit-crisis business world, risk management is more important than ever. Good news, then, that Russell Walker’s book looks at developing strategic advantages through risk management. Walker uses real-world examples to explain how companies can recognize potential risks, mitigate them and, if possible, frame those risks into opportunities to gain an advantage over competitors.



Now available  
(World Scientific Press)



Keep up with Kellogg faculty publications at: [kell.gg/facultybooks](http://kell.gg/facultybooks)

# CASE IN POINT

STUDENTS TACKLE BIG DATA AND MATERNAL MORTALITY AS COMPETITION TOPICS



Kellogg racked up wins and top-place finishes in case competitions that focused on several topics.

## Big data, big wins

For the Adobe Digital Analytics Competition hosted by Adobe and Condé Nast, more than 90 teams from 11 universities submitted plans to build a digital strategy for Wired.com using the tech magazine’s site data.

Kellogg teams took first, third and fourth places at the finals in Utah last November. The first-place team won \$15,000, with the third- and fourth-place teams taking home \$3,750 and \$1,500.

“Ultimately, we had to find where to focus and identify the opportunities by sifting through a chaos of data to find the needle in the haystack,” said **Jason Shangkuan ’14**, who was part of the first-place team with **Esther Fang** and **Susmita Saha**, both ’14.

## Sustainable life saving

“It was a classic dilemma: Do you go for profits or choose impact?” said **Charag Krishnan ’14**, member of the winning team at the C. K. Prahalad Case Competition, held during the University of Michigan’s 2013 India Business Conference.

The competition looked at expansion opportunities for the for-profit ayzh company, whose birth kits have successfully reduced maternal mortality rates in Tamil Nadu, an urban state in India. Krishnan, **Otmame El Manser** and **Richie Khandelwal**, both ’14, created a plan that would expand into rural India and Sub-Saharan Africa.

“The corporate and the social world are still two different entities that don’t talk to each other much,” Khandelwal noted.

## Casual luxury

**Emma Gergen**, **Garrett Greer**, **Keith Roux** and **Andrew Welch**, all ’14, along with **Ben Kaplan ’15**, took the top prize among 26 teams at the largest MBA-level leveraged buyout case competition in the world.

In the 14th Annual Wharton Buyout Case Competition held in New York in February, the team had five days to analyze Abercrombie & Fitch. They recommended purchasing Abercrombie for a 35 percent premium to the previous Friday’s closing price, reducing store count and average store size, reviving the brand through new marketing initiatives and bringing in a CEO with more turnaround experience.

► The winners of the 2014 Wharton Private Equity Buyout Case Competition. From left, **Emma Gergen ’14**, **Keith Roux ’14**, **Garrett Greer ’14**, **Ben Kaplan ’15** and **Andrew Welch ’14**.

**95**  
**PERCENT**

OF FULL-TIME KELLOGG MBAS ARE EMPLOYED WITHIN THREE MONTHS OF GRADUATION

Remember: Alumni can take advantage of the Kellogg Career Management Center’s free professional career coaching, self-assessment tools, résumé reviews, salary negotiation guidance, career development workshops and job opportunities database.

## JAGANNATHAN TO BE HONORED FOR CONTRIBUTIONS TO VALUE INVESTING

**Ravi Jagannathan**, Kellogg’s Chicago Mercantile Exchange/John F. Sandner Professor of Finance, won the Graham & Dodd, Murray, Greenwald Prize for contributions to the field of value investing. He will receive the award May 16 in New York City.

“It is difficult to beat the market,” Jagannathan said. “You need a process for evaluating why you may be right and all others in the market are wrong. Value investing provides one such process.”

# ALUMNI APPRECIATION

## KELLOGG HONORS ALUMNI FOR SERVICE TO BOTH SCHOOL AND COMMUNITY

At this year’s “With Gratitude, Kellogg” awards ceremony, the school celebrated some of the many supporters who donated their time, expertise and resources to enrich the student experience and advance Kellogg’s mission in the community at large.

Here are the recipients:



PHOTO ©JEFF SCIORTINO

### DAVID CHEN '84 *Distinguished Alumni Service Award*

Recognizing graduates who have made significant investments in shaping Kellogg’s strategy, culture and brand

As CEO and co-founder of Equilibrium Capital Group, an impact-investment firm, Chen uses financial instruments to create sustainable food sources, generate renewable energy and more — all while achieving market rate returns that serve mainstream institutional investors.

Chen also teaches a course on impact investing at Kellogg, and in 2011 co-founded the International Impact Investing Challenge, now renamed the Morgan Stanley Sustainable Investing Challenge.



PHOTO ©TOM HUSSEY

### JOE DEPINTO '99 *The Wade Fetzer Award*

Recognizing outstanding dedication and loyalty in support of the school’s alumni body

A West Point graduate, DePinto uses the team-building and leadership skills he developed in the military — and honed at Kellogg — to run 7-Eleven, the world’s largest convenience-store chain.

DePinto also supports his regional alumni club and routinely speaks at Kellogg. He delivered the 2012 EMBA graduation keynote and participated in the Dean’s Strategic Summit in the fall of 2011.



PHOTO ©JEFF SCIORTINO

### JAMES REYNOLDS '82 *The Schaffner Award*

Honoring Kellogg leaders who have made significant contributions to society and, through their professional achievements, have exemplified Kellogg’s culture

As co-founder, chairman and CEO of Chicago-based Loop Capital, Reynolds transformed what was a small municipal bond firm into a full-service investment bank, brokerage and advisory firm.

Last year, he partnered with Allstate CEO **Tom Wilson '80** to create the Chicago Public Safety Action Committee, a group that has raised \$45 million to combat gun violence and provide educational opportunities for at-risk youth.

HEARD @ KELLOGG

“Mastery is not a destination — it is a quest to cultivate ever-greater capabilities so you can be ever-more competent in each interaction.”

### DOUG CONANT '76

Chairman of Avon and head of Kellogg Executive Leadership Institute, on honoring those you lead during a Kellogg Executive Speaker Series event.



## 1871 FEMTECH AIMS TO FOSTER FEMALE ENTREPRENEURSHIP

Chicago digital startup hub 1871 is launching an incubator program for women-founded businesses. The program, slated to open in fall 2014, will include between 10 and 15 companies as part of an effort to increase women’s participation in technology startups.

“There are huge opportunities for women in the tech industry,” said **Linda Darragh**, Clinical Professor of Entrepreneurial Practice. “Tech professionals are stressing the importance of customer empathy and user experience in designing a Web or mobile business. Market research shows that women account for 85 percent of all consumer purchases, which means that products and services created by women for women could be highly successful.”



“[ExactTarget’s] permission-first focus earned us a strong reputation and helped fuel our growth and adoption of email, mobile and social marketing.”

# The marketers' marketer

SCOTT DORSEY TURNED HIS PASSION FOR ENTREPRENEURSHIP INTO A BILLION-DOLLAR MARKETING SOFTWARE POWERHOUSE

Thirteen years ago, **Scott Dorsey '99**, a graduate of Kellogg's Part-Time Program, moved back to Indianapolis, Ind., from Chicago and launched an online marketing software company called ExactTarget. The company's original goal was to help small businesses connect with their customers through permission-based email marketing.

At the time, ExactTarget's strategy was so new that Dorsey and his partners had to convince entrepreneurs and marketers that it was worth their while. "Today, every business uses email and digital marketing to communicate with their customers," says Dorsey. "Back then, the power of the Internet was less obvious."

His evangelism seems to have paid off. Last July, cloud-based CRM leader salesforce.com acquired his then-publicly traded company for \$2.5 billion in an all-cash transaction. Dorsey is now CEO of the Salesforce ExactTarget Marketing Cloud, which helps marketers build one-to-one digital campaigns and relationships with their customers.

Dorsey also can lay claim to developing the permission-based, data-driven culture that defines online marketing today, one where customers aren't just allowing emails into their inboxes, but want product updates and offers through text messages, Twitter, Facebook and custom mobile apps.

ExactTarget has grown its client base far beyond small businesses in the Midwest, managing digital marketing initiatives for thousands of companies, including global brands like Toyota, Microsoft, Gap, Coca-Cola and Expedia. It has also gained a following among digital marketers as an innovator,

leader and educator in the field.

"ExactTarget was an early evangelist of the power of digital marketing to connect companies with their customers," Dorsey says. "Our permission-first focus earned us a strong reputation and helped fuel our growth and adoption of email, mobile and social marketing."

As a first-time software entrepreneur, Dorsey founded ExactTarget with brother-in-law **Chris Baggott** and another partner, **Peter McCormick**. Starting ExactTarget right after the Internet bubble had burst, the trio worked out of a small storefront office in Greenfield, a suburb of Indianapolis, selling a low-cost subscription service that would help small businesses leverage the power of email marketing.

The company soon landed angel investments and contracts with companies like Home Depot, Hotels.com and CareerBuilder. Along the way, ExactTarget raised hundreds of millions in funding from leading technology venture firms on both coasts. Dorsey rang the opening bell at the New York Stock Exchange when ExactTarget went public in March 2012. Now headquartered in Indianapolis, the company has approximately 2,000 employees working across five continents.

But the decision to go into technology wasn't a hard one, Dorsey says. As a Kellogg student, Dorsey had been part of a group that met with tech and early-stage startup entrepreneurs, many of whom went on to run Google and some of the tech industry's largest companies.

"Kellogg provided me with tremendous inspiration and a world-class education that gave me the confidence to start ExactTarget and scale the business to heights beyond anyone's expectations," Dorsey says, "including our own." **K**

BY LENA SINGER PHOTO BY JEFF SCIORTINO



# ‘RESURGENCE’

**GREGORY CARPENTER’S NEW BOOK EXAMINES HOW COMPANIES CAN REINVENT THEMSELVES BY EMBRACING A CONSUMER PERSPECTIVE**

The turnaround story occupies a special place in executives’ hearts.

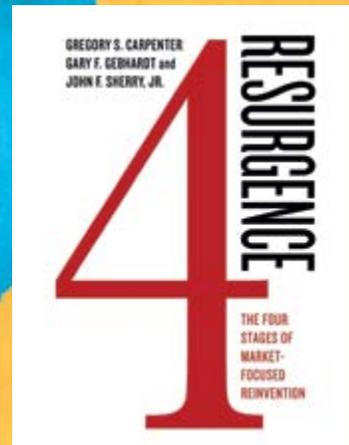
When a company that’s been written off as dead returns to profitability, other business leaders clamor to look behind the curtain – in part to get insight should they find themselves in a similar position. Often, a charismatic leader or breakthrough innovation is hailed as the secret ingredient in corporate transformation.

But recent work from Gregory Carpenter, the James Farley/Booz Allen Hamilton Professor of Marketing Strategy, shows the prevailing wisdom is mostly a myth.

Carpenter and his co-authors, former Kellogg professor **John Sherry Jr.** and **Gary Gebhardt ’05**, associate professor of marketing at HEC Montréal (École des Hautes Études commerciales de Montréal), spent more than a decade studying companies trying to reinvent themselves. Their book, *Resurgence: The Four Stages of Market-Focused Reinvention* (Palgrave Macmillan, February 2014), provides an in-depth look at seven companies – among them iconic corporations such as Harley-Davidson and Motorola – and how they reinvented themselves with a market focus.

All of the firms took similar actions, including reorganizing and adding new people and incentives. Despite taking the same actions, some failed while others succeeded. What made the difference? “Rather than leadership being the key, all the

ILLUSTRATION BY MICHAEL MORGENSTERN



Palgrave Macmillan published *Resurgence: The Four Stages of Market-Focused Reinvention* in February 2014.

successful companies made decisions in the same sequence,” says Carpenter.

**Cultural change**

Through that sequence, firms transformed their cultures. “Skipping stages or taking the wrong sequence proved disastrous,” Carpenter says. “It is a bit like baking. Order, timing, finesse all matter. After all, you can’t unbake a cake.”

Carpenter and his co-authors discovered surprising elements of the process that were common across successful reinventions:

1. **A market-focused reinvention does not begin with the customer.** Many executives look externally first to address the immediate problems. Usually, the real problem is deeply rooted in the culture of the organization. Successful firms think deeply about the culture, particularly the values, they need to create to reignite growth and thrive.
2. **Reconnecting with customers is a firm wide responsibility.** In many organizations, the customer perspective is isolated in marketing. In firms that successfully reinvent themselves, understanding of the customer throughout the organization creates a shared

understanding and a common basis for collaboration.

3. **A market-focused reinvention shifts power from the very top.** Armed with shared knowledge about the market and enabled by a new culture, executives and employees throughout the organization are empowered as never before. This shift creates momentum for more formal changes, such as organization and compensation, and it transforms the role of the senior leaders.

For the companies that get it right, Carpenter says, the benefits are impressive: reclaimed market share, higher profits, more innovation and more productive and engaged employees. Meanwhile, the less-successful companies remain mired in an endless cycle of incremental measures that fail to address the underlying causes of stagnation.

With *Resurgence*, there’s no longer a reason for struggling companies to ponder the way forward, Carpenter says. It’s more about leaders mustering the courage to look deeply at their firm and ask: “Will our culture enable us to confront the challenges ahead and thrive?” κ

PAUL DAILING CONTRIBUTED TO THIS REPORT.



Learn more about the Kellogg Markets and Customers Initiative at: [kell.gg/si-kmci](http://kell.gg/si-kmci)

# WIRED FOR SUCCESS

## BUDDING ENTREPRENEURS PLUG INTO NEW FUNDING OPPORTUNITIES

In just two years, the Kellogg Innovation and Entrepreneurship Initiative has augmented the school's ability to prepare students to found, finance and operate their own businesses post-graduation. Through KIEI, new courses, faculty and alumni events have provided the support those newly minted graduates need to turn ideas into companies.

Now comes one more resource: money.

A partnership between KIEI, the dean's office and a student group has created the Kellogg Education Technology Incubator. It provides the Kellogg community – from students to alumni – with a chance to build, test and implement tech-based products designed to enhance education both at Kellogg and throughout the MBA community.

The idea for the incubator came about during a pilot program created by **Sam Sung '13** to test the use of tablets to take notes during class. Looking to have a broader impact on Kellogg, a few of the participants, among them **Westin Hatch** and **Elizabeth Bernardi**, both '14, developed the idea for an incubator and – as Sung did with the tablet program – took it to the administration.

With the help of Associate Dean of Students and MBA Programs **Betsy Ziegler** and support from the Dean's Innovation

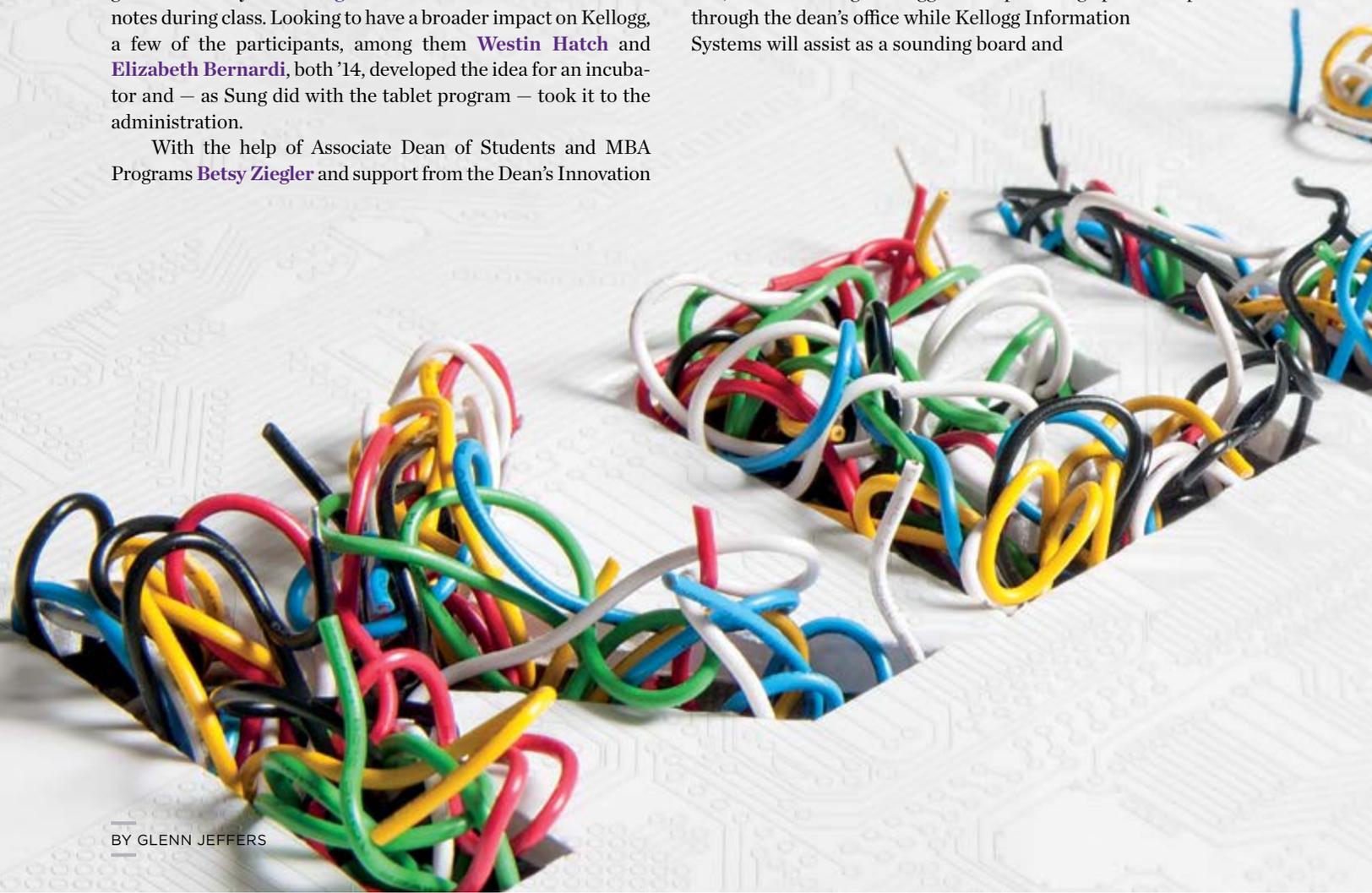
Fund, Hatch, Bernardi and the others launched the incubator as a partnership designed to develop new software and products.

"It's that collaboration between faculty, administration and students that makes Kellogg such a special place," says Hatch, an MMM student and the incubator's president.

During the inaugural, month long pitch competition last fall, 22 student teams representing all Kellogg MBA programs submitted ideas for new products. Of these, eight teams were selected to pitch to a panel of experts that included **Kim Vender Moffat '06**, principal at the private equity firm Sterling Partners, **Steve Farsht '98**, lecturer and director of TechStars Chicago, and **Sunil Chopra**, the IBM Professor of Operations Management and Information Systems.

Four student teams were then selected to receive more than \$50,000 in funding. Kellogg is also providing sponsorship through the dean's office while Kellogg Information Systems will assist as a sounding board and

BY GLENN JEFFERS



## SERIES 'K' FUNDING

thought partner. Products are scheduled for beta-testing this spring with launches planned for summer.

Winning pitches run the gamut in terms of scope. Some pitches like Konnect, a Siri-esque app that will link prospective students with current ones based on interests and goals, focus on smaller, Kellogg-specific enhancements.

“We hope that prospective students get a clear understanding of what Kellogg is about, what the Kellogg culture is, so that they’ll have all the information before they make their final decision,” says

**Alex Popelard '14**, an MMM student and one of the product managers.

Other pitches like Tuplee take a macro approach. A file aggregator, Tuplee will sync files from multiple platforms, including Blackboard, Dropbox and Google Drive, to a Web- or mobile-accessible site.

Linguify will tackle communication issues international students sometimes face by developing a webcam chat service where those students can practice conversational English with native-speaking tutors. KetchUp is intended to solve the long-standing problem of bugging classmates for notes by creating an app that allows students to record and upload lectures to a cloud-based server for a limited time.

“It’s really amazing what these teams were able to accomplish in such a short amount of time,” says **Linda Darragh**, executive director of KIEI. κ

KIEI also is launching two new programs designed to help students get their new ventures off the ground.

The Zell Scholars Program provides a select group of Full-Time MBA students with special access to programming, mentorship and funding for business resources to help them build and grow their companies while they’re still at Kellogg. The program is endowed by **Sam Zell**, founder and chairman of Equity Group Investments.

“Our goal is to make students’ companies as fundable and market-ready as possible by the time they graduate,” said **David Schonthal**, director of the program and a clinical assistant professor of entrepreneurship and innovation.

The Combe Family Impact Scholars Program stems from a gift provided by NU alumnus **Chris Combe** and his wife, **Courtney**.

Part of the program includes the Kellogg Social Entrepreneurship Award, a \$70,000 prize granted annually to one student or student team to help them pursue their venture after graduation.

The gift will also provide “Project Impact” funding (ranging from approximately \$500 to \$5,000) to help students catalyze their social impact projects while they’re still at Kellogg.

“This is not just about entrepreneurship; it’s about entrepreneurship and innovation,” said **Jamie Jones**, clinical assistant professor of entrepreneurial practice and director of social entrepreneurship. “And it’s about helping students who have a desire to leverage [their] business acumen to have a positive impact on society in whatever way they choose.”



Learn more about the Kellogg Innovation and Entrepreneurship Initiative at: [kell.gg/si-kiei](http://kell.gg/si-kiei)

# THE WISDOM OF CROWDS

**BRIAN UZZI** TALKS ABOUT WHAT MAKES 'THE MANY' MORE USEFUL THAN 'THE FEW'

Collaboration, not the keyboard, tanked BlackBerry, Brian Uzzi says.

He should know. As faculty director of the Kellogg Architectures of Collaboration Initiative, Uzzi studies systems and how people connect.

Much of Uzzi's research focuses on the "wisdom of crowds," how groups coming together have capped oil spills, designed new products and cracked marketing riddles.

The crowd doesn't do it for a paycheck, but for status: the authority of being a Wikipedia editor, the thrill of being on German television, the pride of creating cherry-lime vitaminwater.

"Financial remuneration is typically not the way collective wisdom systems work," Uzzi says. "They work by giving people social recognition."

BY PAUL DAILING ILLUSTRATION BY NOMOCO





# THINK BIG

**DATA SCIENTISTS CAN'T DO IT ALONE. IT'S THE MANAGERS — AND THEIR THINKING SKILLS — THAT REALLY MAXIMIZE THE POWER OF BIG DATA**

Managers, listen up: Big data is not just for data scientists. Measurement does not equal insight. And technology alone won't make analytics work for your organization.

That's because at its core, "analytics is not a data science problem," says **Florian Zettelmeyer**, the Nancy L. Ertle Professor of Marketing. "It's mostly a managerial problem."

Zettelmeyer points to three reasons: Analytics requires managerial judgment, it demands process and incentive changes, and it must be problem-driven to be effective.

"One of the great promises of big data analytics is that it gives you new ways to visualize information through analytics dashboards," Zettelmeyer says. "It brings data close to managers so they can incorporate data analytics into their day-to-day decision making. But it also presents a real challenge, because now it's up to you — the manager — to understand what the data tells you and to judge what questions to ask."

Data created incidentally through the course of business (e.g., transaction data or Web analytics) often do not give organizations the information they need to fully understand customers, solve problems or improve processes. That's why managers play such an important role: With their 360-degree view of customers, managers can help design measurements around customer interactions and processes that lead to the most valuable data generation. "That's something that a data scientist alone can't do for you," Zettelmeyer says.

Moreover, managers can approach analytics by working backward — that is, by starting with a problem, figuring out what data they need to solve that problem and determining whether any of that data already exists. "Very often, this leads you to modify certain processes in order to be able to collect the data that you wouldn't otherwise have," he notes.

So if you're a manager who's new to analytics, where do you begin? Quite simply, Zettelmeyer says, by developing a working knowledge of data science. Hire a data scientist, ask them questions and demand that they teach you what they know. That doesn't mean, however, you need to learn econometrics or advanced statistics.

"What very few people understand is that the most important skills in analytics are not technical skills at all," he says. "They're thinking skills. It takes quite a bit of practice to learn how to apply those *thinking* skills, but they're not, in fact, highly technical."

The educational investment is worthwhile, considering the



**"What very few people understand is that the most important skills in analytics are not technical skills at all. They're thinking skills."**

**FLORIAN ZETTELMEYER**  
Nancy L. Ertle Professor of Marketing

far-reaching impact that analytics can have on organizations — from improving production efficiencies to creating new revenue streams to launching new product and service lines.

"I think of analytics as being really transformational," says Zettelmeyer. "It's a very big deal." ◀

BY RACHEL FARRELL

 Learn more about Zettelmeyer's research at: [kell.gg/si-kmci](http://kell.gg/si-kmci)

 Want to know more about big data and management. Visit [bit.ly/1aqpOx](http://bit.ly/1aqpOx) for an exclusive video.



# SÃO PAULO

The sixth-largest city in the world and the largest in Brazil, São Paulo is the center of commerce in one of the world's fastest-growing economies, contributing 20 percent of the country's GDP. Despite the challenges of government red tape and a still-developing infrastructure, Brazil is quickly gaining a reputation as a market of the future, where mobile technology and e-commerce are helping companies catch up with competitors in developed countries.

Warehouse Investimentos founders **Rodrigo Baer '07**, **Moises Herszenhorn '08** and **Pedro Melzer '07** are giving digital and green tech companies the opportunity to thrive in São Paulo. At online furniture retailer Mobly, **Marcelo Marques '10** is making access to quality products and services a possibility for Brazilians no matter where they live. Barclays' **Vicente Nogueira '94** steers financial institution investment toward the country's growing market. Kellogg is also increasing its influence and connections in the market via a new satellite office in São Paulo.

As Marques says, "If you're willing to give it a shot, Brazil is very willing to embrace."

BY SARA LANGEN

# BUILDING BRAZILIAN BUSINESSES

## EARLY-STAGE VENTURE CAPITAL FUND WAREHOUSE INVESTIMENTOS IS STAKING A CLAIM IN SÃO PAULO

Being Brazilian wasn't the only thing that bonded **Rodrigo Baer '07**, **Moises Herszenhorn '08** and **Pedro Melzer '07** as Kellogg students. In addition to entrepreneurial backgrounds, the three friends shared a passion for venture capital and the potential it has for changing their country.

"[We talked about how] there was no local market for venture capital investing," Herszenhorn remembers. "There were no investment funds in Brazil specifically focused in technology and early-stage."

Recognizing how difficult the Brazilian market is for startups, the three shared a vision for creating a VC fund that took a different approach, working closely with portfolio companies to foster innovation. Three years out of Kellogg, they chose to set up shop in a warehouse, wanting a physical space where their portfolio companies could work and receive advice and support from the fund.

Melzer left his position as world wide revenue manager – online store at Apple in 2009 and used his Bay Area connections to raise money for the fund. After about a year, Baer and Herszenhorn joined him in São Paulo to launch Warehouse Investimentos in 2010.

"We didn't want to be in a small office just selecting businesses and praying for them to succeed," Melzer explains. "We knew there was a huge opportunity to be one of the pioneers in the venture capital space in Brazil by selecting the best entrepreneurs, being associated with the best deals and then taking these companies to the next level."

With experience at McKinsey, Pampa Capital and GKDS Investimentos, Herszenhorn was the analytical lead dealing with strategy. Baer's experience with retail chain Droga Raia's delivery service startup, Aurora Funds and McKinsey and his interest in technology trends made him the perfect lead for sourcing.

Their innovative approach paid off. Warehouse has completed deals valued between \$1 million and \$6 million each with six digital and green tech companies, including online food delivery company iFood, a market leader in Brazil's 10 largest cities with plans to expand to the rest of Latin America, and Byogy, a biofuels company focused on transforming ethanol to bio jet fuel.

"We came in early in what later became a small [rate] hike cycle around VC in Brazil, and I think we did things differently



**\$63  
Billion**

THE AMOUNT BRAZIL RECEIVED IN  
**FOREIGN DIRECT  
INVESTMENT**  
(SEVENTH HIGHEST WORLDWIDE)

Source: United Nations Conference  
on Trade and Development

# 12

CITIES INCLUDING **SÃO PAULO**  
WILL HOST THE 2014 FIFA WORLD CUP  
IN BRAZIL — JUNE 12 THROUGH JULY 13



“We knew there was a huge opportunity to be one of the pioneers in the venture capital space in Brazil.”

**PEDRO MELZER '07**

Founder, Warehouse Investimentos

from the other funds,” Baer says. “We tried to come up with areas where Brazilian entrepreneurs were solving Brazilian problems, and now we see the market turning more towards that.”

After realizing their goal to successfully adapt a VC model to the Brazilian market, Baer and Melzer decided to leave the fund in Herszenhorn’s hands and begin new ventures in the VC space. Melzer is managing director of eBricks Digital Early Stage and Baer is setting up a new early-stage fund focused on Brazil. They remain shareholders and check in with Herszenhorn, who serves as managing director.

All three agree that Brazil holds incredible opportunities for investors, but it’s not the place to come if you’re looking to make fast returns.

“The whole thing about Brazil is not that it’s not improving — it’s that it’s not improving at the pace people want,” Baer says. “Over the long run, we’re going to see more money coming in and Brazil becoming more open to capital. For the VC community to be big here, it’s going to take another 10 years. So I’m in for the long haul.”



## *Kellogg taps into São Paulo with a new satellite office*

When Kellogg offered 2011 Alumni Club Volunteer of the Year **Willie Kotas '86** the opportunity to head up its new satellite office in São Paulo, there was only one answer: absolutely.

“It’s like growing up a fan of a baseball team and suddenly you’re offered the opportunity to be the third base coach,” says Kotas, who has been instrumental in building the school’s presence in Latin America.

Located within local business school Fundação Dom Cabral, the office opened in April 2013 with the mission of delivering local executive education programs and conferences, supporting alumni and prospective students, and promoting the school’s visibility and reputation.

Brazil is a major market for Kellogg, with more than 1,500 Brazilian executives having attended courses at the Allen Center, of whom 330 completed certificate programs that qualify them for alumni status. More than 230 Brazilians hold Kellogg MBAs, with 93 percent having earned their MBAs after the turn of the century. Three-quarters of Brazilian alumni live in the city of São Paulo.

“It’s a country that used to hardly send anyone to Kellogg, and now our intake is consistently growing — an average of 20 Brazilians have earned Kellogg MBAs annually this decade,” Kotas says. “Our presence in São Paulo is a commitment to the further globalization of Kellogg.”



 Learn more about Kellogg's São Paulo satellite office at: [kell.gg/i1Kkvvd](http://kell.gg/i1Kkvvd)

# BANKING ON IT

## VICENTE NOGUEIRA '94 LEVERAGES BARCLAYS' GLOBAL CONNECTIONS TO DRIVE INVESTMENT IN LATIN AMERICA

If technology is the fuel propelling Brazil's market growth, the country's banking community is revving the engine.

Brazil's financial institutions are often credited with developing some of the world's most advanced online banking technology, partially because they were forced to invest heavily in technology in 1993-94, when hyperinflation was pushing inflation levels up 1 to 2 percent per day, Vicente Nogueira remembers. The need for speed in clearing transactions, and in moving funds to use the float, paved the way for today's e-banking gains.

These technological advances are a draw for investors looking at Brazil, a large, relatively stable domestic market where foreign trade only represents about 21 percent of GDP, Nogueira says. This huge market is seeing an increase in purchasing power and income from a diverse population that includes a growing middle class.

These factors make Brazil an attractive prospect for the investors Nogueira works with as head of Latin America Financial Institutions Group Investment Banking at Barclays. In this role, he is responsible for financial institutions' M&A, ECM and DCM in Latin America. Nogueira oversees investment banking for banks, insurance companies, asset managers and specialty finance companies. It's a career he was drawn to during his time at Kellogg.

"I was already a consultant for financial institutions at Booz Allen Hamilton in São Paulo," he says. "While I liked consulting, in investment banking you start the transaction and end the transaction. You get more real time in terms of executing and making things happen."

Nogueira has been making things happen ever since, serving as a FIG banker at Pactual, FIG vice president at Goldman Sachs, director of M&A at Rothschild, and founding partner of both TiqueMoveis Midia Imobiliaria and HabitaSec Securitizadora before coming to Barclays in 2011.

"Barclays is top five in terms of mergers and acquisitions, equity offerings, and debt offerings for financial institutions globally," he says. "Here in Brazil and in Latin America, we leverage these global relationships and distribution to bring value to our clients."

As fears about the future of emerging markets dominate the news cycle, investors are starting to differentiate among the individual markets, he says.

"In Brazil you have democracy; you have a lot of stability in terms of contracts and the laws," he explains. "You have to diversify your portfolio; there are good economies that have been showing growth, including Brazil." κ

"Here in Brazil and in Latin America, we leverage this global distribution to bring value to our clients."

**VICENTE NOGUEIRA '94**

Head of Latin America FIG Investment Banking, Barclays Capital

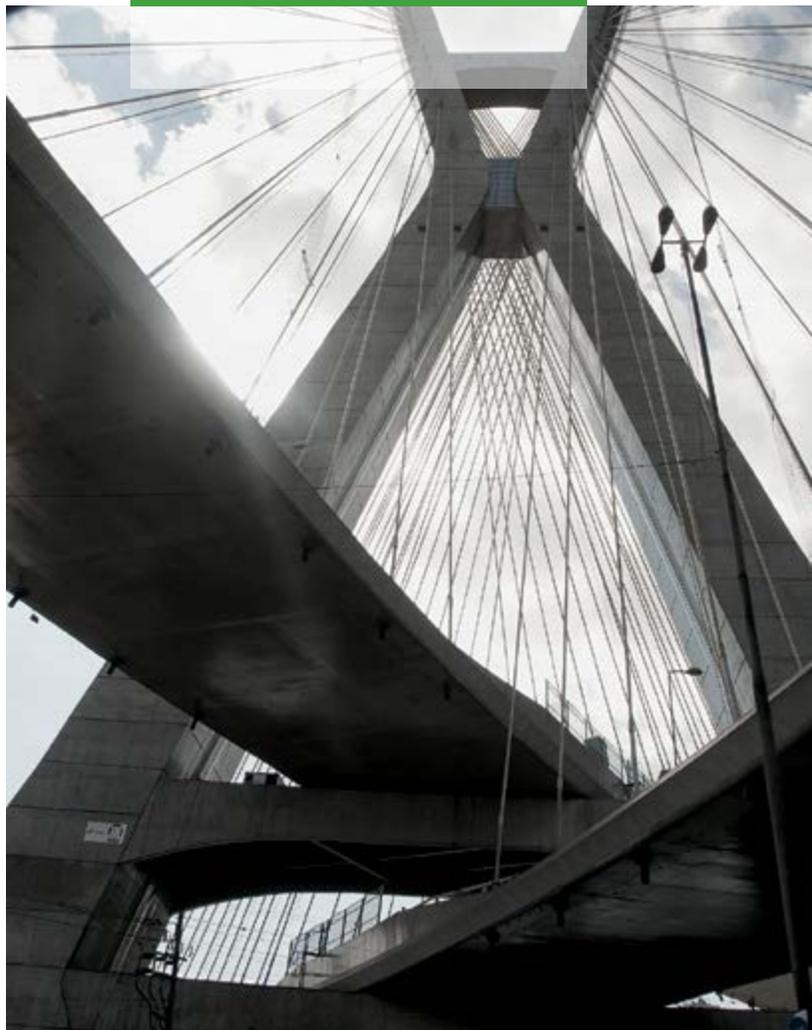




PHOTO: COURTESY OF MOBLY

# INTERIOR EVOLUTION

## ONLINE RETAILER MOBLY IS CHANGING THE WAY BRAZILIANS SHOP FOR FURNITURE

If you think of the word “heaven,” the first thing to come to mind probably isn’t IKEA. But Brazilian-born **Marcelo Marques ’10** describes walking into one of the furniture giant’s Chicago-area locations as exactly that.

“Just like any Latin American, when you go to the U.S., believe it or not, one of the things that impacts you most is IKEA,” he says with a laugh. “Compared to how things are in Latin America for furniture, not only prices but service and choice, IKEA is like a paradise.”

The company’s efficiency impressed Marques and his Mobly co-founder and co-CEO **Victor Noda ’10** while they were studying at Kellogg. During weekly brainstorming sessions, the two Brazilians, who both had entrepreneurial and consulting backgrounds, discussed launching an e-commerce business that would have a real impact on the way things were done back home. After listening to Crate & Barrel founder **Gordon Segal ’60** speak at Kellogg and later stumbling upon online furniture retailer Wayfair.com, an idea began to form.

“We both had experience with the Internet and technology, and we liked furniture, which is an industry that is very fragmented in Latin America,” Marques remembers. “We spoke with people inside and outside the industry and everybody said it was impossible to create a ‘category killer.’ First, everyone wants to see furniture; second, the logistics are going to be crazy – the sort of pessimistic advice that you always receive.”

The last piece of the Mobly puzzle was logistics expert **Mario Fernandes**, who Marques and Noda met while working with online venture firm Rocket Internet. Fernandes partnered with the two in 2011 to launch what has become Brazil’s largest furniture and home décor retailer, with nearly 50,000 products available online for delivery anywhere in the country.

The company’s quick rise can be attributed to a decision made early in the process, Marques says. The trio couldn’t find a service provider that could match the quality of delivery and service they wanted. So they started from scratch, renting a warehouse and developing the processes and technologies to handle logistics and operations in-house.

Today, an integrated system that includes all supplier inventories allows for quick delivery of a wide range of products. “Logistics and operations form one of our biggest competitive advantages,” Marques says. “No one in Brazil is able to do what we do right now, which is deliver door-to-door all around the country all types of furniture, even large pieces.”

Although Marques says the company can’t disclose figures, market indicators say the 350-employee Mobly broke the \$100 million revenue barrier in its second year of operation. With a promise of \$20 million in investment from Latin American media group Cisneros, Mobly is poised to take over the region with plans for expansion into Mexico, Argentina, Chile and Colombia.

“We want to own Latin America,” Marques says. κ



“Gender parity is certainly showing in the public sector. And I think it’s eventually going to show in the private sector.”

# The change agent

JOCELYN CORTEZ-YOUNG IS TRANSFORMING LATIN AMERICAN COMPANIES AND COMMUNITIES THROUGH SMART INVESTING

In mid-December, as Chile's presidential race came down to two women, **Jocelyn Cortez-Young '07** realized something: This was history in the making.

"We're about to have *four* female presidents in 'Lat Am.' Four!" says Cortez-Young, alluding to Chile's Michelle Bachelet and the presidents of Argentina, Brazil and Costa Rica. "So gender parity is certainly showing in the public sector. And I think it's eventually going to show in the private sector."

That's precisely the shift this New York native is working toward at Minerva Capital Group, a Miami-based impact investment firm that focuses on achieving fiscal returns while driving social change in Latin America. As the firm's founder and CEO, Cortez-Young is particularly interested in advancing the careers of women and underrepresented populations — two issues that the 15-year finance veteran identified while building Goldman Sachs' Brazilian and Mexican operations, developing Latin American trading strategies at Credit Suisse First Boston and serving as senior head of capital markets for Citigroup Private Bank in Latin America.

Cortez-Young's experience makes her a savvy investor, one who navigates opportunities and mitigates risk by keeping "boots on the ground" while closely monitoring social, cultural and economic shifts throughout Latin America.

"You need to know what's flourishing and what's not," she explains. "You need to be aware of events that are happening, like the World Cup or the presidential election, because that

tells you something [about where to invest]. You need to know the differences between, for instance, running a business and closing a transaction in Mexico versus Brazil."

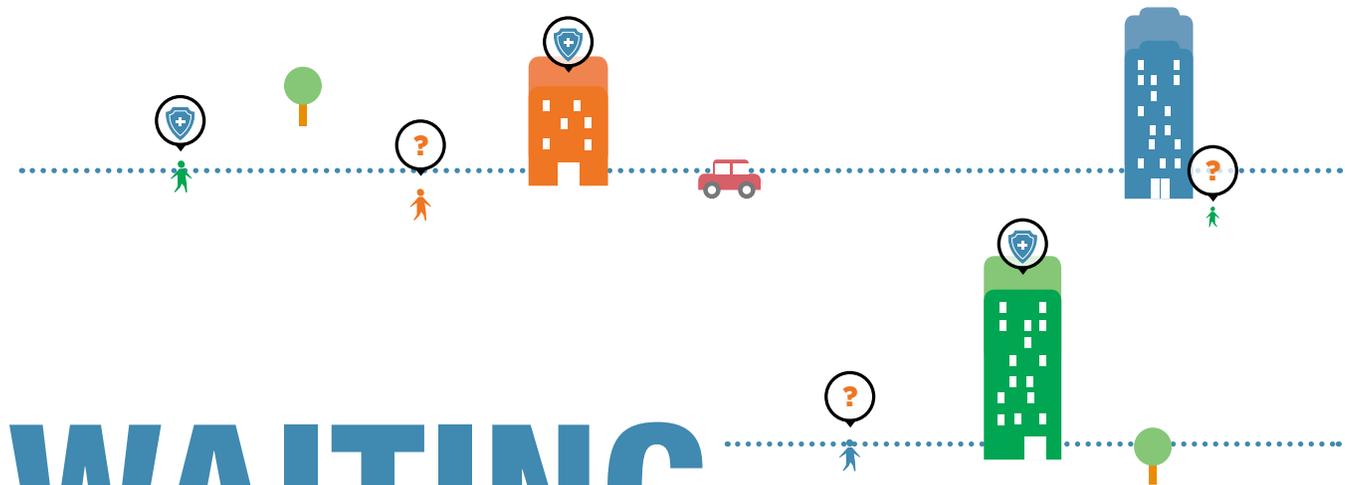
That intimate understanding helps Cortez-Young know when to seize or pull back from investment opportunities. More recently, the firm was motivated to invest in Mexican companies after observing six years of consecutive growth in the country's GDP. Many of these companies make up Minerva's latest fund, which is projected at \$250 million.

Another key to Minerva's success is "being sector-agnostic," Cortez-Young explains. "We focus on plain, vanilla, regular companies that need access to capital and which, through our terms, conditions and guidelines, end up growing and understanding [the impact] of a social component." Minerva's guidelines include maintaining a management team that's 20 percent female and providing 20 hours of training to employees each quarter.

"This is unusual for the industry," says Cortez-Young, "because these guidelines are typically a 'nice to have.' For us, it's a front-and-center focus."

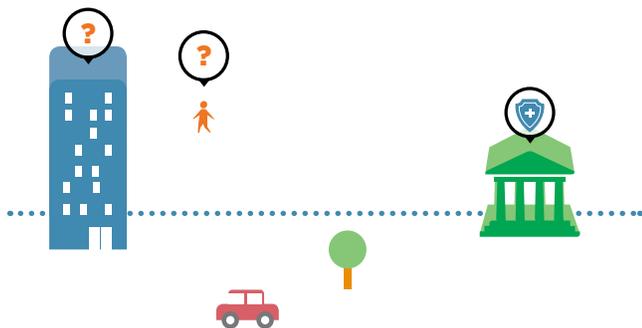
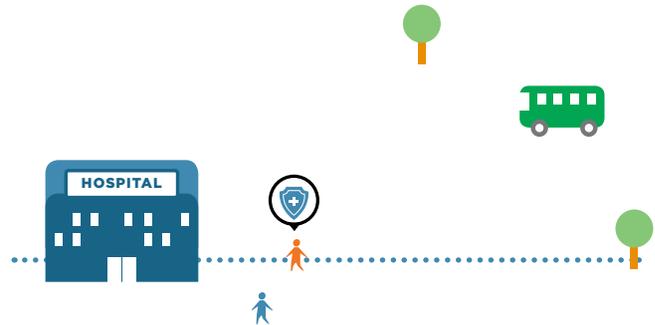
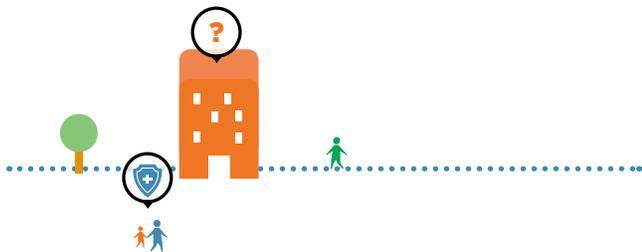
Cortez-Young hopes that, as more investors observe the impact of a double bottom line on companies and communities, that mindset will shift.

"There's a saying that necessity is the mother of all invention," she says. "That's what we're implementing today. We're effecting change through investment." κ



# WAITING ROOM

EMPLOYERS, HOSPITALS, INSURANCE COMPANIES AND PATIENTS WAIT TO SEE WHERE THEY STAND UNDER THE AFFORDABLE CARE ACT



**H**uge doesn't begin to describe the Affordable Care Act. "This is the largest change to insurance since Lyndon B. Johnson signed the Medicare Act," says **Craig Garthwaite**, assistant professor of management and strategy. "It could end up fundamentally changing the way all Americans receive health care — all Americans, not just the ones who are uninsured."

With a projected increase of 30 million newly insured individuals by 2022 and a goal of slowing the growth of health care spending at the same time, the health care law is bigger than huge. It's ambitious to its defenders, big government run amok to its foes.

BY MELANIE COFFEE ILLUSTRATION BY LIZ NOVOA

# THIS IS THE LARGEST CHANGE TO INSURANCE SINCE LYNDON B. JOHNSON SIGNED THE MEDICARE ACT.

**Craig Garthwaite**, assistant professor of management and strategy

It affects 5,723 hospitals with nearly 1 million total hospital beds. It has an impact on about 880,000 licensed physicians, 2.7 million registered nurses and the 70 percent of Americans who take prescribed medication. That's not counting the millions of businesses, both big and small, and business owners who must navigate this massive system.

Today, many of the law's rules have yet to be defined and deadlines have been delayed. But the dust is starting to settle and a few possible trends are emerging for all the major players, from insurance companies and hospitals to the patients they serve.

## Insurance Companies

One key part of the ACA, often called "Obamacare," is the creation of marketplaces where people can purchase insurance. Yet, some of the largest insurance companies are not participating in the exchanges. United Healthcare is not participating in any of the 34 federally facilitated marketplaces. Many of the large national insurers, such as Aetna, Humana and Cigna, selectively entered markets.

"Some insurance companies that have the luxury of sitting on the sidelines have essentially said, 'Year one or year two is going to be tough, let's wait awhile for the kinks to get worked out,'" says **Sanjay Saxena '99**, a Boston Consulting Group partner and managing director who advises hospitals on the ACA.

Meanwhile, the insurance companies that have entered the marketplace are contending with customers who were previously uninsurable on the individual market, says **Leemore Dafny**, professor of management and strategy and former deputy director of Health Care and Antitrust for the Federal Trade Commission's Bureau of Economics.

"The insurance industry is also seeing some action in terms of entry, which hasn't happened in quite some time," Dafny says, "and the barriers to entry are coming down because of the existence of the exchanges."

The insurance companies involved with the exchanges have been hustling to keep up with the demand. For example, Blue Cross Blue Shield was so overwhelmed with the volume of calls in a handful of states that it hired hundreds more customer service agents to reduce the sometimes hours-long wait times.

By late January, more than 3 million people had signed up for Obamacare. Federal officials have said their goal is to have 7 million signed up by March 31, the last day to get coverage in 2014 without facing a tax penalty.

Another challenge for insurance companies has been processing customers' information. Naperville, Ill.-based Infogix has been helping companies manage such data.

Infogix's efforts have been complicated by the federal government's delays in notifying companies about how various rules are being applied, says Infogix Chief Product Officer **Bobby Koritala '05**.

"I think the CMS [Centers for Medicaid & Medicare Services] guys are working hard and working diligently to get it

out, there's just so much regulation they just can't keep up, so it's frustrating," Koritala says.

## Hospitals

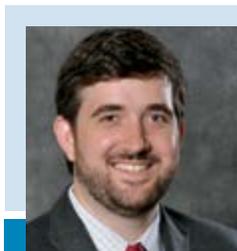
Much like the insurance companies, many hospitals are taking the "wait-and-see" approach, says Saxena. They're watching how the government handles reimbursements to the hospital for subsidized patients, as well as the demographics on the newly insured, he says.

Some hospitals, such as ones in New Jersey and Kansas, are hiring more staff to help with an anticipated increase in patients, as more people will be able to seek medical care. Meanwhile, the Chicago area's North Shore University Health System is laying off about 130 people — 1 percent of its workforce. They say it's to help protect the company from the financial uncertainty around the ACA.

Another trend is that more health systems are consolidating. A Medical Group Management Association survey found the percentage of physicians working in practices owned by a hospital or integrated delivery system increased from 24 percent in 2004 to 49 percent in 2011.

"It is a major phenomenon that is likely to stay," says Saxena.

Health care experts say the ACA makes mergers and acquisitions more appealing because it can be easier to



FACULTY EXPERT

### CRAIG GARTHWAITE

#### AREAS OF EXPERTISE:

Applied Microeconomics, Effects of Government Policies and Social Phenomena

- Current research examines the labor supply effects of the Affordable Care Act, economic benefits of health care innovations and changes in physician labor supply following large public health insurance expansions.
- Served as Director of Research for the Employment Policies Institute in Washington, D.C. Has testified before Congress on matters related to the minimum wage and health care reforms.

handle more patients and better meet ACA requirements that create a more comprehensive approach.

“Providers are coming to appreciate that they need to be accountable for the entire range of services provided to their patients, and not just the small area that a patient is given in any one visit,” says Dafny.

“Providers must take a step back and look at the entire spectrum of care that a patient is receiving, beginning with prevention and ending with treatment,” she says.

## Businesses

For the most part, large employers have not yet seen dramatic changes because they already offer their full-time employees health care. Also, the deadline for businesses to tell the federal government the details of the coverage they offer employees has been pushed back a year to 2015.

Some big companies such as Target and Trader Joe’s have said they will not offer their part-time employees health insurance, allowing those employees to seek coverage through the exchanges.

It’s different for small businesses. Businesses that employ fewer than 50 employees can purchase plans through the Small Business Health Options Program, or SHOP. However, the launch of an online marketplace for SHOP, originally set for October 2013, has been delayed until November 2014.

Until the SHOP online marketplace launches, these businesses can buy SHOP plans through offline means they’ve used in the past, such as agents, brokers or the issuers themselves, says **Marianne Markowitz**, Chicago regional administrator of the Small Business Association.

After battling months of confusion about the Affordable

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**WE’VE GOT TO SET ASIDE WHETHER THE EXCHANGES WORK PERFECTLY OR NOT. THAT TRAIN HAS LEFT THE STATION. HEALTH CARE IS UNAFFORDABLE — WE’VE KNOWN IT FOR YEARS.**

**Sanjay Saxena ’99**, partner and managing director, Boston Consulting Group

## [PROVIDERS] MUST TAKE A STEP BACK AND LOOK AT THE ENTIRE SPECTRUM OF CARE THAT A PATIENT IS RECEIVING.

**Leemore Dafny**, professor of management and strategy and former deputy director of Health Care and Antitrust for the Federal Trade Commission’s Bureau of Economics.

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Care Act, small business owners are now starting to understand the law better and “are really doing the math and evaluating what works best for their business,” Markowitz says.

Some have signed up for a plan to offer their employees health insurance. Others have decided to cut full-time employees’ hours to part-time, making the employees eligible for the individual exchanges. But most businesses are still trying to sort through their options.

**Pepper Crutcher**, a partner at the law firm Balch & Bingham advises insurance companies on the ACA. He says one good thing about the delays is that they buy businesses more time.

“This is really complicated stuff,” Crutcher says. “If you really want to understand it and make the best decision for your company, it’s not going to take days. It’s not going to take weeks. It’s going to take months and maybe even more.”

## Individuals

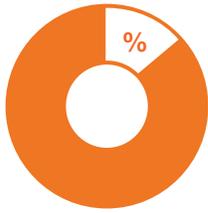
Despite pushes by the Obama administration and several non-profits, **Joel I. Shalowitz**, MD, clinical professor of health enterprise management, director of the Health Industry Management Program at Kellogg and a professor of preventive medicine at Northwestern’s Feinberg School of Medicine, says it’s still unclear how many Americans are actually insured.

The government is only releasing numbers of people who have selected a plan through the marketplace, but under the law, insurance coverage does not take effect until after the person pays a premium. The Obama administration has not released those numbers.

But any gap between those numbers might not matter in the end, Saxena says. The Affordable Care Act is still the law of the land.

“We’ve got to set aside whether the exchanges work perfectly or not,” says Saxena. “That train has left the station. Health care is unaffordable — we’ve known it for years. We can’t put that burden on our employees, citizens, government. All of this [reform] will continue because there’s not an alternative to it moving forward.” **K**

## ALUMNI STATISTICS



**2,493**

**KELLOGG ALUMNI WORKING  
IN THE HEALTH CARE  
INDUSTRY**



**1,141**

**ALUMNI WORKING  
IN HOSPITALS**



**70+**

**SMALL HEALTH CARE  
BUSINESSES OWNED OR  
FOUNDED BY KELLOGG ALUMNI**



**438**

**ALUMNI IN C-LEVEL  
POSITIONS WITHIN THE  
HEALTH CARE INDUSTRY**

Includes C-level titles, as well as chair, hospital president, some SVP/EVP titles (where C-suite was mentioned) and managing director/managing partner/managing principal



**1,019**

**ALUMNI WORKING IN  
PHARMACEUTICAL/  
BIOTECH/HEALTH  
PRODUCTS INDUSTRIES**



**104**

**ALUMNI WORKING  
IN INSURANCE  
COMPANIES**



FACULTY EXPERT

**JOEL I. SHALOWITZ**

AREAS OF EXPERTISE:

Healthcare Management, Healthcare Quality, Hospital/Physician Relations, International Healthcare, Managed Care Systems

- Current research focuses on health insurance, ambulatory care management, quality improvement and international healthcare systems.
- In 2008, Shalowitz published *Strategic Marketing For Health Care Organizations: Building A Customer-Driven Health System*.



FACULTY EXPERT

**LEEMORE DAFNY**

AREAS OF EXPERTISE:

Areas of Expertise: Competitive Interactions in Healthcare, Consolidation in U.S. Hospital Industry, Provider Practices, Insurance Industry

- Served as Deputy Director for Healthcare and Antitrust in the Bureau of Economics at the Federal Trade Commission
- Regularly advises companies, government agencies, and nonprofits on antitrust matters, strategic decisions, and public policy.

**CESAR PURISIMA '83 HELPS THE PHILIPPINES RECONSTRUCT ITS ECONOMY FOLLOWING A SUPER TYPHOON AND DECADES OF CORRUPTION**

BY BOBBY CAINA CALVAN ILLUSTRATION BY EIKO OJALA



# Nation BUILDING

**D**eep in the South Pacific, hundreds of miles from the Philippines, winds gathered force. Soon, they would bear down on a nation that had spent years trying to dig itself out from a reputation of corruption, job loss and graft.

In early November, the Philippines had been riding a wave of relative good fortune. Its economy was surging as other Asian countries foundered. For five straight quarters, the country's

gross domestic product increased by more than 7 percent, at times even eclipsing China's powerhouse economic growth. Fitch Ratings even moved the debt rating to investment grade out of "junk" four years ahead of the country's schedule.

Then came Typhoon Haiyan.

The storm, known as Yolanda in the Philippines, lashed the country's central islands with winds of 195 mph, making it among the most powerful storms ever to make landfall. Seas swelled into coastal towns and gusts snapped palm trees. Communities crumbled under fierce, pounding rain and wind. At least 6,200 Filipinos died, with scores still missing. By the government's estimate, rebuilding could cost \$8.2 billion.

While the nation recovers and Filipinos put their shattered lives back together, the task of economic repair is in the hands of Cesar Purisima, the country's finance secretary. Part of this task is to reassure outsiders, particularly investors, that the Philippines remains open for business.

"The damage was quite substantial, but the area will recover, the economy will recover," Purisima said.



## Reform and recognition

By some accounts, the Philippines might indeed be on the right track, as global observers take notice of the work done by Purisima at the behest of the country's reform-minded president, Benigno Aquino III, the son of iconic former President Corazon Aquino. The younger Aquino is spreading a mantra of "good governance" across the archipelago nation of 100 million people.

Soon after the Fitch Ratings grade, Standard & Poor's also upgraded the country's status. While Moody's did not follow suit, the firm did predict that the Philippines would continue to outperform its neighbors and remain one of the world's fastest-growing economies.

Purisima himself won acclaim for his work with the Philippine economy. *Emerging Markets*, a global financial news outlet, named him the Asia-Pacific region's Finance Minister of the Year in both 2011 and 2013. *Euromoney* gave him the same honor in 2012, as did *The Banker* in 2013, which cited him for his "work in raising the country's profile among international investors."

It's the kind of affirmation he hopes will convince the rest of the world that the Philippines means business as it works to further stabilize its economy.

## Tumultuous history

For decades, economic and political stability had been elusive.

When the 20-year presidency of Ferdinand Marcos collapsed under the weight of the "People Power" rebellion in 1986, Marcos left behind a country with a broken political system, a plundered treasury and a badly damaged economy — the Philippine GDP had contracted by more than 7 percent in his final two years in power.

Scandals ensnared successive post-Marcos administrations and continued political instability made it difficult to sustain robust economic growth.

In 2004, President Gloria Macapagal-Arroyo persuaded Purisima, then the top executive of one of the region's largest accounting firms, to join her administration. Arroyo named him secretary of trade and industry; a year later, she appointed him to be her finance secretary.

For Purisima, it was a tumultuous first foray into government service as Arroyo became engulfed in allegations of corruption and graft. She was accused of election fraud. The stock

market and Philippine currency plunged.

"We appealed to her love of country to step aside," Purisima recalled. "We realized that to move the country forward we needed a leader with credibility and political capital."

Five months into his new post, Purisima resigned along with nine other Cabinet ministers.

Purisima went into business of his own, but kept his foot in politics. When Benigno Aquino III ran for president on a platform of government reform, Purisima pledged support. When Aquino won in 2010, the new president asked Purisima to join his Cabinet to resume attacking the country's economic woes.

"The only way to change things is to join in. To try to change it from the outside would amount to a revolution — and you wouldn't want that," Purisima said. "So when the president asked me to join his Cabinet, I was glad to do it."

In his second stint as finance secretary, Purisima has cut dependence on foreign borrowing and vowed to raise more cash from government bonds.

To boost the national treasury, he pushed for higher taxes on cigarettes and alcohol. And he directed the Bureau of Internal Revenue to go after tax dodgers. This has led to the agency filing scores of tax-evasion complaints, including a \$48.8 million case against the boxer Manny Pacquiao, one of the world's most famous Filipinos.

"As finance secretary, I'm tasked with making sure we have the resources to be able to deal with the challenges our country is faced with, such as the need to invest in infrastructure, the need to invest in our people, as well as the need to continue to open up our economy."

## Heading overseas

A stronger economy would mean more jobs, and perhaps stem the drain of skilled and educated workers that has plagued the Philippines over the years.

In 2012, more than 1.8 million Filipinos went abroad to work as nannies, housekeepers, nurses, engineers and laborers, among other positions, according to the Philippine Overseas Employment Administration. More than half went to the Middle East.

Purisima, who grew up in General Santos City on the island of Mindanao, didn't follow that route. When he left his country for the first time, to attend Kellogg, he always knew he would return.

*“The only way to change things is to join in. To try to change it from the outside would amount to a revolution — and you wouldn't want that. So when the president asked me to join his cabinet, I was glad to do it.”*

CESAR PURISIMA '83



His father was a self-made man, he said, who financed his own education by working in a toll booth. Fidel Purisima would eventually earn a law degree and rise to become a justice of the nation's Supreme Court.

"He taught me the value of investing in one's self, the value of taking advantage of opportunities that come your way and the value of working with people," the younger Purisima said of his father, who died last September at age 82.

He thought of following his father into a law career, but the younger Purisima had a penchant for numbers, not words.

After earning an accounting degree and serving a short stint at Sycip, Gorres Velayo & Co., one of Manila's top accounting firms, Purisima traveled to the United States for a business degree. At 21, it would be his first journey outside his native islands. "It really opened my eyes to new possibilities, to a whole new world that I never knew existed," he said.

He saw a flourishing tourism industry in Hawaii. He experienced the magic of Disneyland. He marveled at the skyscrapers and bustle of New York City. In Chicago and at Kellogg, he learned about how America conducts business.

### A world of possibilities

After returning home, he resumed work at SGV & Co. and rose quickly. In 1997, the firm appointed him managing partner.

Subsequent trips outside the Philippines allowed him to imagine all the possibilities for his own country, so lacking in the amenities necessary to spur economic progress.

"If you travel around the region, you can see that our infrastructure clearly lags behind our neighbors," he said. "It's really about infrastructure across the board, that any modern economy needs, especially one that is trying to get more connected to the global market."

Even now, the country's main airport terminal remains woefully outdated. Public transit is inadequate. And the country's power grid, beset with frequent blackouts and brownouts, also needs upgrades.

Improvements to the country's infrastructure, as well as spending on education and health care, are key to the government's economic program.

In 2013, infrastructure spending was up by 40 percent from the year before, representing a fifth of the national budget. By 2016, it is expected to account for a quarter of the country's fiscal outlays.

"If people believe things can change for the better, they will," Purisima told an Australian newspaper long before Haiyan. "And Filipinos are beginning to believe again, to hope again."

### Climate of change

That hope took a beating with Haiyan. Purisima is trying to ensure it wasn't a fatal one.

Before Haiyan, some economists predicted the Philippines would have ended the year with an annual 7.3 percent rise in GDP, but Haiyan lowered expectations to as low as 6.5 percent — a setback from expectations but a still-healthy spurt for an emerging economy ranked 40th in the world in terms of GDP.

"The Philippines continues to outperform and will remain one of the world's fastest-growing economies in 2014. Confidence is high, and investment, both public and private, is driving the economy forward," Moody's said in a report issued in December.

Purisima has called for an international funding mechanism so countries like his get the necessary aid to recover from intense weather that he blames on global warming. The insurance fund would be funded based on each country's carbon footprint.

The government is also looking into establishing a "climate resiliency fund" to provide localities with the money to pay for flood-control projects, reinforce buildings, strengthen public infrastructure and establish evacuation systems. "We're now really seeing the effects of global warming around the world," Purisima said.

As a result, he said, "we need to look at ways to make sure that damage from typhoons is something we can manage from a financial standpoint."

It's about putting the country on solid footing, so no single event — from natural forces or otherwise — will prove as catastrophic to the Philippine economy as Haiyan was to the islands themselves.

"We need to make sure that we embed economic reforms in our government institutions, through legislation and policies and other ways," Purisima said. "The important thing is that we put in place a good foundation to give us momentum." ❧



Visit [kelloggsmagazine.com](http://kelloggsmagazine.com) for an exclusive video interview with Cesar Purisima.



Learn more about the Kellogg Public-Private Initiative at: [kell.gg/si-kppi](http://kell.gg/si-kppi)



**“If people believe things can change for the better, they will. And Filipinos are beginning to believe again, to hope again.”**

**CESAR PURISIMA '83**



## WHAT HAPPENS WHEN GOVERNMENT REGULATION WANES?

*Faculty, business leaders and advocacy groups search for answers at this year's **Kellogg-Aspen conference***

It's one thing for a government and a corporation to rebuild a country together. It's another for a government to keep tabs on a corporation's business practices.

Indeed, government regulation of corporate behavior has waned over the past decade, and the global nature of commerce often puts effective regulation beyond the reach of any one country or region. Emerging to fill this void, private politics — voluntary participation in corporate regulation — has gained the favor of politicians and activists alike. But while many NGOs and activists target perceived violators, Kellogg research suggests a different way to get corporations to voluntarily conform.

At this year's Kellogg-Aspen Business and Society Leadership Summit, held Feb. 27-28 in Evanston, the discussion focused on the rise of private governance: Can privately regulated corporations — under tremendous pressure to cut costs and expand revenues — always be expected to safeguard society and the environment, especially in the absence of a government regulatory authority? Does the threat of reputation damage trump the pursuit of profits?

The research findings of **Brayden King**, assistant professor of management and organizations, suggests that it doesn't, but private efforts should supplement rather than replace government enforcement. King offers three strategies for those non-governmental organizations seeking to influence corporate behavior:

1. **Focus on collaboration with key stakeholders.** NGOs should proactively work with businesses and government agencies to deepen their relationships and take more ownership over the implementation of private standards.
2. **Strengthen monitoring capabilities.** NGOs should shift resources away from public relations efforts and back toward working at a community level, boosting membership and instructing local chapters on grass-roots monitoring.
3. **Validate ratings systems and labels.** NGOs need to better police the sea of ratings systems and ensure that standards actually drive socially responsible corporate behavior.



Learn more about the Kellogg-Aspen Business in Society Leadership Summit at: [kell.gg/corpgovgap](http://kell.gg/corpgovgap)



# FUELING

## GLOBAL GROWTH

KELLOGG ALUMNI HELP ESTABLISH  
INFRASTRUCTURE INITIATIVES AROUND THE WORLD

**“INFRASTRUCTURE IS REALLY  
FUNDAMENTAL FOR ECONOMIC  
DEVELOPMENT AND SUSTAINED  
ECONOMIC GROWTH.”**

DAVID BESANKO '82, ALVIN J. HUSS PROFESSOR OF  
MANAGEMENT AND STRATEGY

**G**rowth comes from the ground up, business wisdom tells. Sometimes, that means the ground itself.

From improving transit routes to developing farmland, focusing on a country's infrastructure needs is one key way to fuel economic growth, both domestically and internationally. Many Kellogg alumni are leading the charge by heading up global infrastructure initiatives around the world, improving on and investing in the canals, telecommunications, roads and other basic components that make a society function.

“I think infrastructure is pervasive. It touches everybody, and even if you use a narrow definition of infrastructure — physical systems and networks that allow modern economies to function — you see it everyday,” says **David Besanko '82**, the Alvin J. Huss Professor of Management and Strategy. “Whether it's roads or water or Internet or the postal system, infrastructure is really fundamental for economic development and sustained economic growth.”

But a project doesn't start the moment the new power plant generates its first megawatt or even when the first shovel of earth is turned on a new highway. Projects that change nations' landscapes and lifestyles begin on paper. They start with the referendum where voters have their say. They start with the portfolios where investors and banks finance developments the world over. And they start with the plans where governments reach out to private partners to work for the betterment of all.

Looking to infrastructure improvements as a way to kick-start growth is a trend that continues as these Kellogg grads and their peers help develop new markets and strengthen current ones.

### From charity to agribusiness

**Ada Osakwe '11** bridges the gap between public and private sectors in her role as senior investment advisor to the minister of agriculture of Nigeria. While she works for the government, she serves as the liaison for private investors — both domestic and foreign — interested in Nigeria's long-neglected agricultural sector. The goal, says Osakwe, is to “transform agriculture in Nigeria — to see it as a business that can make money as opposed to something that has been a charity type of project.”

To achieve this goal, the Nigerian government launched the Agricultural Transformation Agenda in May 2011. The public-private focus of the agenda is the first of its kind in Nigeria — one that is already showing signs of success. In the years before the agenda launched, Nigeria had been importing about \$11 billion a year in food, including fish, rice, wheat and sugar. By 2012, that number was down to \$8 billion. The agenda currently has 30 signed letters of intent from private sector investors totaling more than \$4 billion in investments toward Nigeria's agricultural sector. “Let's stop shipping jobs abroad,” says Osakwe. “These are things that Nigeria should be producing on our own.”

BY MAGGIE LAUBSCHER

That \$4 billion is already being spent. For example, the U.S. investment firm Blumberg Capital has committed \$250 million to development on various infrastructure, such as storage facilities. Dansa Foods, part of the Dangote Group, is investing more than \$200 million into the processing of tomatoes, pineapples and other crops into high-value products.

One major focus of the agenda is creating zones for the construction, development and operation of clusters that will process raw agricultural materials into market-ready commodities. These “agro-processing zones” will help create a domino effect of sorts. As zones are developed, they attract more private sector investments, which helps to grow the country’s ability to produce its own food.

Employing the public-private approach is ideal for Nigeria, says Osakwe. Infrastructure development can be fraught with limited funds and resources. Adding an influx of private investors helps combat that problem. In addition, “the private sector allows for efficiency in these projects because they have the know-how and the drive and the motivation of financial return,” she says. “And the government doesn’t have that motivation of financial return.”

**“WE HAVEN’T BEEN SPENDING ENOUGH MONEY ON INFRASTRUCTURE, SO WE’RE ALWAYS TRYING TO CATCH UP.”**

JOHN POLLOCK '89, MANAGING DIRECTOR, AIG ASSET MANAGEMENT

#### And the tab comes to ...

**John Pollock '89** serves on the flip side of the infrastructure coin, providing funding for infrastructure projects. As managing director and head of project finance at AIG Asset Management, Pollock manages a \$5.5 billion portfolio of 105 projects in 17 countries. He focuses his team’s investments on single-asset, tangible entities that will likely hold value for a very long time, such as airports, toll roads and renewable energy projects. “Google, Netflix — you don’t really know,” Pollock says. “But a hydroelectric power plant or the Copenhagen Airport, you have a pretty good idea that they are going to be around a long time from now.”

In a given year, Pollock’s portfolio can range from a natural gas power plant in Mexico to an offshore wind farm in Belgium. These projects are imperative to developing current markets and creating new ones, Pollock says.

But Pollock would also like to see more of these types of projects in the United States, where he says that the need for investing in infrastructure between now and 2035 exceeds \$30 trillion.

“We haven’t been spending enough money on infrastructure, so we’re always trying to catch up,” Pollock says.

Pollock’s team fields more than 70 potential investments each year and ultimately invests in nine to 13 projects. The inquiries — representing a mix of public and private enterprises — come from bankers, developers and current clients, with roughly 90 percent from startups. “What we look for is security that we’re going to get our money back,” he says. This means visiting each asset his team might finance and conducting in-depth audits and interviews to make sure the investment is sound. Pollock’s team checks everything, from whether the site is actually there and what it looks like to how it operates and the quality of the people who run it. And in doing so, he helps continue the efforts to sustain and enhance infrastructure around the world.





## SUPPORT SYSTEM

### NEW COURSE TRAINS MBAS ON MANAGING INFRASTRUCTURE PROJECTS

While it may not be as glamorous as managing hedge funds or deciphering big data, developing and maintaining infrastructure is crucial to nearly every economy on the planet. Responding to the growing global need for infrastructure and the need to understand its unique economic characteristics, Kellogg has introduced a 10-week course, Infrastructure Strategy — Public Sector Reforms and Private Sector Opportunities.

Taught by **David Besanko '82**, the seminar looks at the relationship between private and public sectors in how infrastructure projects are financed, designed, built and regulated across the globe.

The goal of the course, which debuted in spring quarter 2014, is to provide students with the knowledge to manage infrastructure projects from either the public or private arena, Besanko says.

“There’s a real need to find other sources of capital; that’s why the private sector is being brought in,” he says. “They represent a new source of capital, and there are a lot of questions as to how these partnerships should be structured.”

### A man, a plan, a canal

As inspector general of the Panama Canal Authority, **Antonio Dominguez '88** plays a key role in a massive infrastructure effort — the Panama Canal expansion project. This is the biggest project the authority has undertaken since 1904, when building of the original canal commenced.

The Panama Canal offers ships a shortcut between the Atlantic and Pacific oceans. Its more-than-50-mile route already serves as passage for more than 13,000 vessels each year, a number the expansion project hopes to double. The \$5.25 billion project, which Dominguez audits on an ongoing basis, will increase the canal’s capacity by adding a third set of locks.

The eight-year project is vital to expanding Panama’s economy. “It will provide more than double the revenue the country right now receives,” says Dominguez. The Panamanian people clearly understand the benefit of the canal expansion. In 2006, the authority held a referendum to seek public approval for the project. It won with 80 percent of the vote.

A key benefit of the canal is that it is a source of foreign income to the country. The more ships that transit the canal, the more foreign capital floods the Panamanian economy. “Whatever [income] the Panama Canal receives, it’s foreign income — fresh cash,” says Dominguez. This influx of resources not only helps the people of Panama, but also facilitates global growth through more expedient cargo delivery to countless countries.

“And we are going to deliver this expansion project,” says Dominguez. “The canal will deliver.” κ



“With our app, we’ve made booking travel far more efficient, exciting and even ‘magical.’”

# The traveler

SAM SHANK CHANGES THE WAY PEOPLE BOOK HOTELS WITH LEADING MOBILE APP

When mobile devices began revolutionizing personal computing, online travel entrepreneur **Sam Shank '04** quickly envisioned a way to make hotel booking faster, cheaper and smarter. In late 2010, Shank and fellow alum **Jared Simon '02** co-founded HotelTonight, a mobile app that lets travelers book last-minute lodging from the convenience of their smartphones.

Named one of the best apps of 2013 by *TIME* magazine, HotelTonight features same-day deals on unsold hotel inventory, moving the online booking industry into mobile devices targeting younger, more spontaneous trekkers.

“We’ve been seeing a shift in consumer behavior toward last-minute planning using the Internet, whether it’s ordering dinner from GrubHub or booking a hotel on HotelTonight,” Shank says.

Since launching three years ago, the startup has gone from a handful of hotel partners to forging relationships with some 10,000 hoteliers. Additionally, the mobile-first company has more than doubled its presence around the globe and now operates in 17 countries. In September, HotelTonight secured \$45 million in Series D financing led by hedge fund Coatue Management, bringing its total venture funding to about \$80 million.

With more than 9 million downloads, the app is shaping mobile travel and changing how travelers plan — or don’t plan.

“With our app, we’ve made booking travel far more efficient, exciting and even ‘magical,’” says Shank, who serves as

HotelTonight’s CEO and received the 2013 Stevie Award for Executive of the Year (Hospitality and Leisure). “In 10 seconds with HotelTonight, you can book a room at a quality hotel at a great price at the very last minute.”

The on-demand, immediate gratification nature of HotelTonight appeals not only to younger travelers who embrace spontaneity in all aspects of their lives, but also frequent business travelers. They’re drawn, Shank says, by HotelTonight’s deeply discounted hotel offerings — as much as 70 percent off — at destinations that range from the “cool” luxurious to the “vibey” no-frills.

The travel bug bit Shank hard at Kellogg, as he took trips to China, Australia and Costa Rica. During his last three months at Northwestern, Shank created his first travel startup: a hotel review site called TravelPost.com. In 2006, TravelPost was acquired by SideStep, which soon became a part of Kayak. While building his second venture, DealBase.com, a travel deals search engine, Shank spun off HotelTonight — beating out traditional travel sites that were slow to enter the mobile app market.

Moving forward, geographic expansion, more personalized services and technological features like Google Wallet are key elements of the startup’s continued growth. An avid HotelTonight user himself, Shank can’t stop pinching himself over the company’s success. He says, “Being able to create a product that makes people’s lives better by saving them money and time is definitely a good feeling.” κ

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BY CHERYL SOOHOO PHOTO BY JUSTIN RUNQUIST

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# SALVAGE LAW

RECENT CHANGES IN CREDIT AND MORTGAGE POLICY  
CAN HELP THE HOUSING MARKET RECOVER

**W**hen pundits look back at 2013, the numbers show the U.S. economy in clear recovery from the darkest days of the 2008 crash. The stock market was a bull market by the end of the year: The Dow Jones Industrial Average gained 26.5 percent; the NASDAQ rocketed 38 percent.

Unemployment finally nosed under 7 percent, and consumer borrowing resumed on economy-boosting non-revolving debt like auto and student loans.

Housing, however, remains cloudy. While existing home sales had their best year since 2006 and federal estimates noted a rebound in homeowners' equity to 2003 levels, the 1-percentage-point rise in mortgage rates from May to September helped slow construction starts to just below 1 million for the year, well below the long-term annual average of 1.5 million.

Those numbers just scratch the surface of the challenge, according to **Janice C. Eberly**, the James R. and Helen D. Russell Professor of Finance.

"Policy is difficult to implement in such a dynamic situation, as it is very hard to pull on individual threads; there's so much change still playing out. You're worried about potentially making the environment worse," says Eberly, who from 2011 to spring 2013 served as assistant secretary for economic policy at the U.S. Treasury.

Housing, she says, is still "a nest of issues."

## Housing's regulatory foundations

What's in that nest? According to Kellogg academics and alumni, it's an unprecedented mix of still-nervous economic signals, uneven regional recovery, permanent

"The housing bubble and bust has demonstrated to most people ... that there's an essential role government must play in the U.S. housing market."

**MATT FELDMAN '86**, PRESIDENT & CEO,  
FEDERAL HOME LOAN BANK



changes in current and potential homeowner attitudes, and a borrowing and regulatory scenario that's largely unrecognizable from the one that existed before 2008.

"It's hard to gauge how far we've come when we don't know precisely where we're going," says **Matt Feldman '86**, president and CEO of the Federal Home Loan Bank of Chicago. "What does the general population of the United States consider housing to be? It's an existential question. Housing went from a form of domicile to being a form of domicile and a way to build equity — a major component of savings and retirement. So what happens when you end up with these factors and add the most massive housing correction I've seen in my lifetime?"

In that search for clarity, experts will be watching the early actions of new Federal Reserve Chairwoman Janet Yellen, who was ahead of her predecessor Ben Bernanke in raising concerns about the securitization-led housing bubble. According to an early January story in the *National Journal*, Yellen had labeled the failing housing sector the "600-pound gorilla in the room" at the Fed's June 2007 meeting.

Experts will also be watching legislative progress to sustain or replace government-controlled Fannie Mae and Freddie Mac as primary providers of a secondary market for home mortgages. Both organizations teetered on the brink of collapse during the subprime mortgage crisis and were rescued by taxpayers in September 2008 to the tune of roughly \$187 billion. As of earlier this year, both have paid more in dividends than they received in bailout funds.

"I believe the housing bubble and bust has demonstrated to most people in the public and private sector that there's an essential role government must play in the U.S. housing market," says Feldman. "How the government plays that role, how it steps in and what controls will be in place remain undecided. But government does have an important role to play."

### Building policy going forward

Researchers and policymakers will have plenty of ground to cover in an effort to prevent the next crisis. The central question: Did the government place too much emphasis on saving the banking



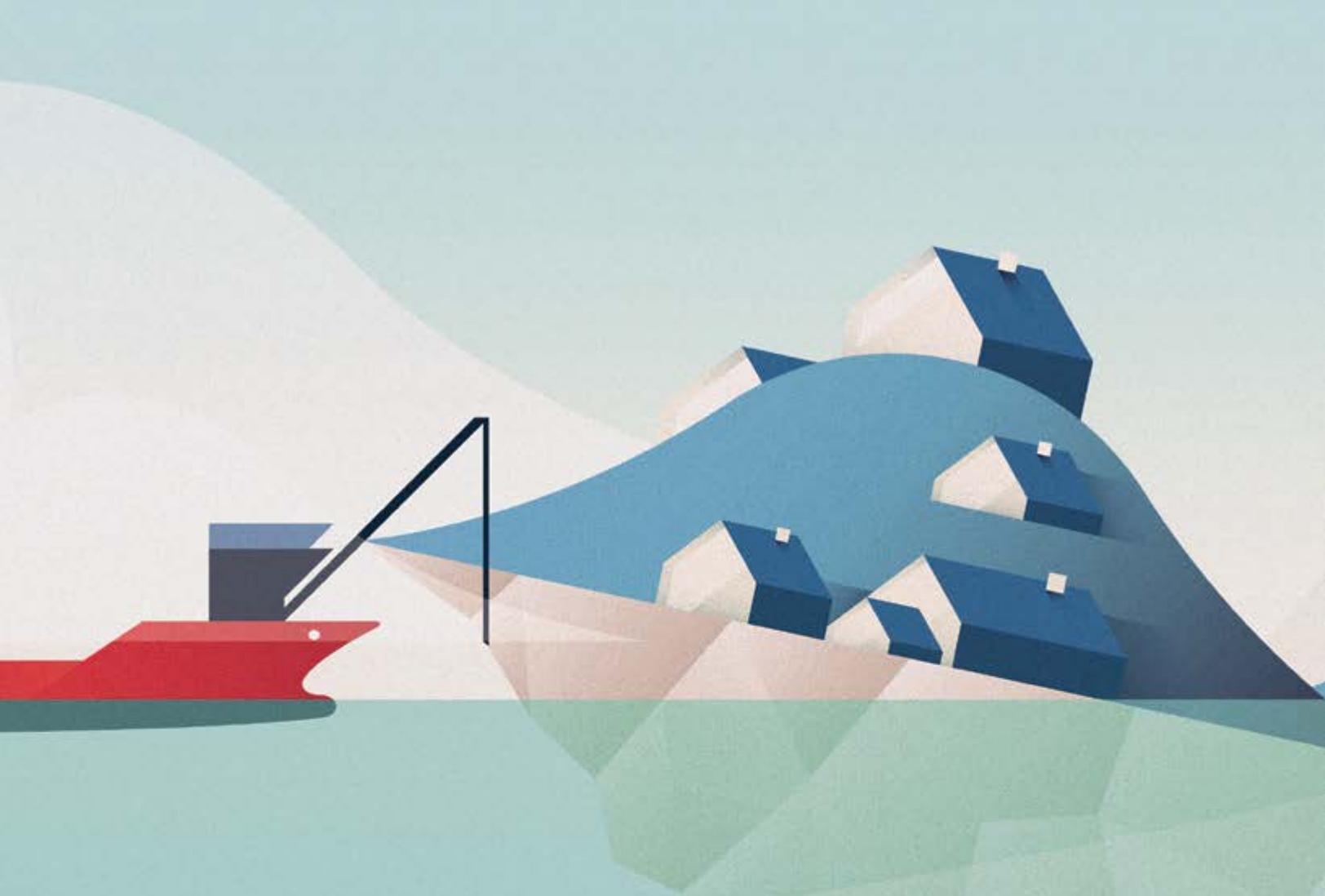
FACULTY EXPERT

### JANICE C. EBERLY

#### AREAS OF EXPERTISE:

Corporate capital structure, macroeconomics, monetary policy, real options

- Served as chief economist at the U.S. Treasury, leading the Office of Economic Policy in development of policy recommendations on micro- and macroeconomic issues.
- Current research emphasizes household finance and wealth portfolios, examining the interaction of household consumption and portfolio choices within the macroeconomy.



FACULTY EXPERT

### CRAIG FURFINE

#### AREAS OF EXPERTISE:

Functioning of interbank markets, liquidity during the financial crisis, performance of commercial real estate mortgages

- Served as an adviser in the economic research department at the Federal Reserve Bank of Chicago, as a senior economist at the Bank for International Settlements in Basel Switzerland, and as an economist at the Board of Governors of the Federal Reserve System.

system at the expense of quicker help to current and prospective homeowners?

**Craig Furfine**, clinical professor of finance, specializes in the commercial real estate industry, but notes that he and his students have had plenty to discuss with the housing crisis. “It’s important to realize that policymakers tend to make the more conservative choice,” says Furfine. “Rather than risk the failure of 2,000 to 3,000 banks heavily exposed to real estate loans, policymakers gave them a way to work out their problem loans over time.” The problem, says Furfine, is that “progress was very slow” and it’s only been “in the last year where we’ve seen substantial resolution of real estate loans in distress.”

In short, says Furfine, policymakers emphasized stabilizing the financial system, which may have had the adverse effect of delaying the help needed by individual borrowers. Those borrowers may have faced a range of problems that prevented them from getting or refinancing loans at lower costs. It remains difficult to evaluate whether policymaker choices were optimal because “we don’t know how things would have been if we followed a different path,” says Furfine.

#### Financing models for the future

Right now, Eberly is working on “what types of solutions are most effective at stimulating the macro economy when the housing market is declining.” Eberly points out that a particularly interesting area of research right now is determining “what kind of loan interventions are most effective at keeping people in their homes” so smarter, better-functioning models can be implemented in the future.

**Biniam Gebre ’03**, general deputy assistant secretary at the U.S. Department of Housing and Urban Development, agrees that banks needed proper time to stabilize their balance sheets during the crisis and that federal mortgage aid programs like the Home Affordable Modification Program and Home Affordable Refinance Program have had an impact. “We shouldn’t underestimate the power of those programs,” says Gebre.

5.09  
MILLION

9.1%

FROM 2012

SALES OF EXISTING  
U.S. HOMES IN 2013

428K

16.4%

FROM 2012

SALES OF NEW  
HOMES IN 2013

747.7K

U.S. PROPERTIES

33%

FROM 2012

FORECLOSURES  
IN 2013

\$3.4  
TRILLION

55%

FROM 2012

INCREASE IN U.S.  
HOMEOWNER EQUITY

Sources: U.S. Department of  
Housing and Urban Development,  
U.S. Department of Treasury

He added, however, that better solutions could have been found to address negative equity in some of the hardest-hit areas in the country. "Thirty percent of the borrowers in Nevada are still under water," Gebre notes. But he notes that stabilizing the banking system as a whole was the greater priority at the time of the initial crisis. "We couldn't run the risk of crashing the banking system at the time. The banks needed time to absorb the information from the crisis in order to properly stabilize their balance sheets," says Gebre, a former principal at McKinsey & Co.

Gebre, who co-founded the McKinsey Center for Government, McKinsey's global hub for research, collaboration and innovation in government performance, points out that improvements in the housing market will simply come from an economy that's working better. "We're in considerably better shape than we were two to three years ago," says Gebre.

#### The cultural factor

Feldman wonders about the brave new world ahead for home ownership. He wonders who the next generation of homeowners will be and what will happen to those who may never have that option again.

"People's perceptions have been reset. You have a large portion of the population for whom this crisis will be a seminal event in their lives. And we've gone from a society where homeownership was 'The American Dream,' and now we're seeing that not everyone should own a home," says Feldman.

He hopes the housing crisis will spark a much broader discussion. "We're just talking about home finance. We're still not dealing with the portion of the population that will have less access to home ownership because they cannot afford to own a home or simply prefer to not take the risk of home ownership. How do we provide them with accessible, affordable housing that is of quality and not just a place to stay? That's been inadequately considered to date." κ



“Developing a robust [risk management] framework involved honestly rating ourselves to identify gaps.”

# The safety net

WHEN THE CREDIT CRISIS HIT, RISK MANAGEMENT EXPERT JANE WESTERN KEPT BOEING'S RETIREMENT PROGRAMS SECURE

When Wall Street titans Lehman Brothers and Bear Stearns went belly up in 2008, many pension plan sponsors at multinational corporations were left scrambling. But not the Trust Investments team at the Boeing Co.

That's because **Jane Western '85** and her teammates spent the better part of 2006 rigorously evaluating and improving Boeing's risk management processes. When the credit crisis hit, Boeing was ready for anything.

"Developing a robust [risk management] framework involved honestly rating ourselves to identify gaps," says Western, the aviation giant's managing director for risk management and trust operations. "It wasn't just about giving ourselves a smiley face."

While she's known for wry quips like that, Western is serious when it comes to managing Boeing's \$95 billion in retirement funds. Ever since she started out as a plan sponsor at Household International, Western has been a conscientious steward for hard-working people and their nest eggs.

Today, Western is an industry leader known for her progressive ideas on risk management, just one of the reasons she was named 2013 Trailblazer of the Year by the Chicago-based organization Women Investment Professionals.

"Risk is about more than just market risk," she says. "Understandably, investors focus a lot on asset value and market volatility, but risk is multifaceted. There's regulatory risk, counter-party and credit risk, and operational risk, to name a few significant areas."

Western and her team at Boeing Trust Investments have identified 12 key risk standards and about 200 supporting actions, based on a seminal 1996 white paper, "Risk Standards for Investment Managers and Institutional Investors." The framework they created continues to guide them daily. Meanwhile, that game-changing risk-management gap analysis Boeing conducted before Wall Street fell has been the subject of many of Western's presentations to institutional investors. It has also become high-level fodder for colleagues on a risk task force she founded in 2008 within the nationwide Committee on Investment of Employee Benefit Assets.

A tough-yet-fair leader, Western also believes strongly in recognizing her colleagues' hard work. "Why do we only recognize people when they're retired or dead?" she says.

In 2009, she came up with the idea of the Chuck Award, which is now given annually by Boeing to exceptional behind-the-scenes service providers at JP Morgan Chase Bank and State Street Bank & Trust Company, the custodians of Boeing's retirement programs. It is named after two leaders in flight: retired U.S. Air Force Brig. Gen. Chuck Yeager, the first pilot to break the sound barrier, and legendary aviator Charles Lindbergh.

"The award helps us transcend the day-to-day activities and remind everyone of our shared mission — to oversee the retirement assets of Boeing's employees," Western says. "I believe my passion has enabled me to be more effective in my work and I see how much others want to care about their work, too."

Spoken like a true trailblazer. **K**

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BY GINA BAZER PHOTO BY JEFF SCIORTINO

# TRUE CORRECTIONS

USING TELEVISIONS AND TABLETS, JAIL EDUCATION SOLUTIONS TURNS COUNTY LOCKUPS INTO LEARNING CENTERS

“We want jail to be a true corrections facility.”

**BRIAN HILL**

Co-founder, Jail Education Solutions

Nine-year-old Brian Hill sat in his parents’ Sacramento home and listened as his father read stories of remorse written by jail inmates. David Hill, a professor at a California community college, taught college courses at Folsom State Prison and wanted to teach young Brian that many times, inmates deserve a second chance at life. They just need the opportunity.

Twenty years later, **Brian Hill ’15** has brought those opportunities to the digital age as co-founder of Jail Education Solutions, a startup that seeks to replace daytime soap operas and talk shows with educational content on jails’ existing TVs and on tablets inmates can rent for private study.

“From a really young age, this population has been in my frame of reference,” Hill said. “I realized that there was a huge need.”

The idea came to Hill in January 2013 as a way to help reduce the number of repeat offenders. Three months later, JES had a team of four employees: Hill, **Adam Hopson ’13**, **Freya Riel ’13** and co-founder **Andy Brimhall**. By summer, the team had expanded to more than 20 people.

The team received more than \$400,000 in grant money and won three competitions that awarded additional funding, including the Kellogg Innovation Network Global Summit. After receiving positive feedback from officers at the National Sheriff’s Association Conference, the team decided it was time to build the product.

The first JES box — similar to a cable box — was installed in Illinois’ Cook County Jail in late October. As Hill watched inmates view the material, he made several realizations,



including that inmates needed the opportunity to choose when and what they watched.

“No one is going to put their hand up and ask to change the television to the educational channel,” Hill said.

Enter the tablets. JES purchased a collection of Android-based tablets to be rented to inmates for a nominal daily price. Each tablet provides resources for GED, college, English as second language, literacy, court-mandated, vocational and other classes. The inmates earn points for engaging with the learning materials, which they can then spend on entertainment options. They can also continue with the courses after they’re released.

Also on the tablets are a variety of tests and quizzes that allow the sheriff’s department to track inmates’ progress. The plan is to create an incentive program that could eventually allow inmates to shave time off their sentences by showing commitment to their education.

“The feedback has been really positive,” said **Margaret Egan**, director of public policy for the Cook County Sheriff’s Office. “[Inmates] are excited to have programming that they otherwise may not have.”

Hill’s goal is to have JES in 25 jails by the end of 2014, expanding from there.

“We want jail to be a true corrections facility,” Hill said. “We want to make educational content available to everybody.” ❧

BY MARC ZAREFSKY ILLUSTRATION BY PAUL STERRY

# TAKE THE NEXT STEP

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