Kennedy shoots for the Moon

William Duggan on turning strategic insights into reality • Russell Carson ’67, Henry Kravis ’69 and Dean Glenn Hubbard reflect on the development of the private equity industry • Building a communications arsenal to bail out a brand in a crisis • Rohit T. Aggarwala ’00 on leading for a green future
ONLINE:

New Web Site Launches
Columbia Business School is proud to announce the first phase of our Web site relaunch, featuring Public Offering, the Columbia Business School blog. We welcome your participation in the School’s online community through both comments and contributions.

www.gsb.columbia.edu
“I got into the business totally by accident. . . . It was a very small, very collegial industry.” Russell Carson ’67 on his entrance into the private equity industry. Page 22.

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Dear Alumni:

Since its inception nearly a century ago, Columbia Business School has been successfully producing graduates who excel in diverse organizations and positions of leadership around the globe. We have accomplished this, in large measure, through constant innovation in our curriculum, programming, research and support technologies. A recent example that is creating a palpable buzz at the School is Public Offering, our first-ever blog, which we unveiled this January. The blog features faculty, student and graduate opinions on real-world business issues and is being welcomed as a lively forum for conversation for the School’s community.

Innovative ideas take center stage in this issue of HERMES. In an excerpt from his book *Strategic Intuition: The Creative Spark in Human Achievement*, for example, Professor William Duggan demonstrates why nurturing the instinct to identify and seize opportunity may be more effective than conventional approaches to strategic planning. The book is the first published by Columbia Business School Publishing, the new imprint of Columbia University Press.

Columbia CaseWorks, initiated in summer 2006, supports the development of new teaching materials closely tied to the research and expertise of our world-class faculty. “Brand recovery Communications in the Face of Crisis” is an adaptation of a case in which Professor Gita Johar, the Meyer Feldberg Professor of Business, uses research in consumer psychology to develop a communications framework for responding effectively to a crisis. Also, at a special event held last summer, two of the School’s most prominent graduates, Russell Carson ’67 and Henry Kravis ’69, talked with me about private equity’s early days and about the changes the industry faces today; a transcript of our conversation is featured in this issue. Finally, Endpaper author Rohit Aggarwala ’00, director of long-term planning and sustainability for New York City, gives us a novel perspective on sustainability and explains why “a new bundle of old concepts” requires the best of leadership.

It is no surprise that alumni involvement helps support the development of many innovations at Columbia Business School. Your commitment has long enhanced the School’s reputation and the success of our graduates around the world. Resources like Public Offering and Columbia CaseWorks surely augment that success by expanding discourse, surfacing new ideas and strengthening our ties to the wider business community.

With regards,

Glenn Hubbard
Dean and Russell L. Carson Professor of Finance and Economics
In summer 2006, Stephen Zeldes, the Benjamin Rosen Professor of Finance and Economics, spearheaded the launch of Columbia CaseWorks, an initiative that develops case studies and teaching materials written by Columbia Business School faculty members.

The initiative has already produced more than 15 case studies, including three related cases on corporate social responsibility and values-based leadership that were used to support the Individual, Business and Society curriculum during MBA Orientation in August. “We’re building a library of world-class cases,” says Zeldes. CaseWorks cases are being used internally in the School’s core curriculum. Columbia CaseWorks cases vary in format. Traditional cases provide a detailed write-up of a business decision or issue, while shorter, more analytic cases include a summary or overview of the issue alongside primary sources, such as data sets and research reports. Oriented around real-world questions and decisions, all CaseWorks materials challenge students to make sense of varied sources of information. The initiative is also developing briefs that outline how research bears on important practical business issues.

To learn more, visit www.gsb.columbia.edu/caseworks.

Chazen Institute and CIBER Welcome New Director

In August, Professor Don Sexton was named director of the School’s Jerome A. Chazen Institute of International Business and academic director of Columbia University’s Center for International Business Education and Research (CIBER), a joint initiative between Columbia Business School and the School of International and Public Affairs.

A professor of marketing at the School since 1966, Sexton manages the Chazen Institute’s international outreach initiatives and programming and serves as a key contact for scholars and business practitioners visiting the School from abroad. At CIBER, he works with faculty members, administrators and the business community to advance international curriculum development, speaker events and conferences.

For more information about the Chazen Institute, visit www.gsb.columbia.edu/chazen.
For more information about CIBER, visit www.columbia.edu/cu/ciber.

The School and the University Press Launch Publishing Imprint


The first book published by the new imprint was Strategic Intuition: The Creative Spark in Human Achievement by William Duggan, associate professor of management (see page 10). CBS Publishing released three other titles in 2007 under the new imprint: More Than You Know: Finding Financial Wisdom in Unconventional Places (updated and expanded) by Michael J. Mauboussin, adjunct professor of finance and economics; Sustaining India’s Growth Miracle, edited by Charles W. Calomiris, the Henry Kaufman Professor of Financial Institutions and Jagdish N. Bhagwati, University Professor; and Corporate Risk Management, edited by Donald H. Chew.

For more information, visit www.columbia.edu/cu/cup.
q;otable: “Effective leadership in today’s world means understanding that you can only be as successful as the people you surround yourself with. A great leader gets others to believe in themselves.”

Twee Warner chairman and CEO Richard Parsons, speaking at the School on November 13 as part of the David and Lyn Sitten Leadership Series, which brings some of the most influential people in business to campus for candid discussions on leadership

EMBA Dean Honored by Students. Casing their votes on wristbands, the Executive MBA class of 2007 selected Ethan Hanby ’85, associate dean for Executive MBA Programs, as the recipient of the 2007 Executive MBA Award for Commitment to Excellence. Established by the EMBA class of 1991 as a gift to the School, the award recognizes the person the class most respects, admires, and appreciates for making a difference in the EMBA Program.

BRIDGE Fellowships Increase Practitioner Presence on Campus

In support of the School’s commitment to linking theory to practice, an alumnus who wishes to remain anonymous has established the Building Relationships with Industry and Defining Graduate Education in Business (BRIDGE) Fellowship Program. The fellowship provides funds to two faculty members each year who are developing initiatives aimed at building relationships with industry practitioners. The first recipients are Professors Laura Resnickoff ’76 and Cliff Cramer, who are leading the School’s new programs in private equity and healthcare, respectively.

Resnickoff was named director of the newly established Private Equity Program in September and is expanding the School’s many ties to the private equity industry. Since joining the faculty in 1991, she has developed several related initiatives at the School, including an alumni advisory board and a mentoring program between Executive MBA and full-time MBA students.

Cramer, who has more than 25 years of experience in the pharmaceutical and financial services industries, joined the School in 2006 as director of the Program in Healthcare and Pharmaceutical Management. He continues to raise the program’s visibility within the larger business community and build outside-the-classroom opportunities for students to interact with experts in the field.

Select Recent Speakers on Campus

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<th>Speaker</th>
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<tr>
<td>Vagit Alekperov</td>
<td>President</td>
<td>Citi Foundation</td>
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<td>Ron Johnson</td>
<td>Senior Vice President, Retail</td>
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<td>Jeffry Barclay '83</td>
<td>Managing Director, Acquisitions</td>
<td>Citi, CEO</td>
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<td>Pamela Flairton</td>
<td>President and CEO</td>
<td>AMCO, CEO</td>
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<td>Mario Gabelli '67</td>
<td>CEO</td>
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<td>Frank Blake</td>
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<td>Jamie Dimon</td>
<td>Chair and President</td>
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<td>Jeri Finard ‘86</td>
<td>Former Chief Marketing Officer</td>
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<td>Miek Miles</td>
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<td>Leoel Fernández '85</td>
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<td>Jun Tang</td>
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<td>William von Mueffling '95</td>
<td>Founder, President and CEO</td>
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<td>Steve Stoute</td>
<td>Founder and Chief Creative</td>
<td>Officer, Translation, Consultation &amp; Brand Imaging</td>
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What Does Columbia Business School Mean to You?

At spring, alumni, faculty members and students were interviewed for a short film about the School’s location on campuses classes and executive offices and on the streets of New York, the film captures the breadth and energy of the Columbia Business School community.

Faculty members like Gita Jihor, the Meyer Feldberg Professor of Business, talk about what it means to teach and do research in the laboratory that is New York City. Alumni including Lew Frankfort ’69, chairman and CEO of Coach, Jerry Speyer ’84, chairman and CEO of Tishman Speyer, and Lulu Wang ’83, founder and CEO of Tupelo Capital Management, share their perspectives on leading organizations in today’s rapidly changing world. And students Alison Albeck Lindland ’08 and Jamil Shamasdin ’08 talk about why they chose Columbia and what they find unique about their experience so far.

“Again and again, I hear alumni say that Columbia Business School changed my life,” Dean Hubbard says in the film. How has it changed yours? To watch the film, visit www.gsb.columbia.edu/alumni.
Marketing Professor Wins a Second John D. C. Little Award

For the second time in four years, Olivier Toublat, the David W. Zaslak Associate Professor of Business, received the prestigious John D. C. Little Award. Presented annually by the Society for Marketing Science, a subdivision of the Institute for Operations Research and the Management Sciences (INFORMS), the award recognizes the best marketing paper published in Marketing Science or Management Science.

The paper that earned Toublat the 2006 award is titled “Idea Generation, Creativity and Incentives.” In his research, he focuses on various aspects of innovation and new product development, including idea generation, idea screening, preference measurement and the diffusion of innovation. INFORMS is the largest professional society in the world for the field of operations research.

Columbia Business School Executive Education Hosts China CEO Program

Last August, 35 Chinese CEOs convened on campus for a unique senior executive education program led by Columbia Business School, INSEAD and China’s Cheung Kong Graduate School of Business (CKGSB). The Columbia module followed the second of four, was followed by one at INSEAD’s Fontainebleau campus in October and a final one at CKGSB’s campus in Beijing in December. The first module was held in Hong Kong in May.

Joel Brockner, the Phillip R. Heilbrunn Professor of Finance and asset Management; Noel Juran, assistant professor of decision, and Julian Yeo, assistant professor of accounting, and other constituents will embrace,” Brockner says. “The Columbia module addresses both of these critical executive activities.

The sessions, which covered strategy, finance, leadership, management and culture, among other topics, were led by Bob Bontempo of the Management Division; Noel Capon, the R. C. Kopf Professor of International Marketing; Bruce Greenwald, the Robert Heilbrunn Professor of Finance and Asset Management; Ray Horton, the Frank R. Lautenberg Professor of Ethics and Corporate Governance; Paul Ingram, the Kravis Professor of Business; and Willie Pietersen, professor of the practice of management.

To learn more about Columbia Business School Executive Education, visit www.gsb.columbia.edu/exceed

Alumni Recognized as Leaders in Urban Public Education

Four Columbia Business School graduates were named associates in the Broad Residency in Urban Education, a management-development program for emerging executives pursuing careers in urban public education. The program provides two years of professional development and access to a nationwide network of education leaders.

“I really wanted to combine my commitment to schools as institutions of change with my love of strategic work,” says Carolyn Hack ’05, director of finance at Uncommon Schools, a charter management organization (CMO) that manages nine schools in New York City, upstate New York and Newark, N.J. Fellow Broad associate Lindsay Kruse ’06 is director of operations. “I went to Columbia for social enterprise,” Kruse says, “and realized that I can fight poverty through education.”

Lise Keise Miller ’06, who taught high school science before earning her MBA, is vice president of development at Victory Schools in New York, an education-management organization encompassing charter management, school district partnerships and school consulting services. “This is very entrepreneurial work,” Miller says. “I help design schools from the ground up, setting the stage for really great teachers to be effective in their roles.” The regional vice president for Edison Schools, a CMO in Dayton, Ohio, Quentin Lamont Messers, Jr., MBA, ID ’99, oversees business development and operations in Ohio, Illinois, Michigan, Missouri, Indiana and Arkansas. He also manages two Dayton K-8 charter schools that enroll more than 1,000 students.

Broad associates attend eight executive education sessions across the country. The sessions include case studies on successful management practices in urban school systems and innovative educational initiatives.

To learn more, visit www.broadfoundation.com

Marketing Professor Wins a Second John D. C. Little Award

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“Business today can have a positive effect on both economic development and poverty reduction,” said Patrick Ceecau, group chief executive of Unilever and recipient of the 2007 Botwinick Prize in Business Ethics, in his keynote address at the 2007 Social Enterprise Conference.
A Milestone for Columbia's Manhattanville Campus

In January, public broadcasting icon William F. Baker joined the School as an executive in residence. Baker was CEO of Educational Broadcasting Corporation, the licensee of Thirteen/WNET New York and WLIW21, for more than 20 years, where he helped build the largest endowment in public television history. Baker is the recipient of six Emmy as a television producer and two Alfred I. duPont–Columbia University Awards in Television and Radio Journalism, among many other honors. His new book Leading With Kindness (American Management Association, 2008), coauthored with Michael O’Malley, will be published in August. In addition to serving on four corporate boards and as chairman of the advisory board of the National Park System, Baker maintains a blog, Blog Thirteen. Among other activities, executives in residence serve as guest lecturers in classes and counsel students on their academic and career goals. Established in 1977, the program exemplifies the School’s commitment to fostering connections between students and industry leaders.

For more on the research of the School’s faculty members, visit Columbia Ideas at Work, www.gsb.columbia.edu/ideas.

School Welcomes 14 New Faculty Members

Brett Gordon
Assistant Professor
Marketing

Professor Gordon’s research interests include pricing, market structure, product innovation and replacement, entry models and new products. He earned his PhD in economics from Carnegie Mellon University in 2007.

Anil Khadeedwal
Assistant Professor
Finance and Economics

Professor Khadeedwal studies international economics, development economics and econometrics. He earned his MA, MBA and PhD in economics from Yale University.

James Kitts
Assistant Professor
Management

Professor Kitts’ research interests include organizational behavior, organization theory, social networks, organizational demography and ecology, computer-mediated commerce, and trust and exchange. He was an assistant professor in the sociology department at the University of Washington from 2001 to 2007. He earned his PhD from Cornell University in 2011.

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Bruce Kogut
Sanford C. Bernstein & Co.
Professor of Leadership and Ethics
Management

Professor Kogut served as the Eli Lilly Chair in Innovation, Business and Society at INSEAD and the Dr. Felix Zandman Professor at the Wharton School of the University of Pennsylvania, where he headed the Reginald H. Jones Center for Management Policy, Strategy, and Organization. He earned his PhD from the Massachusetts Institute of Technology. His research interests include technology policy, privatization, strategy and economic sociology. At the School, Kogut also directs the Sanford C. Bernstein & Co. Center for Leadership and Ethics.

Malia Fox Mason
Assistant Professor
Finance and Economics
Management

Professor Mason was a postdoctoral fellow at Harvard Medical School since 2005. She earned her PhD in psychology from Dartmouth College in 2005. Her research interests include perception, social cognition, social intelligence, social cognitive neuroscience, mind wandering and unintended thought, and decision making and preference formation. Mason is also a Decision Sciences Fellow at Columbia University’s Brain Imaging Center.

Emi Nakamura
Assistant Professor
Finance and Economics

Professor Nakamura studies macroeconomics, international economics and empirical industrial organization. She earned her PhD in economics from Harvard University in 2007.

Felix Oberholzer-Gee
Professor
Management

Professor Oberholzer-Gee joined the Management Division in January from Harvard Business School, where he had taught since 2003. From 1998 to 2005, he was an assistant professor of business and public policy at the Wharton School of the University of Pennsylvania. Oberholzer-Gee earned an MA and PhD in economics from the University of Zurich in 1997 and 1999, respectively. His research examines non-market strategy and how societal forces influence firm performance.

Tomasz Piskorski
Assistant Professor
Finance and Economics

Professor Piskorski’s research interests include dynamic security design, real estate finance and dynamic macroeconomics. He earned his PhD in economics from New York University’s Stern School of Business in 2007.

Pierre Yared
Assistant Professor
Finance and Economics

Professor Yared’s research interests include macroeconomics, applied econometrics and finance. He earned his PhD in economics from the Massachusetts Institute of Technology in 2007.

Ko Kuswahana
Assistant Professor
Management

Professor Kuswahana studies online markets and reputation systems, group processes, social networks, economic sociology, experimental methods and formal modeling. He earned his PhD in sociology from Cornell University in 2007.

Ciamac Moallemi
Assistant Professor
Decision, Risk and Operations

Professor Moallemi's research interests include optimization, control of stochastic systems, resource allocation and applications in service engineering. He earned his PhD in electrical engineering from Stanford University.

Marcelo Olivares
Assistant Professor
Decision, Risk and Operations

Professor Olivares’s research interests include supply chain management, empirical research in operations management, applied economics and industrial organization. He earned his PhD in operations and information management from the Wharton School of the University of Pennsylvania in 2007.

David Ross
Assistant Professor
Management

Professor Ross studies strategy, particularly in financial services, and corporate governance. He earned his MBA from the Wharton School at the University of Pennsylvania in 1997 and his PhD in economics from New York University’s Stern School of Business in 2007.

School Welcomes 14 New Faculty Members

O n December 19, after an extensive land-review process involving community advocates, Columbia University representatives and officials from all levels of government, the New York City Council approved Columbia University’s plans for expansion into the Manhattanville section of West Harlem. Once construction is completed, the School will move into a state-of-the-art building on the new campus. Although there is much yet to do, the way has been cleared and the opportunity is ours to seize,” said Dean Hubbard in a letter to the School community. “The new facility will transform the way we bring together alumni business practitioners, students and faculty, thereby leveraging both our unparalleled network and our pre-eminence in bridging academic theory with real-world business practice.”

To learn more, visit www.neighbors.columbia.edu/pages/manplanning/index.
The JFK-led drive to put the first man on the moon remains one of the most astonishing and far-reaching accomplishments of humankind. In an excerpt from his recent book Strategic Intuition (Columbia University Press, Columbia Business School Publishing), William Duggan shows why nurturing the instinct to see and seize opportunity will always trump conventional notions of strategic planning for business and personal success.

**Progress Through Opportunity**

America gave the world the philosophy of pragmatism and also its opposite. Our pilot course on strategic intuition begins with students picking which statement they agree with more, A or B:

A: You can achieve anything you want if you believe in yourself, set clear goals, and work hard.

B: You can achieve many things if you prepare for opportunity, see it, and act on it.

Pragmatism and strategic intuition lead to B. But most students answer A. In workshops with business executives, army officers, and nonprofit leaders, the results are the same: A. Non-Americans tend to answer B more, but the longer they've been in America the more they seem to answer A.

Why is this? Once you think through A word by word, you cannot possibly agree with it. Where did this idea come from? It clearly has a strong appeal. There must be something to it despite its apparent error.
A: You can achieve anything you want if you believe in yourself, set clear goals, and work hard.

The precise origin is very hard to pin down. In written form we can go back to Horatio Alger's stories of poor boys rising in life through hard work, courage, virtue, and determination. Alger wrote dozens of these tales, from 1867 until his death in 1899. He was the most popular American author of his time. In most of his tales, a boy rises from nothing to a good job in a good company, usually with the help of a rich older man, as reward for some selfless deed. But we also find Alger's 1981 biography of James A. Garfield, From Canul Buoy to President, a true story of a poor boy who became the president of the United States. Overall Alger's boys became folk heroes of the rags-to-riches, can-do American dream.

The tradition continues well into the twentieth century, with advice attached to the stories: Napoleon Hill's Laws of Success (1929), Norman Vincent Peale's The Power of Positive Thinking (1955), and Anthony Robbins' Unlimited Power (1987). Robbins and his many imitators run popular workshops to drive the message home: with the right attitude and a lot of hard work, you can achieve anything you want. The good side of this tradition helps you develop a positive feeling about yourself and what you can achieve. The problem arises when you move from a feeling to actual strategy: your dreams must conform to reality, to the particular Karma you face. Horatio Alger and his descendants endorse the can-do American spirit, but they did not invent it. The earliest source seems to be the legend of Columbus, our first great American dreamer. When the United States won its independence, they had not invented it. The earliest source seems to be the legend of Columbus, our first great American dreamer. When the United States won its independence, a popular movement arose to rename the country "Columbia" in his honor versus the colonial name "America." Columbus does stand out in the history of human achievement but for reasons very different from the legend itself.

Columbus dreamed of sailing west from Europe to Japan. Portuguese and Spanish scholars argued that he could not possibly do it. The scholars knew from astronomy the distance around the earth, and they knew from Marco Polo's journals the distance from Spain to Japan. The scholars calculated that sailing west from Spain would take forty-five weeks to reach Japan. In those days a ship could carry supplies for only nine weeks of sailing. The scholars concluded, correctly, that Columbus would run out of supplies long before he completed the journey of forty-five weeks. Columbus did not listen. He presented his own calculations that showed Japan was only nine weeks away. Those calculations were wrong. But the Spanish king and queen sided with Columbus. After nine weeks at sea Columbus struck land. To his dying day he believed it was Japan. Despite his colossal error and blind luck, Columbus became the first hero of the great American dream. Columbus serves as an amazing example of A, not B, in our opening exercise. But what does that tell us about human achievement? We find much to admire in his positive attitude and determination. But do we really want to ignore all evidence from past experience and set out across the ocean, hoping for an unknown continent to suddenly appear and save us?

The Columbus legend took off for another reason too. America became a prosperous place where poor Europeans found no feudal system to hold them down. The tremendous economic growth of America in the nineteenth and twentieth centuries made these Europeans rich far beyond the prospects they left behind. Recent immigrants from other continents find the same thing. In America, for vast numbers of people, dreams really have come true.

A more recent version of the Columbus legend is President Kennedy's race to the moon. He had an impossible dream. His determination made it come true. In his book The Moon and the Ghetto (1977) the economist Richard Nelson asked why America can't achieve as much in the social realm.

Thirty years later Nelson continues to work on the problem at the Consortium for Science, Policy & Outcomes. Nelson recalls:

Many years ago, I got interested in what people were then calling "the moon and the ghetto" problem. This was the commentary in the late 1960s: "if you can land a man on the moon, why can't you solve the social problems of the ghetto?"

To answer this question we need to look back at the origin of Kennedy's strategy. Did the idea for landing a man on the moon come from an ambitious dream, or was it yet another case of strategic intuition?

On May 25, 1961, after four months in office, Kennedy gave a speech on Urgent National Needs to both houses of Congress. He announced to them and to the world:

I believe that this nation should commit itself to achieving the goal, before the decade is out, of landing a man on the moon and returning him safely to the earth . . . But . . . it will not be one man going to the moon—it will be an entire nation. For all of us must work to put him there.

And so began the Apollo program. It succeeded on July 20, 1969, when Neil Armstrong set foot on the moon.

That was six months ahead of Kennedy's deadline. It was a thrilling example of a dream, a clear goal to make it come true, a great effort to reach the goal, and a success right on schedule. Surely this is A, not B.

But our study of strategic intuition gives us one more question to ask. Where did Kennedy get the idea? In the same speech to Congress he also said:

Recognizing the head start obtained by the Soviets with their large rocket engines, which gives them many months of lead-time, and recognizing the likelihood that they will exploit this lead for some time to come in still more impressive successes, we nevertheless are required to make new efforts. For while we cannot guarantee that we shall one day be first, we can guarantee that any failure to make this effort will find us last.

At the time of Kennedy's speech the Soviet Union already had the goal of landing on the moon. As Kennedy said, the Soviets had many months of lead time. The Soviets sent the first object into orbit—Sputnik on October 4, 1957—and the first human into space and into orbit—Yuri Gagarin on April 12, 1961. Two days after Gagarin's flight the U.S. House Committee on Science and Astronautics called an urgent hearing. Here is an exchange between Congressman David King of Utah and Robert Seamans of NASA:

KING: I understand the Russians have indicated at various times that their goal is to get a man on the moon and return safely by 1967, the fiftieth anniversary of the Bolshevik Revolution. Now specifically I would like to know; yes or no, are we making that a specific target date to try to equal or surpass their achievement?

SEAMANS: . . . our dates are for a circumlunar flight in 1967 and a target date for the manned lunar landing in 1969 and 1970.

KING: . . . then that outlines the issue very squarely. As things are now programmed we have lost.

Before Kennedy became president, NASA already had a plan to land on the moon, and the Saturn rocket was the means to get there. The German rocket scientist Werner von Braun developed the Saturn, starting in 1957. The plan to reach the moon advanced in the Eisenhower years. In January 1961, two weeks before Kennedy's inauguration, George Low led a NASA team to lay out the steps in detail for a short earth orbit in 1961, three astronauts for longer orbits in 1965, three astronauts for a moon orbit in 1967, and a moon landing in 1968–1971. This was the timing that in the hearings King of Utah declared too late.

A few days after the hearings, Kennedy wrote a memo to his vice president, Lyndon Johnson, asking this:

1. Do we have a chance to beat the Soviets by putting a laboratory in space, or by a trip around the moon, or by a rocket to land on the moon, or by a rocket to go to the moon and back with a man? Is there any other space program which promises dramatic results in which we could win?

2. How much additional would it cost?

3. Are we working 24 hours a day on existing programs?

If not, why not? If so, will you make recommendations to me as to how work can be speeded up.

In the end, Kennedy decided to go for the moon landing. He was clearly on a pragmatic search for the best combination of existing elements, especially the Saturn rocket.

B: You can achieve many things if you prepare for opportunity, see it, and act on it.

...
A month and a day after his memo Kennedy made his big speech. He and NASA expected the Russians to get to the moon in 1967 and the United States two years later. Neither the goal to land on the moon nor the plan to get there was Kennedy's idea. His speech was a request to Congress for extra funds to speed up the plan. Nobody knew at the time that the Soviet Union would miss their target and never reach the moon.

Kennedy did not dream the impossible dream. He brought forward elements from the past that showed the way to a reachable goal. He looked for a dramatic program where he had the means to succeed. It was a fine example of pragmatism in action. That's B, not A, in our opening exercise. Yet Kennedy's move took personal courage, in line with Alfred Einstein's advice to a young scientist: “One must develop an instinct for what one can just barely achieve through one’s greatest efforts.” Kennedy displayed that instinct, which we recognize now as strategic intuition. And Kennedy had the resolution to overcome the obstacles that stood in the way of achieving his goal.

The Columbus legend, the Alger stories, the immigrant dream, Kennedy's race for the moon, and the writings of Hill, Peale, and Robbins all give you a positive message about striving for success. They inspire you to persevere and keep your chin up in the face of adversity. That's good. But for strategy the popular understanding of these stories gives you the wrong idea. These stories imply that you can do anything and that when you do succeed it's all because of you. It's an appealing philosophy because it ignores all outside forces. When things go well you have only yourself to thank. But if you don't achieve your dreams, you have only yourself to blame. When things go badly you go back to another Alger book or another Robbins workshop for another dose of the can-do spirit.

To rescue the can-do idea for strategy we convert our idea of America from a place where dreams come true to a land of opportunity. Of course these opportunities are limited and specific. If we could give the A–B exercise to Americans during the Great Depression, they would probably answer “neither.” It was not a time when you could achieve “anything you want” (A) or even “many things” (B). In those days you could achieve very few things. A few Americans, of course, achieved great success even then, but by finding specific opportunities and not by following their dreams.

Nelson's question—If we can reach the moon, why can't we solve social problems?—takes us back to the same answer as in our other examples of human achievement. You look to specific opportunities, not ambitious dreams, to find the way ahead. Progress follows where achievements take it, not where you want it to go. Evolution in nature works in a similar way, with no set direction beyond the sum of the adaptations of all the species on earth. But human achievement adds an extra element. Innovation in nature comes from a random gene mutation in new offspring, while in humans the innovation comes from a flash of insight in a specific human mind.

Progress in human affairs comes through opportunity, when someone sees it, seizes it, and turns it into reality. We cannot predict what opportunities will arise and whether anyone will see them, so we cannot predict the course of human progress. But at least we know how that progress works. Strategic intuition appears in and applies to a wide range of fields, through centuries and around the world. Flashes of insight tell a hidden story of human achievement. The opportunity for achievement arose not just as an opening, like a gap in the wall. It came as a combination of past elements that can fill the opening as well. Without those elements the opportunity does not exist.

William Duggan is associate professor of management at Columbia Business School. To learn more about this book, visit www.strategic-intuition.com.

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For more on the latest faculty research, visit [www.gsb.columbia.edu/ideas](http://www.gsb.columbia.edu/ideas).
JetBlue was the target of much adverse attention after a series of storms on Valentine’s Day 2007 halted air traffic in the eastern United States. While most airlines cancelled flights in anticipation of the storm, JetBlue opted to allow passengers to board their planes and wait for conditions to improve. When the weather only got worse, planes ended up frozen on tarmacs, with passengers stuck on the planes for up to 11 hours. How should JetBlue have responded to the criticism and negative publicity that inevitably followed? (See page 20.)

The incident that sets off a crisis could seem minor but also could be magnified by circumstances. In the case of Procter & Gamble (P&G), distributors of a competitor’s brand, Amway, spread a rumor that P&G donated large amounts of its revenues to the Church of Satan. As fanciful as this rumor may sound, it has troubled P&G’s management for decades and led to several lawsuits. P&G says it has sustained major losses, including hundreds of millions of dollars in sales and other damages.

When a crisis hits, consider how severe it is from the viewpoint of current and potential customers. Will customers classify the event precipitating the crisis as serious? What will the media slant be, and how will this influence customers’ perceptions?

If the firm has shown no pattern of crisis-prone behavior, then consumers are likely to first question why and how the event happened. Consumer-psychology research helps us understand the best way for a firm to respond in different types of crisis situations, depending on the response to these key consumer queries:

**IS THIS TRUE?** Customer beliefs about the event are likely to be based on whether someone they know experienced it, where they saw or heard about it (source credibility), how often they are exposed to it and how plausible it is that the brand would behave that way.

**WHO IS RESPONSIBLE?** Consumers are likely to blame the brand for the transgression if they already do not like the brand, are not committed to the brand or do not trust the brand; if the crisis is severe; or if there is no easy-to-explain alternative.
Was it intentional? Did the firm act on purpose? Or was it unaware of what was happening? Could it have averted the crisis? Consumers will get their answers from media reports and from their own feelings toward the brand, the brand’s history and the likelihood of innocence. These answers will determine how hard the brand needs to work to regain consumer trust.

Will this type of thing happen again? Consumers who have had prior positive experiences with the brand and like it are more likely to forgive it, provided they feel the transgression won’t happen again. If consumers believe there is a recurring pattern of transgression, they are likely to leave the brand altogether, even if the crisis is not very severe. In the case of New York–based ice cream chain CremaLita, the continued misstatement of its product’s fat content led to severe short-term drops in sales and the closing of more than half of its Manhattan stores during the year of the crisis. (See page 21.) Ironically, severe crises may be perceived as relatively rare, and consumers are apt to believe that a negative event of great magnitude is less likely to happen again.

What does this event say about the brand? If other companies have had similar problems, consumers may not make sweeping generalizations about the brand. If other firms haven’t had similar problems, a halo effect may ensue, where an isolated negative event with direct implications for only one feature of the brand spills over to affect beliefs about other features. The halo effect is especially likely with customers who are less loyal and less committed.

Communications Arsenal

Your communications strategy should provide consumers with answers to the questions posed above. The answers you provide depend on whether the information provoking the crisis—the transgression—is objectively true or not.

The “Come Clean” Response If the company is clearly at fault and the crisis is severe, apologize and accept responsibility, communicate all the bad news at once and do not try to minimize the situation. If the transgression was unintentional, explain this by communicating policies and procedures that should have prevented the crisis, and discuss how you will prevent these types of events from occurring again. If your message is compelling, customers may have an even stronger affinity for the brand than they did before the crisis hit.

In severe cases, corrective action may be necessary to reduce perceptions of responsibility and intentionality. The content led to severe short-term drops in sales and the closing of more than half of its Manhattan stores during the year of the crisis. (See page 21.) Ironically, severe crises may be perceived as relatively rare, and consumers are apt to believe that a negative event of great magnitude is less likely to happen again. If the firm acts on purpose? or if the crisis is severe and likely to receive a lot of media coverage.

The “Polish the Halo” Response Firms need to be vigilant and guard against spinoff from features of the brand that are central to the crisis to other features. Polish the brand image through advertising and PR activities that emphasize the positive aspects of the brand without seeming to excuse the transgression in any way.

The polish the halo strategy has the advantage of working even when customers invest less attention in the specifics of a crisis, making this option a viable choice in less severe cases. This strategy is important to use with uncommitted customers, who are far less likely to refute negative messages themselves.

The “Not Just Me” Response The transgression may not be unique to your brand. Provide cues that help consumers construct a story line that absolves your brand of sole responsibility for the event. For example, could market conditions have provoked this crisis for any competing brand as well? This message can help consumers put the transgression in perspective and thus lead the way to brand forgiveness. This not just me response should be especially effective with committed customers, who are prone to provide counterarguments themselves and need only be provided with information cues.

The “Yes, But …” Response This response involves explaining the reasons for the crisis and/or downplaying the damage done and can be used only when the accusation is valid and the crisis is not severe. Justification is especially needed when responding to customers who are less committed to the brand. Combine this strategy with a polish the halo strategy.

The “No, Not I!” Response If the accusation against the brand is not true, denial could be a useful strategy if target consumers are committed to the brand and do not perceive the crisis as severe. Denial has to be plausible. Providing a narrative that absolves the brand completely and underscores the trustworthiness of this message is key. This strategy will be most effective for responding to committed customers. The polish the halo approach may be more effective with customers who are less committed.

Denial should be used only if the accusations have gained traction, are clearly linked to the brand and are widely reported in the media. Otherwise, denial could be seen as an admission of guilt.

The “Rebuttal” Response When consumers believe that they personally are at risk (for example, from previously unannounced side effects of prescription drugs), brands should respond with a point-by-point rebuttal. A severe crisis requires a fast response with complete information to help customers rebut the accusation if it is invalid. Ignoring the attack, even if it is not valid, could sink the brand.

Even highly committed customers have been shown to react negatively when a crisis is severe. In such cases, help consumers integrate the counterarguments by framing them in a way that is similar to the framing of the attack.

The rebuttal response also works for crises that are not severe but are in danger of being perceived as severe by customers who are less committed. Committed consumers spontaneously question the validity of an attack and are less likely to need help generating counterarguments.

The “Inoculation” Response This strategy requires anticipating a crisis and preparing consumers for it by giving them counterarguments that point out that the attack is not valid or not important or not indicative of the true nature of the brand. An inoculation message acts like a vaccine, preventing the “crisis virus” from attacking the brand. It fortifies consumers’ confidence so that they won’t believe the crisis is as severe as it will be made out to be in the media. This strategy is particularly effective if the crisis is severe and likely to receive a lot of media coverage.

The “Attack the Accuser” Response If the accusation is severe, it may be necessary to attack the accuser to decrease the credibility of the claim. If the unjustified claim originated from a competitor and then took off, the brand could bring this to light and show that vested interests are at work. This strategy is best used in small doses; it could backfire if it is viewed as being unfair or defensive.

Communications can defuse a crisis by helping consumers understand why it happened and by providing a clear and cohesive narrative that answers their questions in a compelling way. By choosing wisely from the communications arsenal arrayed here, you can stave off backlash from consumers and even bolster your brand.

Gita Johar is the Meyer Feldberg Professor of Business in the Marketing Division at Columbia Business School. Coresearcher Matthias Birk is a doctoral student in Marketing at the School of Business and Economics at the Humboldt University of Berlin. Coresearcher Sabine Eismiller is professor of communication management at the University of Applied Sciences Northwestern Switzerland.
JetBlue Airways

JetBlue faced a serious crisis when, on Valentine’s Day in 2007, passengers were stuck in planes for up to 11 hours. By using a come clean response coupled with a polish the halo strategy, the company prevented lasting damage to its reputation.

J etBlue is a low-fare passenger airline that began operation in 2000. Based in New York, it offers approximately 500 daily flights to 50 destinations and has a market capitalization of about $2.4 billion. In a February 2007 survey by the Consumer Reports National Research Center, just 50% of those surveyed gave JetBlue a high rating. In contrast, JetBlue moved swiftly to own up to its failures, ultimately resolve it with some personnel changes. In stark contrast, JetBlue’s outdated information system was unable to handle calls from customers who were trying to reserve seats on future flights; many customers were unable to get through to the reservation system, and those who did had to wait more than an hour on the line. The company did not have a computerized system in place for recording and tracking lost bags, so bags returning from the stuck planes piled up. Some passengers had to wait for up to three days to reclaim their luggage.

CRISIS: VALENTINE'S DAY DELAY WITH PASSENGERS STUCK IN PLANES, FEBRUARY 14, 2007
On Valentine’s Day 2007 a series of storms in the eastern United States halted air traffic. Many carriers had already cancelled dozens of flights, but JetBlue’s management allowed passengers to board the planes, anticipating that the weather would improve. But freezing rain and sleet continued, and planes and equipment slowly froze to the tarmac. Customers were stuck in the airplanes and not allowed to leave for up to 11 hours, with little to eat and problematic air and bathroom conditions. After it became clear that the planes would not be able to take off, passengers had to be taken back to the terminal by bus.

JetBlue’s first step was to apologize by personally calling affected customers and providing information on the reasons for the failures. The company’s CEO publicly stated that he was “sorry and embarrassed” and acknowledged that the situation was “unacceptable.” JetBlue offered immediate refunds and travel vouchers for customers stuck on planes for longer than three hours. The CEO announced a new “Customer Bill of Rights” and created a “service guarantee” that includes certain guaranteed vouchers relative to the length of the delay. JetBlue vouched for new investments in weather-related operations, thereby bolstering the company’s customer-friendly reputation.

JETBLUE AIRWAYS

COMMUNICATIONS STRATEGY
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RESULT
Consumer Reports conducted a follow-up survey in April and found that JetBlue’s Valentine’s Day problems had little effect on customers’ overall levels of satisfaction with the airline, with the carrier remaining among the top-rated airlines in the survey. In a BusinessWeek Readers Report passengers involved in the Valentine’s Day crisis applauded the communications strategy employed by JetBlue in response to the crisis. One passenger commented, “Many companies, when faced with such a consumer crisis, first deny the problem, then promise to study the issue, and ultimately resolve it with some personnel changes. In stark contrast, JetBlue moved swiftly to own up to its failures, honestly explain why they happened . . . worked to both fix the problem and mend fences with customers who were harmed.” However, the CEO had to step down in response to the Valentine’s Day crisis a couple of months later, and similar problems have been reported, with passengers delayed for 25 hours in June 2007.

CREMILITA

Cremilita faced a crisis starting in 2002 when it was accused of deceptive advertising. It engaged in a no, not I and an attack the accuser response when a not just me or a polish the halo coupled with a yes, but . . . strategy would have been more effective. As a result, it suffered a severe drop in sales and likely long-lasting damage to its brand image.

C remilita, a family-owned low-calorie ice cream chain, opened its first store in New York in August 2001, with plans to target audiences in “busy metropolitan areas” and to expand through franchising. Within two years of its launch, the company included 10 Manhattan franchises and had made numerous deals with contract feeders and corporate cafeterias. When Cremilita was introduced to the Los Angeles market in late 2003, Variety announced, “Cremilita ice cream has reached near-cult status in New York . . . and now Angelenos can get their paws on the coveted cone, too.”

CRISIS: FALSE STATEMENT OF CALORIES
On October 2, 2002, the New York Times featured Cremilita in its Dining In, Dining Out section in a story with the headline “Fewer Calories Than Ice Cream, But More Than You Think.” After conducting lab tests that found substantially higher fat and calorie values than Cremilita advertised, the Times accused Cremilita of deceptive advertising. Reacting to the Times expose, the New York City Department of Consumer Affairs (DCA) commissioned the U.S. Food and Drug Administration (FDA) to test samples of the frozen dessert. On December 30, 2003, the DCA announced the findings of these tests in a widely quoted press release: “New Yorkers think they’re getting a sweet deal, but in reality they are being fed false claims and three times the calories . . . . What you think is 60 calories is really closer to 300 calories.” The DCA hit Cremilita with 61 counts of deceptive and misleading trade practices, and the company faced $50,500 in fines. On May 4, 2004, ABC News included Cremilita in a story with the headline “Are Some Low-Cal Food Claims Big Fat Lies?” On May 26, 2004, the DCA and Cremilita jointly announced they had come to an agreement, stating that “ . . . certain charges in the initial notice of violation were based, in good faith, on erroneous FDA analyses of the product, and that Cremilita admits no wrongdoing.” The new findings suggested that “Cremilita is not low-calorie (by Federal definition), but it’s not as fattening as the city Department of Consumer Affairs charged.”

COMMUNICATIONS STRATEGY
On the day the DCA announced its charges, chain owner Allison Britz maintained that her stores sold a “good-for-you product.” “I just think their tests are incorrect,” she told the New York Sun. “We don’t think we’re wrong. I’ve tested this stuff . . . . There is no reason for the labs to give us bad tests.” Britz did admit to larger-than-advertised serving sizes, but she attributed this to repeated customer demands. When asked to respond to accusations about deceptive advertising by ABC News in early May 2004, Britz replied in an e-mail statement, “There were serious errors in the FDA methodology leading to a substantial overstatement of Cremilita’s calorie count, fat content and other nutritional information.” When Cremilita reached a compromise with the city on May 26, Ms. Britz stated in her joint press release with the DCA: “We are pleased to reach this agreement with the Department of Consumer Affairs, and believe that the end result will be a win for all consumers . . . . We also hope that our new voluntary level of disclosure and independent testing will become the industry standard . . . . As an industry leader, our goal is to give our customers the highest quality fat- and cholesterol-free ice cream, accompanied by the kind of information needed to make an informed and satisfying choice.”

RESULT
According to Cremilita, sales at stores dropped by 30 percent following the DCA accusations, contributing to the closings of 6 of the 10 Manhattan stores in 2004. Traces of the Times/DCA allegations continue to haunt the brand. When Cremilita opened its first café in Phoenix in early 2007, the first review posted to the online City Guide noted: “NY Times did an expose on Cremilita revealing that the calorie content of their ‘small’ is 3x what they advertised.” The DCA’s initial indict- ment of Cremilita kept many customers away from the stores, according to Cremilita. Some customers—as revealed in personal blogs and local media interviews—felt “betrayed” to hear how fattening a supposedly low-cal snack might be.

Ronnie G. Sacco contributed to the writing of these case studies.
PRIVATE EQUITY

IN THE MIDST OF CHANGE, REFLECTIONS ON PRIVATE EQUITY’S PAST

Alumni Russell Carson ’67 and Henry Kravis ’69 played pivotal roles in shaping the private equity industry. In this edited transcript from a special event on June 18, Glenn Hubbard, Dean and Russell L. Carson Professor of Finance and Economics, talks with these innovators as they reflect on an industry that may be in as much flux today as it was during its formative years.

GLENN HUBBARD
Welcome to what I think will be an extraordinary conversation on private equity.

Economists, of course, pontificate on what could account for America’s productivity improvement. I think much of the agreement is that our markets for risk capital—private equity in particular and venture capital—have helped make the American economy the leading adopter of innovation. At Columbia Business School we’re very much in that business. We are about three things: the power of ideas, talent and network. All three are in strong exhibition tonight.

Russ Carson and Henry Kravis symbolize the modern private equity industry. Their business strategies are different, but both are extremely successful at what they do, they both went to Columbia Business School and they have both been extraordinarily generous to the world around them.

How did you get into this business? How’d you get started? And what are the two or three big changes you’ve seen along the way?

RUSSELL CARSON
I came at it a little differently. Every summer in college I worked at Goldman Sachs, starting as a runner, and then in the research department. I was fortunate; it taught me how to understand best practices and really understand how industries worked. After Columbia I eventually went to Bear Stearns, where I worked with my current partner George Roberts, and with Jerry Kohlberg. Jerry really is the inventor of what is now known as private equity.

In 1965 Jerry did a transaction for a little company called Stern Metals. The owner wanted to sell, but he didn’t want to sell it to a large company, he didn’t want to take it public and he wanted to keep an interest. Jerry had this idea of having your cake and eating it too. Mr. Stern of Stern Metals was able to keep 25 percent, sell 75 percent and turn over the business to a group of people at Bear Stearns. We did a number of deals, one at Bear Stearns, and in 1976 we left to start KKR.

Life is funny. One of the great breaks we had was telling Bear Stearns, “We’re going to go start our own firm and we’d like to offer you half of the firm.” They said no. And thank God.

So off we went. We were three guys and a broom, basically. In 1976 there was no such thing as private equity. We were introduced to Henry Hillman, in Pittsburgh, who helped Kleiner Perkins get started. It was a $25 million fund, and he took half the fund.

We went to a few insurance companies that had invested with us at Bear Stearns. They said, “We think what you’re doing is great. We don’t want to back you, but we’ll be your investment committee.” We just didn’t want to do that. We were entrepreneurs, and we wanted to do our own thing, and not report to the Prudential Insurance Co.

George and I went out to dinner, and we started talking about what we need to get started. We said, “Why don’t we go to eight individuals, we’ll ask them to put up $50 thousand a year, and that will entitle them to see every deal that we do, but if they do like something, they would pay us 20 percent of the profits.” It seemed like a good number.

We cobbled together the $400 thousand from eight people. The first full year, 1977, we bought three companies. Today, over the last year and a half, we’ve raised $31 billion of new equity capital for private equity, all over the world. What has changed is the enormous availability of capital. Deals have gotten much bigger, they’re more complex, they’re global. I remember in 1979, going to Europe,
because Paul Volcker put on credit controls. We had announced that we were going to buy McKesson, and we couldn’t raise any money here because there was no acquisition lending. I flew to London to talk to people, and I just got blank stares from these institutions. How can three guys and a broom buy companies? We couldn’t raise any money.

Today the UK is a huge market. Europe’s a big market, South America, South Africa. It’s a global business. I agree with Russ—we didn’t have a clue that ket, Asia’s a big market, south America, south Africa. It’s a position lending. I flew to London to talk to people, and I just couldn’t raise any money here because there was no acquisition lending. I flew to London to talk to people, and I just couldn’t raise any money here because there was no acquisition lending.

Today the UK is a huge market, Europe’s a big market. Today this is really backed up. They have to go ahead and fund the debt that they have underwritten. The equity is being placed rather easily, and so they’re looking at some debt right now that they’ll have to live with for a while. We’ve had times like this before, where some event caused turbulence, and that’s what we’re going through right now.

HENRY KRAVIS
We’re right in it now. You’ve been reading a lot of articles saying that we’re not going to be able to finance US Food Service, or we’re not going to finance First Data, and so forth. That makes good reading, I suppose. But the facts are that we have firm commitments from the banks. These are commitments that cannot be broken. The banks stepped up to do financings with no covenants. You could raise $20 billion literally over a weekend. They’d fall over each other to underwrite the equity and the debt.

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RUSSELL CARSON
I’ll comment briefly on the change I’ve seen in the last several years. Our scale is somewhat different than Henry’s and our strategy is quite different. We only invest in the healthcare and information- and business-services industries. We have about 30 companies in our portfolio, aggregate revenues of 21 billion, EBITDA of about 4.1 billion and probably employ close to 200 thousand people. This is a very large enterprise.

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HENRY KRAVIS
The thing that is really important as you think about the private equity industry is that it has changed dramatically. In the late nineties we made a lot of mistakes at KKR. I’m not saying it’s good that we made the mistakes, but we did learn from our mistakes, because we changed the way we do business. The first thing we did was to make sure we acted and thought like industrialists. The days of just financial engineering are over. You have to really operate the business. Our whole approach at KKR since 1999 is that our job begins the day we buy a company.

I like to say any fool can buy a company. There’s plenty of financing around. But what do you do with a business to create value? We’ve had an in-house consulting firm since the early eighties, but today we have a very large one. These operating consultants put metrics into every business that we’re involved with, they improve productivity, they shorten the supply chain, they improve sales. We expect everyone at KKR to understand their industry from the bottom up, and talk to purchasing managers, marketing people, salespeople, customers, suppliers, and understand the metrics, understand the best practices, the economic drivers, what drives an industry.

RUSSELL CARSON
The financial engineering increasingly has become a small part. Everybody can do financial engineering. I wouldn’t be comfortable having my name on the door if it weren’t providing something beyond just financial engineering and opportunism. We invest across a very broad spectrum of what we call deal sizes, or deal structures. Our biggest buyout was a $7 billion buyout. On the other end of the spectrum, we did a raw start-up that we put $25 million into a couple of years ago, which we’ve turned into a $350 million profit.

HENRY KRAVIS
You didn’t offer that one to me!

RUSSELL CARSON
It was too small for you! Didn’t have enough zeroes in it to attract Henry.
companies for us in the past. We pay a lot of attention to leadership and management, and it makes all the difference in the world. We control our companies; the hiring and firing decision is ours. And our first choice is always not to run the businesses ourselves, it’s to get the very best people in place to run the businesses, and then support the hell out of them.

HENRY KRAVIS

Eighty-five percent of the returns in the KKR portfolio over the last 10 years came about as a result of improvements in the business. Only 15 percent came about as the result of a multiple expansion.

Where we’ve made mistakes historically is taking too long to change a CEO. We used to think, “He’ll get better, or she’ll get better. Let’s give them a little while longer. If we let them go now, we’re going to suffer in this or that area.” It’s nonsense. Today, we will move much more rapidly to change out the CEO. As soon as we close a transaction, we put in a very detailed hundred-day plan. It goes through every division, it goes through every product line, it goes through every senior manager, and it’s a plan that we agree on with the management. At the end of the hundred days, we audit that plan and look at what we were able to do, what we weren’t able to do, and why, and where we go from here.

Take a company like Willis Group, which is the third-largest insurance brokerage business worldwide, behind Marsh & McLennan and Aon. The numbers weren’t bad. They had a CEO who had been in there for a few years, who was certainly an improvement over the person before. But Willis wasn’t hitting on all cylinders. So we brought in a new CEO, Joe Plumeri. We gave him one instruction: Blow up the culture. To meet with the old CEO you had to make an appointment, and it took a long time to get to see him, even if you were in the company. Nobody talked to anyone, no one patted others on the back. Joe makes a trip around the world with the then CEO, to be introduced to everybody. He comes back to London, and for the first three weeks he had lunch every day in the cafeteria. Everyone thought he was nuts. No previous CEO had ever come to the cafeteria to have lunch. But he wanted to hear what people had to say. What was wrong with the place. What could be improved. All of a sudden, the flow- ers started blooming. He made a call to one of their best salesmen, in Tennessee, who had just made a huge sale. Joe called this man and said, “Hi, I’m Joe Plumeri, the new CEO. I’m calling to congratulate you. What a great job you’ve done.” This person says, “The hell you are,” and he hung up on him. No one had ever called to congratulate him. Joe had to call him back and say, “No, I really am the CEO.” They became fast friends. Joe didn’t have to change a lot of the people. It was just a change of culture and a change of leadership. People started feeling good about themselves and had this can-do attitude.

All of the managers in our companies have invested in the equity in their company. They will have some options on top, but they put up real money in relation to the amount of their net worth. Believe me, it focuses their attention.

Owning a company and focusing management’s attention weekly is a lot different than going to six or eight board meetings a year as a board member of a public company. We don’t care about quarterly earnings. Rather, we like to ask a CEO, “Where do you want to be five years from now, and how are you going to get there?” We surprise people when we ask five years. We want them to make investments that are going to make the company a better business over the long term, regardless of the short-term impact.

GLENN HUBBARD

Henry, you’ve put on an enormous number of air miles going all over the world. Where do you think globally the best opportunities are likely to be over the next decade for private equity? U.S.? Asia? Europe?

HENRY KRAVIS

All of them. I don’t mean that facetiously. We invest all over the world. And we try to create our own ideas. Buying a company just because it’s for sale is a really lousy reason to buy a company. Let’s be on the offense and figure out what are the best companies where we can really add value.

GLENN HUBBARD

Thank you. This was a fabulous conversation. This is a strong connection with the School, with ideas, the talent in this room and the network. So please join me in giving a Columbia Business School thank you to Russ Carson and Henry Kravis.

Russell L. Carson ’67 is general partner of Welsh, Carson, Anderson & Stowe.

Henry R. Kravis ’69 is founding partner of Kohlberg Kravis Roberts & Co.
Dean Glenn Hubbard invites you to attend the inaugural Pan-Asian Reunion “Asia and the World Economy” October 24–26, 2008 Hong Kong, China

Participating Speakers as of December 7, 2007:

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- Cliff Cramer, Adjunct Professor and Director, Program in Healthcare and Pharmaceutical Management
- Bruce Greenwald, Robert Heilbrunn Professor of Finance and Asset Management and Director, Heilbrunn Center for Graham & Dodd Investing
- Jonathan Knee, Adjunct Professor and Director, Media Program
- Chris Mayer, Paul Milstein Professor of Real Estate and Director, The Paul Milstein Center for Real Estate
- Hugh Patrick, Robert D. Calkins Professor Emeritus of International Business and Director, Center on Japanese Economy and Business
- Bernd Schmitt, Robert D. Calkins Professor of International Business and Executive Director, Center on Global Brand Leadership
- Shang-Jin Wei, N. T. Wang Professor of Chinese Business and Economy

Alumni and Top Business Leaders
- Jean-Luc Butel, Senior Vice President and President, Asia Pacific, Medtronic
- Paul Calello ’87, CEO, Investment Bank, and Member of the Executive Board, Credit Suisse

- Russell L. Carson ’67, General Partner, Welsh, Carson, Anderson & Stowe
- Dr. John Gokongwei, Jr., Founder and Chairman Emeritus, JG Summit Holdings, Inc.
- Dr. Seek Ngee Huat, President, GIC Real Estate Pte Ltd
- Henry R. Kravis ’69, Founding Partner, Kohlberg Kravis Roberts & Co.
- Richard D. Stanley ’90, CEO, China, Citigroup
- Washington Z. SyCip ’43, Founder, The SGY Group
- Frank K. Tang ’94, Managing Partner and CEO, FountainVest Partners China Growth Fund
- John C. Tsang, JP, Financial Secretary, The Hong Kong Special Administrative Region (HKSAR) — Opening keynote speaker
- Sir Gordon Wu, Chairman, Hopewell Holdings Limited
- Steven Yung, Chairman, Clear Media Limited

The weekend, which includes a welcome reception, gala dinner and optional cultural tours, will be an unparalleled celebration of Columbia Business School’s global alumni network and thought leadership. We look forward to seeing you in Hong Kong!

For more information or to register for the event:
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Sustaining Leadership
by Rohit T. Aggarwala '00

Sustainability, an alumnus and planning expert argues, isn’t a fad and it isn’t a revolution. Like the Internet, it’s a long-term agent of change that requires companies and cities to make honest assessments about their futures.

These days, sustainability is as inescapable an idea as the Internet was a few years ago. As with e-business then, it’s often unclear exactly what it means to be sustainable: Carbon neutral, to protect the climate? Zero waste, to save the environment? Focused on a triple bottom line of economic, social and environmental goals?

In fact, sustainability is both simple and profound. It means to be prepared for likely external changes, free from self-defeating practices—and honest with yourself about both. Whether it’s climate change, fluctuating energy prices, expiring patents or a target market that’s dying out, a business simply is not sustainable if it faces changing realities in its future that it has not planned for.

Neither is a city. Two years ago, Mayor Michael R. Bloomberg began an in-depth look at New York City’s future. As vibrant and safe as ever, our city will grow by a million people by 2030. That growth will bring both benefits and challenges, including a need for 265,000 new homes, transit lines at capacity, rising energy costs and the very real threat that climate change poses to a city with 500 miles of coastline.

And so we looked at what the city would need to do to head off these threats. The result was a set of 127 separate initiatives we call PlaNYC. Among them: increasing density in some neighborhoods, investing $50 billion in transit, piloting congestion pricing in Manhattan, planting a million trees and retrofitting the 950,000 buildings in this city to be more energy efficient.

These initiatives aren’t easy and they aren’t cheap. But, taken together, they will make New York a truly sustainable city. And they have real payoffs. Better mass transit will ensure that Manhattan can grow as a business center. Trees raise property values and help control flooding. Hybrid taxis won’t only reduce air pollution; they also will save $10,000 a year in fuel costs—each. Firms that undertake energy-saving retrofits will save money, and lowering overall demand will reduce the prices that all New Yorkers pay for electricity.

It took courage for Mayor Bloomberg to advocate the initiatives in PlaNYC, and carrying them out won’t be easy either. But that’s what sustainability requires. It means taking a long, hard look at the facts and facing up to the implications of what you find—not under the circumstances you hope for, but those that are likely. And it means acting on those implications fearlessly.

The Internet didn’t introduce new concepts as much as it forced businesses to rethink fundamentals like customer service, channels and information. Likewise, sustainability is a bundle of old concepts that have taken on a new urgency, requiring a new focus on changing factor costs, long-term trends and the consequences of climate change and risk.

The Internet created new demands and made some business models obsolete; sustainability will do the same. Some companies slapped on a veneer of e-business and avoided actual change. Most of these didn’t last long, but those firms that adapted to the Internet thoughtfully and bravely did well. Today’s companies—like today’s cities—will thrive in the same way if they act with courage and deliberation to meet the challenges of sustainability head-on.

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