

Notre Dame Business



What Lies Beyond

MANAGING IN A GLOBAL ECONOMY



For many years, my father's family operated a small country store in Glenarm, Illinois—along Route 66, midway between Chicago and St. Louis.

It was a past generation's view of a mini-mart or rest stop. They sold comic books and soft drinks and lunch meat by the slice. There were two gas pumps out front and four rental cabins in back.

Day after day, my Dad's family pumped gas and served up Coca Cola in bottles to weary travelers. Sometime in the late 1950s, the state built a new highway, Interstate 55. And there was no off ramp leading to the store.

Their business declined. One day they were filling up gas tanks and tidying up gas tanks and tidying up gas tanks and tidying up gas tanks; the next, the highway passed them by.

Today, nearly a half century later, this same scenario seems commonplace. Many Americans who thought they would follow their parents into factories and foundries now find those businesses closed. High-tech workers in the U.S. look over their shoulders at increasing competition from overseas professionals. Many Americans feel vulnerable and uneasy as they look to a future that seems dominated by forces beyond their control.

For others, change has brought great promise and opportunity. My dad, Edward Murphy, left the family store to become a lawyer and taught in the law school at this university for 37 years. More recently, average Americans find themselves conducting business on a daily basis with people in countries all over the world. Some multinational corporations, small companies and entrepreneurs are experiencing remarkable growth and prosperity. Others are trying to reinvent themselves for survival.

One thing is for sure. With technological advances and the acceleration of global trade, the future will hold more change—not less.

This issue's cover story deals with the challenges of globalization. Weighing these issues from Notre Dame, let us be mindful of what the U.S. Catholic Bishops wrote in their pastoral letter on the economy in 1986: "Our faith calls us to measure this economy, not by what it produces but also by how it touches human life and whether it protects or undermines the dignity of the human person. Economic decisions have human consequences and moral content; they help or hurt people, strengthen or weaken family life, advance or diminish the quality of justice in our land."

—Mary Hamann

Notre Dame Business

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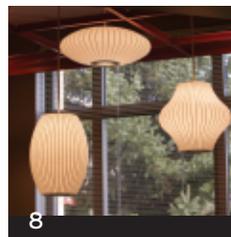
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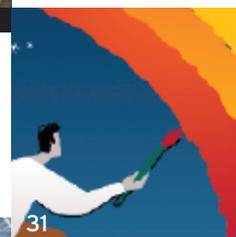
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College News

Executive Education Explores the European Union in Brussels

Immersion is often the best way to learn. In July 2004, a new international immersion course gave Executive MBA students a chance to dive head first into understanding the European Union (EU). Students spent a week in Brussels and Luxembourg exploring political, economic and business aspects of U.S. relations with the EU. They came away with a newfound appreciation for the intricacies of doing business in Europe, including the mutual misconceptions that sometimes hinder trans-Atlantic partnerships.

One of the program's goals was to increase awareness of cultural differences, says finance professor Edward Trubac, who organized the trip along with Associate Dean Leo Burke and EMBA Director Barry Van Dyck. "The idea that one has to be sensitive to the culture of the person you're dealing with made an impression on the students," says Trubac. "To use the language that we learned—we've got to move from being ethnocentric to ethnorelative."

It's a lesson worth taking home, as the EU now encompasses 25 member



Pamala Van Dyck

states and 450 million people. Since introducing a unified currency in 1999, the EU has made major strides towards forging a single market and a stronger political voice for Europe. This evolving, dynamic economic union accounts for around one fifth of the United States' bilateral trade, nearly \$1 billion a day.

Program sessions covered topics from the EU's growth to competitive policy, lobbying and capital formation in Europe. Panels featured top-level executives as well as scholars, diplomats, journalists and representatives of the European Commission. "As time progressed, our students began to appreciate the complexity of the EU," Trubac says. They also learned that the alliance affords many opportunities to create wealth and jobs on both sides of the Atlantic.

One of the most meaningful moments came when participants toured German

and American graves at a World War II cemetery in Luxembourg. The stop explained the EU's origins as a supranational body, created in the 1950s to prevent any future wars between member countries. Says Burke, "the emotional and visceral impact of seeing acre after acre of white marble crosses...brings home in a very vivid way why what is often criticized as a bureaucracy in Brussels has got to work."

Plans to repeat the European experience are already underway. The upcoming July 2005 trip is required for students in the South Bend EMBA program. Chicago EMBA alumni can also attend upon completion of their studies. In addition, experts on the European Union now come to campus to teach intensive courses for undergraduates and MBA students. ■

—Elizabeth Station

Professor Jerome Sheridan ('83)



Matt Cashore ('94)

EU CONNECTIONS ON CAMPUS For junior Kiki Stastny, learning about the European Union is more than an academic exercise. Just last summer, her father, Peter Stastny, a former United States hockey star, was elected to represent his homeland Slovakia in the European Parliament, a political body which helps set policy for the European Union. Helping Kiki and other Notre Dame undergraduates navigate the complexity of the European Union and its trade relationship with the United States is Professor Jerome Sheridan (ND '83), who came to campus in June 2004 to teach an intensive seminar on the European Union. An economist, Sheridan has spent the last 13 years living in Brussels and teaching college students about the European Union.

New MBA Curriculum

As Notre Dame MBA rankings rise, the school is launching a new MBA curriculum starting in Summer 2005, offering rigorous coursework, integrative learning, values-based leadership, and off-shore study.

"From the outset, we wanted to develop a curriculum that could take us to the next level," said Associate Dean Ed Conlon, who spearheaded the effort. "We looked at what the other quality programs were doing...We also talked at length with recruiters to identify both how they currently perceived our strengths and weaknesses and also what competencies they would most value in our graduates."

Two seven-week modules separated by a one-week segment and break week (7-1-1-7) will replace the traditional semester construct, providing students greater flexibility in choosing courses. Students may take electives or study abroad during the one-week break and one-week interim session, traveling to Europe or China. A seven-week study option in Santiago, Chile, will continue to be available.

Classes being added to the curriculum include: cost accounting, a second finance course, integrative problem solving, leadership, values in decision making, presentation communications, strategic information technology, and a non-credit professional development seminar.

An MBA curriculum review has been ongoing for a few years, culminating in 2004 with fact finding by the Academic Affairs Committee of the MBAA, "exit" focus groups with graduating students, faculty surveys, deliberations by the MBA Curriculum Committee, and approval of a new curriculum by the College Council in October.

"I feel that the program is poised to produce a next great wave of business leaders who are both ready to solve problems and ready to serve humanity," Conlon said. ■

—Rachel Reynolds

Mendoza Jumps five places to 24th in *BusinessWeek* survey

The Mendoza College of Business MBA Program rose five spots to 24th in *BusinessWeek* magazine's biennial survey of the top 30 business schools in the nation released in October 2004.

Northwestern University's Kellogg School of Management was ranked first.

Notre Dame's five-place jump in the rankings tied with Purdue and Georgetown Universities for the greatest improvement. Notre Dame was rated sixth in addressing ethical issues in business and ninth in its rapport with corporate recruiters.

The *BusinessWeek* methodology involved surveying 2004 MBA graduates and corporate recruiters as well as evaluating the intellectual capital of business school faculty. ■

U.S. News & World Report Recognizes the Mendoza Undergraduate Program

Notre Dame's undergraduate business program was ranked 20th nationally in a survey published in August 2004 by *U.S. News & World Report*. Filling in the first five spots were University of Pennsylvania, MIT, California-Berkeley, University of Michigan, and New York University. The annual survey, part of the magazine's *America's Best Colleges 2005* issue, also ranked undergraduate business specialties. Notre Dame's programs rated:

- 9th in accounting
- 13th in management
- 17th in entrepreneurship
- 18th in finance

The magazine's survey methodology involved a peer survey of deans and senior faculty at accredited undergraduate business programs. The 2003 survey ranked Notre Dame 23rd overall. ■

What Will Life Be Like in 2015?

What challenges will business and government leaders wrestle with ten years from now? What do experts now know about science, demography, economics and commerce that can help us plan for the future?

During the spring 2005 semester, the lecture series "Ten Years Hence" will give students, faculty and invited guests a unique opportunity to explore the answers to these and other questions.

"Ten Years Hence" speakers will address a variety of critical emerging issues:

1/14/2005 Seven Revolutions

Erik Peterson, Center for Strategic & International Studies

1/21/2005 The Boomers Approach

Retirement: Policies to Prepare for Growing Old in an Aging America

Robert J. Willis, Ph.D.,
University of Michigan

2/4/2005 Long Range Global Challenges and Their Implications for Business

Jerome Glenn, Co-author,
2004 State of the Future Report,
United Nations University

2/11/2005 The Future of Water

George Oliver, President & CEO,
GE Infrastructure Water & Process
Technologies

2/18/2005 Biotechnology

Dr. August Watanabe, Chairman,
BioCrossroads

3/18/2005 Oil and Peace

Ross Pillari, President, BP of America

4/8/2005 Fundamentalism, Peace & the Middle East

Shibley Telhami, Ph.D.,
University of Maryland

Interested alumni are invited to view available lectures from the series, after they occur, in our online video archive: www.nd.edu/~ndbizmag ■



Dowd to Direct MBA Career Development

Karen Dowd (SMC '71) will draw on a distinguished background in career services as she assumes the role of Senior Director of MBA Career Development in January 2005. She has held directorships at several universities including the University of Virginia's Darden Graduate School of Business where she was a co-founder of the International MBA Placement Directors' Group.

Most recently, Dowd served as practice leader with The Empower Group in New York where she advised more than 200 companies on human resource management, staffing and communication issues. Dowd also taught in the College of Business of James Madison University. She co-authored the book *"The Ultimate Guide to Getting the Career You Want"* (New York, NY: McGraw-Hill, 2004) with Sherrie Gong Taguchi. Joining Dowd in South Bend is her husband, Tom Dowd (ND '71), who will retain his role with the University of Virginia as Senior Director of National and International Programs in the School of Continuing and Professional Studies. ■

Conference Draws Top Accounting Researchers

Mendoza played host to a meeting of accounting minds on September 17 and 18, when the 2004 Review of Accounting Studies Conference (RAST) came to campus. The event, which explored "Financial Statement Analysis and Valuation," drew more than 70 professors from business schools around the nation, along with a handful of doctoral students.

Peter Easton, Notre Dame Alumni/Andersen Chair in Accountancy and director of Mendoza's Center for Accounting Research and Education, organized the event. He is an editor of the journal *Review of Accounting Studies*. It was the 10th event of its kind and the first hosted by the University.

Of 35 papers submitted for consideration, six were selected for presentation and publication in the journal. According to Easton, response to the event and presentations was very positive—four presentations tied in the voting for best paper. All six can be downloaded at the conference website, www.nd.edu/~acctdept/020812/rast. ■

—Becky Wiese



Matt Cashore ('94)

Dean Woo Joins Board of Catholic Relief Services

In March 2004, Dean Carolyn Woo was appointed to the board of directors of Catholic Relief Services, an international humanitarian agency of the United States Catholic Church. The agency serves on five continents in more than 90 countries and has an annual operating budget of \$520 million. Catholic Relief Services is heavily involved in disaster relief efforts, peace-building, HIV/AIDs treatment, and economic and agricultural development. Dean Woo's appointment marks the first time that lay people have been appointed to this board. ■

Empowering Catholic Leaders

Meeting growing needs with fewer resources. Avoiding staff burnout. Integrating Catholic values in increasingly diverse organizations. These are just some of the challenges faced by the leaders of Catholic Charities agencies.

This fall, senior leadership teams of 10 Catholic Charities agencies from across the country gathered at Notre Dame for the first half of a comprehensive two-part program, "From Mission to Service: A Program on Mission-based Leadership and Organization Development."

Underwritten by the University of Notre Dame and designed and taught by senior Notre Dame faculty in business and theology as well as other national leaders, the program offers participants practical insights through instruction, reflection, best practices, and action learning projects.

Forty years ago, nearly all of the Catholic Charities organizations were headed by priests, and now 75 percent of the executive directors are laypeople. "This shift in leadership requires us to attend to Catholic identity in new ways," says Dean Carolyn Woo. "This program results from the collaboration of lay and clerical leaders, and between business faculty and theologians. It is an innovation with spiritual and social significance."

The Catholic Charities network consists of more than 1,400 local agencies and institutions nationwide. They annually assist nearly 7 million people by providing emergency aid, counseling, adoption assistance, housing, and numerous other services. ■



MBA Team Wins \$12,000 in Product Strategy Competition

A five-member Notre Dame MBA team won the championship round of the Fuqua Product Strategy Case Competition at Duke University, taking home a first-place check for \$12,000. In less than 24 hours and working through most of the night, the team brainstormed and presented its strategy to judges on Dec. 4, in Durham, North Carolina.

"They didn't really throw us a curve ball," said Maria Diaz, one of the winning MBA team members, referring to the case they received when they arrived. "Because of that, a lot of the prep work we had done before even leaving for Duke helped us out quite a lot."

Diaz was joined on the winning team by MBA students Jordan Carlson, Jim Ham, David Paredes and Kevin Wolf.

"We're a group of five very competitive individuals," Diaz said.

The Notre Dame second-year MBAs defeated teams from second-place Emory University, Cornell and Harvard universities, and a second team from Notre Dame, composed of first-year students Jenny Baily, David Chow, Sharon Moore and Christine Yoon.

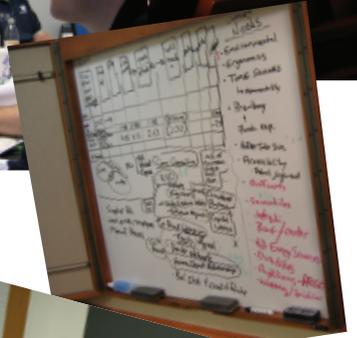
Organized by Duke's Fuqua School of Business, the competition is the first and largest business school case challenge focusing on product strategy. The final case study challenged the participants to help the Lawn & Garden Care Group of John Deere & Company grow at or above industry benchmarks. John Deere executives judged the competition.

"To have two teams in the finals of such a competitive field and then to win was very gratifying," said Associate Dean Ed Conlon. "It speaks very well of the quality of our program to attract students of high caliber and then to provide a business education that enables them to excel as problem solvers. We are very proud of all of our students who participated in the competition."



Matt Cashore ('94)

above left to right:
David Paredes,
Jim Ham, Jordan Carlson,
Kevin Wolf, Maria Diaz



The second-year team, wearing coordinated navy Notre Dame polo shirts to show school pride, was shut in a 7-foot-by-10-foot study room during the competition, pasting sheets of flip charts on the walls to aid their planning.

"There were times when it was really low key," Diaz said. "As time went on, it definitely got more and more intense."

She said the group needed some comic relief now and then: "There were a few times when we got slap-happy," adding that the students cracked up for 20 solid minutes at one point.

"One of the great things about our team was that we were able to move through this process—a pretty stressful process—with very little conflict," Diaz said. "A lot of ideas are going to be shot down...No one's afraid to say, 'I don't think that's going to work.' It makes us much more efficient and productive."

In all, 15 teams participated in the preliminary round of the Fuqua competition. In addition to the finalists, a third Notre Dame team took part along with students from Dartmouth College; Columbia, New York and Northwestern universities; the universities of Chicago, Michigan, Minnesota and Pennsylvania; and UCLA. ■



photos by team members

—Rachel Reynolds and Dennis Brown

John Affleck-Graves: On the Journey Ahead at Notre Dame

Fleeing the violence of apartheid South Africa in 1986, John Affleck-Graves came to Notre Dame to start anew as an assistant professor in finance. He recalls arriving at Chicago's O'Hare Airport with his wife Rita and two young daughters with limited cash and no idea when he would be granted access to his bank account back in South Africa. "Department Chair Howie Lanser (ND '65) drove a van to meet us at the airport and then put us in his mom's home, and had her stay with him until we could get our own place," says Affleck-Graves. "It didn't take me two hours to figure out that Notre Dame is a special place."

According to Professor Lanser, Affleck-Graves' family had already been through quite a bit after thirty hours of travel. "I remember that they were so tired," recalls Lanser. "Rita and the girls slept in the van all the way home from Chicago. I couldn't help thinking how much courage it took for them to leave their homeland."

Eighteen years later, John Affleck-Graves, now a naturalized United States citizen, has risen to the role of executive vice president at Notre Dame, a position in which he oversees all of the business operations at the university.

Described by Mendoza colleagues as gracious and hardworking, Affleck-Graves is also known for a gritty determination. A case in point, he ran two marathons a few years ago—on the same weekend!

Professor Frank Reilly, who has team-taught an applied investment management class with Affleck-Graves for several years, points to his candor as another strength. "If you want to know what John thinks, just ask him," says Reilly. "He'll take the position he thinks is right, and he'll be persuasive in his arguments for it."

Affleck-Graves is determined when he talks about what Notre Dame aspires to achieve. "To say we have an education which is not quite as good as others, but we have this special sense of community, is not enough," he contends. "A student at Notre Dame should experience an education that is as good as any student anywhere in the world—and also the sense of what it means to live in community, to worship in community, and to give back to the community."

Although Affleck-Graves is the first lay person to serve in the role of executive vice president in the University's history,

he is keenly aware of the challenges Notre Dame faces in maintaining its Catholic identity. "Look at the top twenty private universities," he says. "Most of them started as religious schools. And we're the only one that still is. It's not easy. But we have a mission to be the great university in the world where scholars can also talk about issues of responsibility and religion."

Affleck-Graves asserts that Notre Dame's mission is to create the next generation of Catholic leaders. And because the university does not plan to grow undergraduate enrollment beyond 8000 students, he contends it is essential that top students be selected for admission. "It may sound somewhat elitist," concedes Affleck-Graves, "But we need to choose the best students, the students who we think will make a difference ten or twenty years from now."

Affleck-Graves describes himself as fiscally conservative. "Father Ned Joyce didn't like debt and neither do I," he says. He pledges to balance the university's budget every year and never to spend down the principal from the endowment, as some universities have done in recent years. In fact, even with major construction projects planned in the coming years, he is determined to maintain the university's AAA bond rating with Moody's, which requires that the level of debt of a university not exceed 10% of the endowment. Currently, Notre Dame is one of nine universities nationwide to receive this rating.

Even with a myriad of responsibilities, Affleck-Graves says he does not spend time worrying. He oversees an annual operating budget of more than \$650 million, an endowment of more than \$3 billion, and a work force of more than 4,000 employees. He directs the university's many construction projects, while also teaching in the classroom.

He recalls the advice president emeritus Father Ted Hesburgh gave him when he took over this job: "You'll face a lot of tough decisions, a lot of decisions which impact people's lives. We put Mary on top of the dome for a reason. When you have a difficult decision which bothers you, look Mary in the eye. Tell her what you're going to do. And if you can do it without blinking or averting your eyes, it's okay. If you can't, then there's a problem." ■

—Mary Hamann is the editor of *Notre Dame Business*.

John Affleck-Graves often eats his lunch sitting outside the main building across from a bench he affectionately dubs the “Emil Hoffman Bench,” for the retired Notre Dame Chemistry professor.

It’s people like Emil that give John hope as he assumes the mantle of executive vice president. “Emil hasn’t taught a class in over ten years, but he comes to campus most days, has lunch on this bench and holds court with students as he has for so many years.”

A photograph of John Affleck-Graves, a man with short grey hair, wearing a dark blue suit jacket, a light blue shirt, and a yellow and blue striped tie. He is sitting on a black metal bench with wooden slats, smiling at the camera. The background shows a stone building with a staircase and a railing.

Executive Vice Presidents of Notre Dame

Theodore M. Hesburgh, CSC, 1949-1952

Edmund P. Joyce, CSC, 1952-1987

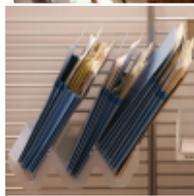
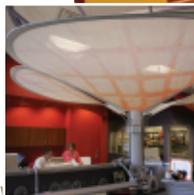
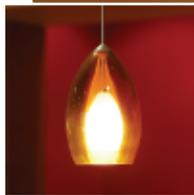
E. William Beauchamp, CSC, 1987-2000

Timothy R. Scully, CSC, 2000-2004

John Affleck-Graves, 2004-

Breaking Down Barriers at Executive Education

Office space must be one of the most prized commodities in business and academics. Understandably, office size and location are often taken as indicators of prestige and importance. On the other hand, office space decisions can be used to break down barriers, physical and organizational, to enable better ways of relating and working. When faced with accommodating a growing staff responsible for doubling executive education revenues in four years, Associate Dean Leo Burke did just that. Giving up private offices, the executive education team embraced an open concept animated by a sense of spirit, creativity, energy and camaraderie. More significantly, it is the Exec Ed team's way to walk the talk and practice the principles of their signature program *Integral Leadership*; a program that integrates our cognitive, emotional, interpersonal, physical, ethical and spiritual dimensions. ■



photos by Matt Cashore ('94)

Faculty Findings



Taking the hint: How a few words can bias accountants' expert testimony

If you're a cynic with regard to the objectivity of our judicial system, take note: new research shows how the outcome of auditor-liability cases can be swayed by just a few quick comments.

In a study of accountant expert witnesses and trial judges published this year in *The Accounting Review*, Professor Dave Ricchiute established a link between attorneys' hints, expert testimony, and settlement verdicts. Ricchiute's first experiment, conducted with partners and managers of a Big Five accounting firm, demonstrated that an accountant's prior knowledge of an attorney's line of reasoning often swayed his expert testimony. A corollary study then found that trial judges' decisions leaned in the direction of the experts' reports.

Despite expressing confidence that accountant experts "come to the task objectively," Ricchiute explains that his research uncovers "the likelihood for unintentional bias." Conflicted testimony violates the Federal Rules of Evidence. And because litigation services have become a significant market niche among practicing accountants, Ricchiute's study suggests implications for further research, practice, and education of accountants and attorneys. ■

—Becky Wiese

The Thorny Knot of Workplace Envy

Dryden called envy "the jaundice of the soul," while for John Churton Collins it was "the sincerest form of flattery." So what do we make of envy in the workplace?

Management Professor Bob Vecchio found the naturally competitive atmosphere of the workplace to be fertile ground for such begrudging behavior. His study, published in *Cognition and Emotion*, is the first to examine both sides of the workplace envy equation: envying and being envied by one's co-workers.

Vecchio concludes that being envied and feeling envious create distinctly different outcomes. While being the target of envy does not correlate with factors such as gender, age, education, self-esteem or job satisfaction, it does correlate with greater job longevity. By contrast, employees who report feeling envious toward others also report lower job satisfaction, lower self-esteem, and lower quality working relationships with supervisors.

His findings also reveal a joint influence of employee Machiavellianism (use of political behavior to seek social advantage) and the quality of the working relationship with one's supervisor, such that an employee who is both highly Machiavellian and enjoys a high quality working relationship with the supervisor is also more likely to be the target of co-worker resentment. ■

—Becky Wiese

Behavioral Finance: Oxymoron?

What if investors do not behave rationally according to longstanding market theory? What if their pervasive psychological biases influence the market as a whole—and markets don't really reflect a correct price?

These questions are at the foundation of behavioral finance, a controversial new area of study. Last October, the Mendoza College of Business Finance Department sponsored a conference with leading researchers in the field from Princeton University, Northwestern University, and the University of Amsterdam, among others.

Some of their findings were provocative:

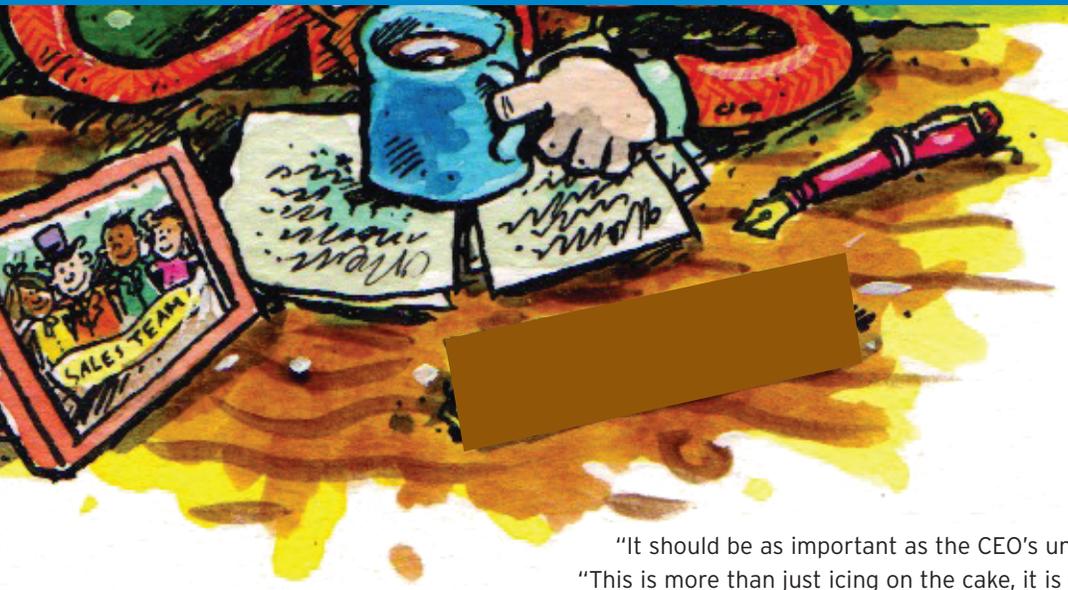
- Because individuals prefer to invest in local businesses, companies will have higher stock prices if they are located in areas with fewer companies and more dollars to be invested. Research shows this bias alone should increase a small company's stock price by 14%.
- Individual investors tend to trade too much and think they are better at picking stocks than they actually are. Men, in particular, are subject to what radio host Garrison Keillor might dub the "Lake Wobegon Syndrome." Men trade more than women do, pay more in transaction costs, and are shown to have poorer investment returns.

While research in behavioral finance is moving into the mainstream, major questions remain about its application to the study of markets. Traditional finance theory holds that the actions of individual investors tend to be random and to balance each other out, so that the markets do reflect an accurate price. Behavioral finance scholars are wondering, what if they don't? ■



—Mary Hamann

The Business of Trust



ABILITY—Possessing the skills to get the job done.

BENEVOLENCE—Caring about the other person.

INTEGRITY—Adhering firmly to a code of moral or ethical values.

Does trust among employees translate into financial performance?
Impact operations and cash flow?
Drive the bottom line?

You bet, says Assoc. Prof. of Management James Davis. He and research colleagues have extensively studied trust and created instruments for measuring it in organizations. He said executives who are worthy of trust and understand its pivotal role in a company have a competitive edge.

"It should be as important as the CEO's understanding of the markets," Davis said. "This is more than just icing on the cake, it is necessary. It is cake."

A recent study by Davis shows that a restaurant chain experiencing 100 percent annual turnover in some of its stores had lower turnover in places "where trust was high for the general manager." Davis said, "We checked accounting returns, and it was a direct correlation between the level of trust, turnover, and total performance."

For years, trust in an organization was considered one of those "soft" intangibles that were nice to have—but not essential—touted in colorful marketing brochures and teambuilding exercises. No more.

"Up until this research, there's been no systematic approach looking at trustworthiness, and trust, and executives' ability to manage trust," said Davis, who advises corporate boards of directors on hiring and firing decisions. "It directly affects the bottom line."

Davis' seminal work entitled "An Integrative Model of Organizational Trust," which appeared in the *Academy of Management Review* in 1995, set the standard for trust research in organizations and discussions in academia and industry.

"The world was ready for it so it took off," Davis said. "And now, everybody builds on that foundation."

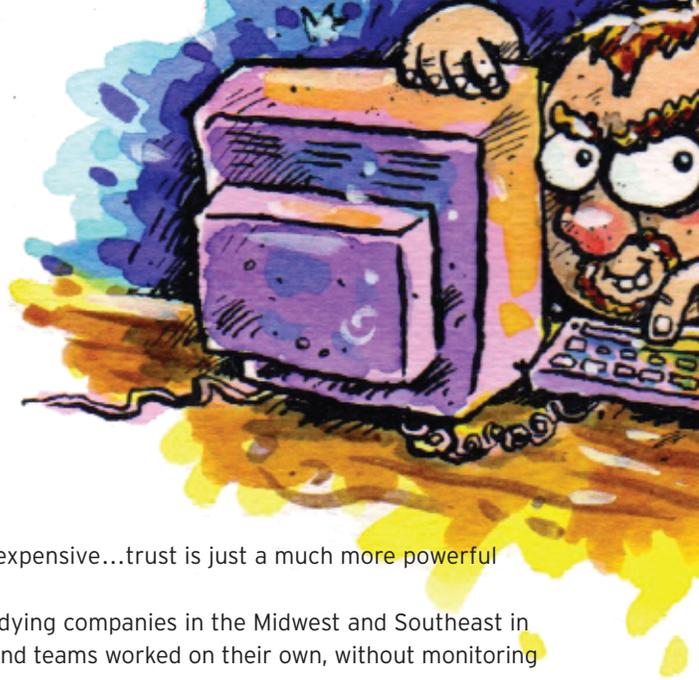
The Conflict Management Division of the *Academy of Management Review* named the study, which has been cited in more than 300 publications worldwide, as the most influential article published in the late 1990's.

In it, Davis and colleagues identified three components of trust—**ability**, **benevolence** and **integrity**—and created scales for measuring these qualities in individuals and in organizations. Are you trusted? Whom should you trust—as an employee, a business partner, a supplier?

Ability is defined as possessing the skills to get the job done. Benevolence is defined as caring about the other person. And integrity is defined as adhering firmly to a code of moral or ethical values. Individuals and organizations that score high on all of these are trusted by their peers and in the marketplace.

If an individual scores high on one or two—ability, benevolence, integrity—and low on the other(s), then risk increases. The other party in the interaction may or may not trust, and, therefore, may or may not transact.

"This model has also been used in strategic alliances," Davis said. "Does this company trust this company? If trust is there, you don't have to go back to the legalistic



remedies... (which) are much more expensive... trust is just a much more powerful mechanism for work."

Davis' research has included studying companies in the Midwest and Southeast in which supervisors were eliminated and teams worked on their own, without monitoring and control.

"They have trust within the company," Davis said. "And so, you don't have that layer of management. So there's cost savings, there's performance increases."

Davis, who also has a graduate degree in psychology, teaches corporate strategy. He teaches students to execute a business plan, and he discusses methods for revealing and improving their ability, benevolence and integrity.

"Showing that you have the ability makes all the difference in the world," Davis said. "It's like when you have a winning football coach, you can get the team to follow that guy to the moon."

He said that benevolence and integrity are important, too. Any attempt to increase one's benevolence or integrity must be sincere and bone-deep. It cannot be an act, a "management technique."

"As a manager, I can affect my employee's perceptions of my benevolence towards them—is that management or is that manipulation?" Davis asked. "It's got to be lasting and sincere to work."

Do employees know the difference?

"Oh, yes. I would say definitely, definitely in the long run," Davis said. "If it's an insincere boss, it (modeling false benevolence and integrity) will actually damage trust. It will make those perceptions even worse. And so it has to be sincere."

Davis is currently using his trust instruments to research organizations with "social capital." He describes "social capital" as employees' willingness to pull together, "if somebody succeeds, there is general joy; if somebody is struggling, people jump in." These organizations are greater than the sum of their parts, and they are the opposite of places where "I am punching the clock and I am outta here."

Where there is trust and communication, there is social capital.

Davis said that social capital—similar to brand equity—can affect the valuation of a company. And he foresees measuring a company's social capital before deciding whether to do an acquisition, merger or strategic alliance, and measuring a management team's social capital before investing venture capital.

Social capital requires trust at the highest levels.

"A leader is absolutely vital to this process," Davis said. "Absolutely critical. You get the right leader, it's amazing."

"We checked accounting returns, and it was a direct correlation between the level of trust, turnover, and total performance."

—Professor James Davis

Professor James Davis has done extensive research on the topic of trust and the components that comprise this virtue. Davis co-authored "An Integrative Model of Organizational Trust," which appeared in the *Academy of Management Review*, with Robert C. Mayer and F. David Schoorman.

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