

CENTER
FOR LEADERSHIP
FORMATION

InSights

Leading for the Sake of *WHAT?* Making Sense of Social Justice in the Marketplace



STEVE E. TITUS, J.D., PH.D.

The health care debate in the United States has been in full force for months and every indication is that the debate will continue vigorously for months to come. The policy, legislative, regulatory, economic and social outcomes of this debate will no doubt have a real and serious impact on the business community; their customers/clients, their employees, their stakeholders, and their bottom lines.

Consider the issue of health care in light of other issues such as energy, sustainability, minimum and fair wages, mortgage finance and fair housing, fair trade and labor standards, a growing migratory workforce, employee benefits and so on, and it adds up to a daunting time, agenda and pace for business leaders. Yet, these are real issues facing the human condition and the business community alike. They are issues of social justice. In the midst of it all, many leaders may be looking in the mirror wondering how to make sense of it all, asking themselves, “for the sake of *what* am I leading?”

This article considers leadership through the lens of social justice. It addresses the role of social justice in the marketplace. This article also addresses how social justice may inform the way leadership is practiced and how it may contribute to the ongoing process of one’s leadership



formation. Finally, the article highlights one organization that has developed and implemented a social justice framework as an organizational priority.

WHAT IS SOCIAL JUSTICE?

One of the challenges in getting one’s arms around social justice as a concept is defining it. Terms like “leadership” and “social justice” are loaded terms, shaped by assumptions, agendas, multiple contexts and various perspectives and

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SEATTLE UNIVERSITY

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MARILYN GIST, PH.D.

As we begin a new academic year, we find that the context for business education has changed dramatically since last September. In addition to a new administration in the U.S., the global recession has shifted our attention from rapacious consumption to greater concern about sustainable approaches to life. Issues frequently in the press include ethical behavior (e.g., executive bonuses), health care reform, environmental protection, and the future profitability of business as a whole. In a sense, these issues relate to the ‘commons’ — the collective to which we all belong.

What exactly should business schools do to prepare students to greet these challenges? Specifically, how can we at the Center for Leadership Formation (CLF) develop leaders who are skillful, adaptable, and motivated to serve the commons as well as their own organizations? What can we build into our programs, and how might we be assured that we are making a difference?

CLF is deeply concerned with “*Thought Leadership*”. Apart from traditional academic research, at which our faculty is strong, we care about raising the tough questions with participants, and having ‘fierce’ conversation about a range of controversial issues. Articles featured in this issue reflect this. You will find thoughtful discussion of a range of topics, including the meaning of social justice, the increase in minimum wage, health care reform, and the connection between human resource policies and strategic management. These articles were written by CLF faculty, associates, board members, and alumni — all of whom share a passion for addressing the tough questions facing our world.

However, we also engage students in direct experience and structured reflection. Our main programs require them to explore parts of their world they have previously ignored and to make sense of their place as leaders in their organizations and in the commons. In doing so, we challenge students to define and refine their own values.

In addition, our students have an impact on their community, whether local or global. As citizens in the community and leaders in their organizations, they undertake projects that have a positive, significant, sustainable impact on the commons. A few examples from this past year include: improving water filtration for a village in Nigeria, employing energy conservation measures in low-income housing, and working with refugee populations to aid their assimilation in our country.

Academic excellence is important to us. However, we differ from many schools in that our education is not neutral on values. Consistent with our mission as a Jesuit institution, we also are concerned with educating the whole person, with professional formation, and with developing leaders for a just and humane world. Given the business crises of the past year and the needs of the commons, we believe that a values-based education is more important than ever.

How do we know if we are succeeding? Graduates of our programs tell us so. Perhaps more importantly, *we find a statistically significant improvement in the leadership competence of our participants between admission and graduation.* As measured by those who sponsor them, and who work for and with them, our alumni gain competence in strategic leadership, interpersonal skills, influence, individual and unit performance, and overall effectiveness. This helps explain why our programs have earned national honors.

We provide an education that makes a difference so that our alumni will make a difference — and we begin our new academic year with excitement.

Marilyn Gist

Director, Center for Leadership Formation

An Economist's Escape Clause: 'Ceteris Paribus'

On July 24, 2009, the federal minimum wage was increased from \$6.55 per hour to \$7.25 per hour, implementing a provision of the minimum wage law Congress enacted in 2007. The increase will have little or no direct effect in the State of Washington, where the minimum wage is already \$8.55. However, the increase has generated an unusual amount of interest, media attention and conflicting analyses, both nationally and locally, because it comes in the middle of the deepest recession we have experienced since the 1930s. The usual arguments about the impacts of minimum wage laws on employment, income levels and equity have been augmented by questions about how or whether the increase will affect the economic recovery that seems to be underway. Some observers are worried that the increase in the minimum wage will slow down or stop the recovery, while others are confident that the increase will speed the recovery. While Washington State may be insulated from any direct employment effects, whatever the effects on the recovery nationally, they will be felt locally. The national debate does have local implications.

Politicians, policy makers, business groups, labor unions, political pundits and many others have weighed in on the debate. Economists have been in the thick of it — on both sides of the argument — since the relevant questions are largely economic questions and the various participants are using (or mis-using) economic arguments to make their case. Some economists are predicting that the increase in the minimum wage will reduce employment in low wage sectors, thereby increasing the unemployment rate, reducing economic



JOHN ESHELMAN, Ph.D.

growth and slowing the recovery. Other economists are predicting the increased wage rate will increase disposable income among lower income households, a segment of the population that spends all or nearly all of its income, thereby increasing consumer demand and adding fuel to the recovery. This seeming disarray

among economists is conducive to lively argument, but it also helps keep economists neck and neck with lawyers as the butt of the most jokes. So what do these apparently mutually exclusive predictions about the impact of the minimum wage tell us about economic forecasts, why economists disagree, and what they disagree about?

What do economists agree on?

They generally agree on the basic economic relationships. In

the case of minimum wage legislation, most economists agree on the direction of effects, i.e., that (1) higher wages will cause employment in affected industries to be lower than it otherwise would have been, and that (2) at a point in time, low income households are likely to spend a higher percentage of their income than high income households, though this may not hold true over longer time periods. Where they disagree is on the size and timing of the effects; that is, which effect will dominate and when. One might expect that the hundreds, perhaps thousands of empirical studies since the first federal minimum wage law was enacted in 1938 would have yielded a definitive answer long ago, but the current debate demonstrates they have not. Looking at some of the reasons can yield some useful insights for interpreting economic predictions in general.

First, recall a phrase that was a constant refrain in your college economics courses, *ceteris paribus*. The point was that economic models do not forecast the future per se; rather, they predict the outcome under a specified set of conditions. If those conditions do not hold, all bets are off. In your economics classes, we handled those conditions under the umbrella *ceteris paribus*, or “other things equal.” In the case of the minimum wage, the standard economic model predicts the direction of impact of an increase in the wage, if everything else remains unchanged. In fact, everything else never remains the same, so the challenge for the empirical researcher is to sort out the effects of the change in the minimum wage from the effects of everything else that has changed.

In the current example, how will one distinguish reduction in employment due to an increase

WHAT DO ECONOMISTS AGREE ON?

in the minimum wage from reductions caused by the general weakness in the economy? There are numerous statistical techniques for separating the two, but none of them are foolproof, nor do we know how many other things may have happened that affected employment in low wage industries. If the researcher is successful in isolating the relationship, any forecast still depends on ones assumptions about all the other relevant variables. No matter how good the model, the forecast cannot be better than the assumptions.

A corollary of the *ceteris paribus* escape clause is the reminder that economic models are intended to predict the effects of a particular change compared to what otherwise would have been. This may not be the same as a comparison with what exists today. In the case of

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Leadership for the Sake of *WHAT*

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SOCIAL JUSTICE IS NOT CHARITY, BUT A COMMITMENT FOR HUMAN BEINGS TO LIVE WITH DIGNITY AND FREEDOM TO ENJOY AND CONTRIBUTE TO THE FRUITS OF SOCIAL PROGRESS.

disciplines. It seems there are as many definitions and views of social justice as there are people offering to define them. At the heart of the matter are two fundamental questions: First, is our society just? Second, what do we mean by just?

Social justice as a term was coined by Jesuit priest Luigi Taparelli in the 1840's based on the teachings of Thomas Aquinas. Seattle University, home to the Center for Leadership Formation (CLF) at the Albers School of Business and Economics, is one of 28 Catholic, Jesuit colleges and universities across the United States. A foundational commitment within the Jesuit philosophy is one of social justice. Additionally, Catholic social teaching is concerned with collective aspects of humanity, with particular focus on the poorest members of society. Two key areas pertaining to social justice include: (1) life and dignity of the human person, and (2) preferential option for the poor and vulnerable, asking, "How is society treating its most vulnerable members?"

Given this context in which CLF is nested, it offers two distinct aspects in its approach to advancing the art and practice of leadership. First, the CLF approaches leadership as a process of relationships (with self, others, circumstances, etc.) and in that process the leader is always "on the way"; that is, the leader is, has been and continues to be formed by his or her experience, reflection and action as a lifetime endeavor.

Second, CLF approaches leadership in the context of the marketplace and the new commons, recognizing the

connectedness of all people and things and that the common good of the one affects the common good of the many. The leader is the instrument by which the nature and quality of relationships are cultivated; and the new commons, the marketplace of everything manufactured and natural, is the landscape upon which the leader engages the joys and dangers of leadership on behalf of shareholders and stakeholders alike, contributing to making people and the world better off.

While CLF is informed by its Jesuit heritage, it is equally driven by its commitment to intellectual integrity, academic excellence and cutting-edge, relevant executive education. Thus, social justice is not uniquely religious. Social justice has long, diverse theoretical and practical roots; roots that illuminate human struggles, matters of fairness, and responsibility to each other and to the greater human community.

As a practical matter, social justice may be viewed as the concern for the well-being of society. There is great debate whether an objective standard of social justice exists. At a basic level, social justice refers to the fair distribution of the benefits, responsibilities and consequences of society (Rawls, 1985; Kass, 2001; Morris, 2002). In other words, social justice can be applied by determining disparities among various groups, evaluating the root causes and proposing action to eliminate the disparities (Aday et al., 1999). Thus, social justice is not charity, but a commitment for human beings to live with dignity and freedom to enjoy and contribute to the fruits of social progress.

A PRACTICAL APPROACH TO SOCIAL JUSTICE

In 2006, the Canadian Nurses Association (CNA), a 126,000 member organization, issued a report on its work to integrate social justice as an organizational priority. In its study, it concluded that social justice was both a means and an end in its policy-making, as well as a complement to the mission and values that support the organization, particularly around equity, fairness and ethical behavior. This priority manifested into 10 defining attributes of social justice and a framework for linking and measuring these attributes with organizational goals (CNA, 2006).

The 10 CNA social justice attributes that follow are not intended to be exhaustive, but are contextual and should be nuanced by each organization so that there is alignment between the mission and the framework for social justice initiatives.

- 1. Equity:** Equal and fair treatment of all individuals
- 2. Human Rights:** As defined in part by the United Nations Universal Declaration of Human Rights
- 3. Democracy and Civil Rights:** As defined in the U.S. through the Constitution and Bill of Rights
- 4. Capacity Building:** Strengthening individual and institutional core skills, capabilities, insights, knowledge and experience through various modalities.
- 5. Just Institutions:** Fair institutional practices and just treatment of individuals
- 6. Enabling Environments:** Support positive community empowerment
- 7. Poverty Reduction:** Projects, programs and/or structural reforms of an economic, political or social nature that reduce poverty, increase the overall standard of living and/or

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increase the participation of the poor in social and political life

8. Ethical Practice: Sector, professional or organizational standards

9. Advocacy: Active pursuit of support for the rights of persons

10. Partnerships: Across roles, industries and sectors

CNA applies these attributes to desired goals around positive social development, human respect and dignity, and the needs and potential of individuals being met. CNA's mission, vision and organizational goals represent desired societal outcomes that are specific to its profession of nursing and health care (CNA, 2006). This raises three critical points for organizations considering social justice as a priority.

First, social justice goals are more likely to be achieved when they reflect broader organizational goals. Second, these goals apply within the organization as much as they apply outside the organization. If people within the organization are not being encouraged and helped to reach their full potential, it is unlikely the organization will have that commitment outside itself. Finally, social justice goals have to make sense for the profession, industry, or sector setting them.

THE VOCATION OF BUSINESS

Many approaches to social justice eschew the corporation and capitalism as sound economic policy. In *The Vocation of Business: Social Justice in the Marketplace*, author John Medaille argues that the current state, which he terms "Turbocapitalism", values profit and individual autonomy over the common good. He calls for a new alternative that is more systematic and coherent and values the common good. However, he argues that such an alternative cannot and should not be anti-business. Such an alternative should fairly regulate

economic freedom and recognize the fundamental and positive role of business, the market, private property, means of production, and free human creativity in the economic sector. In the end, Medaille's goal was to bridge the gap between moral theory and business practice (<http://www.cjd.org/paper/medaille.htm> — book review by Angelo Matera).

Regardless of whether he accomplished his goal, the invitation for the business and not-for-profit sectors remains: to consider the extent to which social justice and the marketplace may be compatible and in what ways can financial performance and social justice be reconciled?

CONCLUDING THOUGHTS

Leadership is risky and necessary work. It is work that requires leaders

to regularly ask, "For the sake of what am I leading?" It is a new time and a new commons asking of its leaders to be 100% responsible for everything 100% of the time. Dr. Lance Secretan, the founding CEO of Manpower International, defines leadership as a serving relationship with others that inspires their growth and makes the world a better place (Secretan, 2004, p. 1). In the complicated and highly charged landscape of social justice, Lance's definition offers an entry point from which to view leadership through the lens of social justice, to continue the conversation and to act. Such a conversation may, and indeed has (as we have seen with CNA), lead to practical and applied ways to integrate a social justice framework into organizational missions and outcomes.

LEADERSHIP IS RISKY AND NECESSARY WORK. IT IS WORK THAT REQUIRES LEADERS TO REGULARLY ASK, "FOR THE SAKE OF WHAT AM I LEADING?"

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STEVE TITUS is founder and president of Magis Leadership Group, an executive coaching and leadership formation practice committed to the success, support and sustainability of leaders in the demanding and dangerous work of executive leadership. He is a veteran higher education leader holding executive roles at Gustavus Adolphus College, Pacific Lutheran University and Midland Lutheran College, where he served as president and distinguished professor of leadership and change from 2002-2007.

Prior to his executive roles, Steve served as a U.S. Army officer and as a tenured professor of leadership studies and organizational behavior in Minnesota, where he founded and directed the first leadership studies program within the state university system. Steve and his wife, Sara, live in Tacoma, Washington with their two daughters.

Taking Back Control of Healthcare

It seems that you can't even turn on the television or pick up a newspaper without hearing about the healthcare debate winding its way through Congress. As a physician, I am frequently asked my thoughts on the various proposals and I have to admit that I simply don't know. I'm not sure anyone can.



JOHN S. MILNE, MD,
MBA, FACEP

As a member of Congressman Reichert's (WA 8th District) health care advisory committee, I was recently sent a copy of the House version of the healthcare bill, asking for my review and comment. It took less than 10 pages of the 850-page document before I became totally confused. So many competing objectives have muddied the waters of this debate, that it is unclear what, if anything, will ever emerge from the legislative process.

So what does this mean for businesses, both small and large? As a business leader, how do you position your company strategically to be ready for any of the healthcare reforms

that might ultimately get passed? It is impossible at this point to predict the exact reforms that will come out of Washington, and it will be years before the larger ripple effects of any new policies are fully understood. Any move made by a company to anticipate the future of national health policy would simply be a shot in the dark. That does not mean, however, that business leaders are powerless, passive observers to this process. Rather than letting external forces define the health of its workforce, this is a unique opportunity for companies to look internally at their own healthcare needs, seeking solutions that both improve health and stabilize costs.

Most large companies and many smaller firms offer healthcare as part of the standard benefits package but very few ever ask, "Why?" Healthcare expenses represent a significant overhead cost, and one that seems to keep rising out of proportion to the return. Some companies provide healthcare benefits as

a competitive advantage in recruiting talented employees. Others may see it as a moral obligation. But at its root, a healthy workforce is more productive, and that translates directly to the bottom-line. This is a lesson famously learned by Henry Kaiser in 1938 when he first provided pre-paid medical care at a company owned hospital for the 15,000 workers and their families laboring on the Grand Coulee Dam project. This represented a radical experiment in healthcare delivery at the

country. The secret of Kaiser was that he partnered directly with Dr. Sidney Garfield and his team of physicians to provide high quality medical care with a focus on keeping workers healthy. There were no intermediary insurance companies or government agencies defining the relationship between Kaiser and his workers. He was able to function directly as an advocate for their health and ultimately his company's productivity. Today, as businesses face significant volatility in their health care costs, I would advocate that leaders ignore the noise that is coming from Washington, and take a page from Henry Kaiser's playbook, by proactively becoming more direct advocates for the health of their employees.

Primary preventive healthcare was at the core of what Henry Kaiser provided for his employees. This type of preventive maintenance for a company's most expensive and valuable asset,

similar to routine service on any type of manufacturing equipment, is a service that business leaders

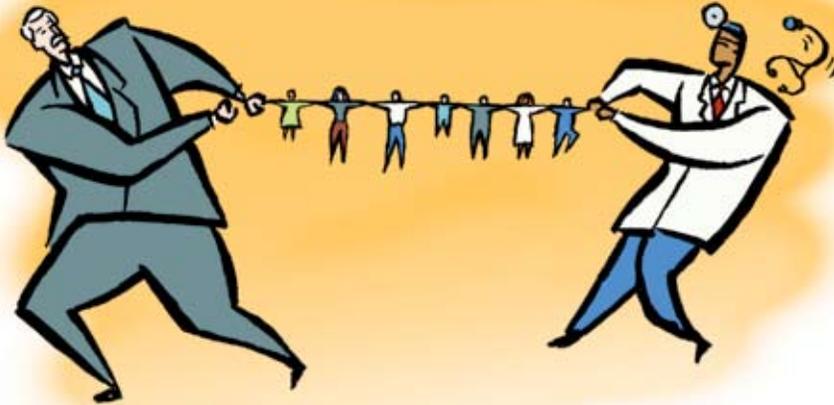
should want their employees to utilize. Unfortunately, traditional insurance products are simply the wrong tools for this task. Based on actuarial tables, insurance seeks to share the risk for rare or uncommon events. Yet by definition, to maximize health, visits to a primary care physician should be a common and frequent event, like changing the oil in your car. An increasing number of primary care physicians are recognizing this conflict between the goals of preventive maintenance and the structure of traditional insurance. Many have stopped accepting commercial insurance or government plans altogether, choosing

...TO MAXIMIZE HEALTH, VISITS TO A PRIMARY CARE PHYSICIAN SHOULD BE A COMMON AND FREQUENT EVENT, LIKE CHANGING THE OIL IN YOUR CAR.

time that ultimately evolved into the modern Kaiser-Permanente system.

So what lessons from those early years of Kaiser apply to business today? Henry Kaiser was a classic capitalist, who by the time of his death at age 85 had founded over 100 companies with assets of over \$2.5 billion (in 1967 dollars). He was not a progressive socialist that viewed healthcare as an intrinsic right. For Kaiser, healthcare was a tool to optimize worker productivity and advance his company's bottom-line. And as a result of his healthcare initiatives, during World War II, the Kaiser shipyards had the highest productivity of any manufacturer in the

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Upcoming Events

ALBERS SCHOOL OF BUSINESS AND ECONOMICS EXECUTIVE SPEAKER SERIES

(Free and open to the public)

Time: 5:30 to 6:30 PM

Location: Pigott Auditorium

No RSVP Necessary

• **Tuesday, October 20**

Cooperative Panel

Sally Jewel

President & CEO of REI

Gary Oakland

President & CEO of BECU

Scott Armstrong

President & CEO of Group Health

• **Thursday, October 15**

Dick Kovacevich

Chairman, Wells Fargo Bank

Time: 7:30 to 8:30 a.m.

(Note time adjustment!)

• **Thursday, November 5**

Bill Ayer

Chairman & CEO, Alaska Airlines

• **Wednesday, January 7, 2010**

Tay Yoshitani

CEO, Port of Seattle

• **Thursday, March 4, 2010**

Deanna Oppenheimer

CEO, UK Retail Banking

Barclays Bank

GENEVIEVE ALBERS FORUM

Thursday, October 15, 2009

5:30 – 6:30 PM

Pigott Auditorium

Rosabeth Moss Kanter

“Super Corp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good”

Free and open to the public

CENTER FOR LEADERSHIP FORMATION RELATED EVENTS

Leadership EMBA and Executive

Leadership Program Information Sessions

Time: 5:30 to 7:30 PM

Email EMBA@seattleu.edu to RSVP

• **Tuesday, September 15**

• **Tuesday, October 6**

• **Monday, November 16**

• **Tuesday, February 2, 2010**

GET CONNECTED!

Look for the Albers CLF Alumni Group on Facebook and LINKEDIN!



instead to contract directly with patients or their employer for services.

A leader in this movement here in Seattle is *Qliance Primary Care Specialists*. With locations in Seattle and Kent, *Qliance* provides comprehensive primary care services for a flat monthly fee ranging from \$49 to \$129 depending on age and level of service desired. The structure of *Qliance* allows its physicians to spend more time with patients, and focus more on promoting wellness rather than simply reacting to disease. For that monthly fee, a patient is able to see his/her physician as often as desired, and most of the in-office diagnostic tests or procedures are covered. The focus is on building a relationship with a primary care physician that can be leveraged into improved health of the employee, and ultimately improved productivity for the employer.

Practices like *Qliance* do have limitations. Emergency room visits, specialty care, and hospitalization are typically not covered. However, these are exactly the type of rare, uncommon events that insurance products are designed to cover. So by pairing a high-deductible (lower-cost) catastrophic health insurance plan to cover major

events with a *Qliance* type primary care offering, businesses have the opportunity to both standardize the quality of the healthcare provided to employees as well as reduce the total cost. This type of non-traditional approach by business, in many ways a throwback to the early work of Henry Kaiser, eliminates the insurance intermediary and allows leaders to better control both the cost and the quality of their workers healthcare. So as Congress and the President continue the partisan debate over healthcare, some savvy business leaders are ignoring the rhetoric and partnering directly with physicians to find innovative solutions to their healthcare needs. It could be the right solution for your business too.

JOHN MILNE: Dr. Milne is the founder and CEO of Eastside Emergency Physicians, a private practice group specialized in the staffing and management of freestanding emergency departments. He practices clinically at the Swedish Medical Center, Issaquah Campus, the first freestanding ED opened in the state of Washington. He also serves as the Medical Director for Strategic Development for Swedish Health Systems in Seattle, Washington, working to define the larger corporate growth strategy for the system, including the application of Freestanding ED's. Additionally, Dr. Milne is a nationally known speaker and consultant on topics emergency department efficiency, risk management, and the development of freestanding emergency departments.

CORPORATE BEST PRACTICES**Turning Negatives into Positives**

As a young man and just fresh out of college my first job experience was working for a large corporation with a national footprint. I was fortunate to be exposed to many aspects of business that I had just studied and prepared for the previous four years such as accounting, human resources, marketing, economics, business planning and much more. But the lesson I remember the most and I still practice today is “turning negatives into positives”.

I remember my supervisor at the time observing that I was struggling with a customer issue and asking “How may I help?” After explaining the problem he then asked me “How can you turn this negative into a positive?” We worked out a solution, created a positive for the customer, and I have always looked at problems with the same approach ever since!

LOOK FOR OPPORTUNITIES

The current economic downturn has been described as the worst since the Great Depression. I have no reason to dispute that assertion as this by far is the most serious economic challenge I have experienced in my thirty year career as a business professional. The first thing most companies think of in a recession is reducing costs. Although this may be prudent, I believe you should also be looking for opportunities. Marketing professionals will tell you that companies that at least maintain if not increase their marketing initiatives are the ones that typically recover first and experience the strongest recovery! Most companies slash their advertising budgets in the face of economic adversity. I suggest increasing your budget, if possible, and



BOB KENDALL, PRESIDENT
AND CEO, STAR RENTALS

seize the moment to get your name and brand out there repeatedly including considering expanding sales staff to achieve deeper market penetration or even new markets. Star Rentals Inc. increased their marketing budget for 2009 to include local radio advertising throughout the year. Typically

this medium has been underutilized in our industry but this addition has proven to be most successful in marketing our brand. Think creatively!

If your company is like most, during periods of rapid economic expansion, it is difficult to find the time to explore and discover ways to bring more efficiency to your business. Typically, we are operating at such a high level during busy times that evaluating systems, addressing efficiencies, and implementing changes can be overwhelming if not daunting tasks to consider.

However, during slower economic cycles, companies have more time and resources at their disposal to assess their operating systems and dramatically improve how business is done. If the improvements require capital investments such as software or hardware upgrades, what better opportunity to save money than with recessionary prices! Recessions are great opportunities to prepare and position your company for the next growth period. Remember, customers always want to do business with companies that offer a high level of service and are efficient at what they do!

THE TALENT POOL HAS GROWN

Throughout the prolific growth during the recent economic expansion finding quality employees was an incredible challenge. With unemploy-

ment at historic lows (less than 5%) filling positions was an arduous task.

Things have changed! Today there are many talented individuals looking for work that can have an immediate impact on your business during this difficult business environment. If your business is going to compete at the highest level (and why wouldn't you want to?) you need to have “A” players. Your business cannot have direction and growth unless there are goals, accountability, and a system to measure performance. To that end, your workforce needs to be fairly evaluated. If underperforming employees are adversely affecting your business and the problems are not correctable, then serious consideration should be given to exploring adding “A” players to your team. During robust times, being successful always seems to come more easily. During difficult times, making changes can be painful but necessary to create the desired results. There is never a better time to find “A” players than in a down economy. Look for opportunities to upgrade your workforce!

EXPANDING CUSTOMER RELATIONSHIPS

Troublesome economic cycles almost always create pressure for increased revenues. Typically your customers are not spending as much and consequently sales volumes shrink. Now is the time to identify customers that maybe you have a relationship with but are not their sole provider. If you believe you may have 20% of a particular customers business there is always the possibility of doubling or tripling that percentage by just applying some focus. Find market segments that you feel can be more deeply penetrated.

Another subject that deserves attention is how business will be conducted in

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the future. Many businesses have shifted an emphasis to doing more transactions “electronically”. Being able to place orders and view account histories online is expanding and bringing more efficiencies to business. Sending invoices via email and electronic payments (wire transfers) are becoming more the norm for larger companies and are viewed as “best practices”. If your firm does not offer these features you need to form a task force or contract with an organization to explore what possibilities exist. Star Rentals Inc. entered into an agreement recently with a local marketing firm which specializes in website technologies. The goal is to determine what features our customers are looking for today and how they may want to do business in the future. Interviewing customers to discover how they want to do business not just today but well into the future is a great opportunity to embrace your customers and create partnerships. These changes will grow your business!

KEEP THINKING POSITIVELY!

People tend to be negative in economic downturns. I would encourage you to stay positive, display enthusiasm in the work place and with customers, and above all keep looking for opportunities!

BOB KENDALL joined Star Rentals Inc. in 1983 and has served as President and CEO for the last twelve years. Currently he is an active member of the Seattle University President’s Round Table Group sponsored by the Albers School of Business and Economics. Bob grew up in Tacoma, Washington and graduated from Central Washington University in 1976 with a Bachelor of Arts Degree in Business Administration. Bob and his wife Patti still reside in Tacoma where they enjoy being close to family and friends.

An Economist’s Escape Clause

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the minimum wage, the standard model predicts that level of employment in 2010 or 2011 in industries affected by minimum wage legislation will be lower than it otherwise would have been, but that may or may not mean that it will be lower than it is today. In a strongly growing economy, negative effects of a minimum wage may be swamped by the pull of expanding demand. Conversely, in a declining economy, any positive effects on consumption spending of the change in income distribution may be masked by declining income on a larger scale.

Finally, timing is everything. There is often what one might call a Blue Angel phenomenon in economic relationships. If you look for the Blue Angels fighter jets when you hear them pass over head, you’ll miss them. By the time the sound waves reach you, the jets themselves are long gone. The Blue Angel effect is seen in securities markets when a company reports a significant increase (or decrease) in earning, but the stock price remains unchanged, because the change in earnings was as the market expected. The market had already incorporated the expected earnings into the stock price and only earnings that were higher or lower than expected would have caused the stock price to move. Similarly, the 2009 increase in the federal minimum wage was mandated by legislation passed

in 2007 and, insofar as possible, decision makers have been taking the mandated increases into affect since then. Many of the organization-of-work and investment decisions that affect employment levels are decisions with relatively long time horizons. Decision makers will have incorporated all they know or forecast about the future into their decisions already. Thus, much of the impact of the 2009 increase in minimum wage levels has already been felt and is already incorporated into the economy. You’re not likely to see much of it now.

There are many other reasons disagreements among economist may defy simple solution by empirical tests, not least of which is the human tendency to find extra credibility in evidence that supports ones’ preconceptions. But, remembering the particular nature of economic predictions gives useful perspective in understanding the arguments in order to make reasoned decisions.

JOHN ESHELMAN served as provost or as executive vice president at Seattle University from 1987-2008. He returns to teaching this fall in the Albers School of Business and Economics. He is the commissioner of the Senior Commission of the Western Association of Schools and Colleges, the regional accrediting body for California and the islands. He is also a trustee of the Fulcrum Foundation, the archdiocesan foundation supporting Catholic schools in the Seattle archdiocese. Dr. Eshelman has a Ph.D. in Economics from the University of Washington.



Linking Strategic Leadership and Human Resource Management

The literature on strategic leadership describes the influence of top executives on organizational processes that determine the financial performance and survival of a company. The literature on human resource management (HRM) describes practices and programs used to improve employee skills and commitment. The two literatures have developed separately without much attention to points of convergence. However, strategic leadership and HRM are inter-related, and they jointly influence the financial performance of a company. Leaders can influence the quality of human resources

will facilitate rapid change.

Human resources management is primarily concerned with acquiring and retaining employees who are talented and committed to the organization. Examples of widely used programs include recruitment and selection, orientation and team building, mentoring and career counseling, training and development, talent management, succession planning, compensation and benefits, and employee empowerment. In much of the recent literature on strategic human resources, talented employees (who are also referred to as “human capital”) are viewed as a source of competitive

providing coaching and feedback to an individual or team, encouraging employees to attend relevant training activities, facilitating attendance at training programs, making developmental assignments to learn new skills, and providing opportunities to use newly learned skills.

Leaders can also improve the quality of human resources by their influence on HRM programs and management systems. Top executives usually have the authority to design or modify human resource management programs, and it is their responsibility to ensure that the HRM programs are cost effective, compatible with each other, and consistent with the firm’s competitive strategy. Middle and lower-level managers can help to implement and support the HRM programs, and they can help to evaluate the programs and suggest improvements.

Direct behaviors and changes in HRM programs are complementary forms of leader influence. The direct behaviors can be used to facilitate the implementation of new programs and their successful use. For example, a new training program is more likely to be successful when managers encourage subordinates to attend the program and provide opportunities to use newly learned skills on the job. Human resource management programs can enhance the effects of direct leadership behaviors. For example, encouraging innovative thinking is more likely to increase the development of new products and processes when an organization has a well-designed program to facilitate and reward innovation.

Despite the evidence that HRM programs can improve financial performance, many companies fail to achieve the potential benefits. One

DESPITE THE EVIDENCE THAT HRM PROGRAMS CAN IMPROVE FINANCIAL PERFORMANCE, MANY COMPANIES FAIL TO ACHIEVE THE POTENTIAL BENEFITS.

in a company, and human resource specialists can improve the quality of strategic leadership by executives.

Top executives have a moderate amount of influence on the bottom-line financial performance of a company over a period of several years, and they can improve efficiency and adaptation by their influence on competitive strategy, organizational programs, and aspects of structure. Efficiency can be improved by redesigning work processes, applying new technology that is relevant for improving work processes, finding ways to reduce costs for materials, supplies, labor, and energy, and coordinating unit activities to avoid unnecessary activities. Adaptation can be improved by carefully monitoring the external environment and tracking changes in customer preferences, economic conditions, competitor actions, and technological discoveries relevant to the firm’s processes, products, or services. Adaptation is also improved by implementing a flexible strategy that

advantage and a way to improve bottom line results. Companies with effective human resource management practices and programs have better financial performance.

Leaders can enhance employee commitment and skills in ways that will eventually improve efficiency, adaptation, and financial performance. Examples include providing support and encouragement when an employee is discouraged or upset by a difficult problem, providing instruction and coaching to an employee who needs it, providing recognition for important contributions and achievements by an individual or team, empowering a competent employee or team to determine the best way to do a task, and delegating new responsibilities or more authority to a competent employee. Examples of relevant behaviors include: providing clear explanations about job responsibilities and work procedures to new or inexperienced employees,

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GARY YUKL, Ph.D., UNIVERSITY AT ALBANY

reason is that some top executives still regard human resources as a cost rather than as an asset, and they view HR functions as a low-level staff responsibility that can be outsourced or minimized. It is essential for top executives to understand the potential benefits from HRM programs and how these benefits can be achieved. To improve consistency between HRM programs and the firm's competitive strategy, the HR director should be included as a full-fledged member of the top-management team who participates in the process of making strategic decisions for the firm.

Human capital is related to efficiency and adaptation in complex ways, and a good understanding of these interdependencies is required to balance the tradeoffs and find synergies. It is important to avoid any adverse consequences that can nullify the potential benefits of HRM programs and practices. For example, it is usually expensive to attract, develop, and retain talented people, and improvements in human capital will reduce overall efficiency unless the additional expenses are exceeded by greater benefits from



RUBINA MAHSUD, Ph.D., SEATTLE UNIVERSITY

HUMAN CAPITAL IS RELATED TO EFFICIENCY AND ADAPTATION IN COMPLEX WAYS.

enhanced performance. To assess the utility of human resource management programs and practices, top management should find ways to measure their short-term and long-term costs and benefits.

The importance of human resource management systems for improving leadership has not been clearly acknowledged in much of the leadership literature. Most leadership theories focus on the skills and actions of individual leaders without considering the organizational processes by which leaders are selected, trained, and developed. The quality of top executives who are promoted from middle management is highly dependent on programs and practices involving talent management, succession planning, leadership development, performance appraisal, and reward systems. The research on human resource management has identified effective practices for developing and assessing leadership competencies, and this knowledge needs to be applied more

systematically in organizations to improve strategic leadership by top executives.

Another contribution of human resource management programs to strategic leadership is to provide the information needed by top management to assess the organization's human capital. The need for consistency between management programs and the competitive strategy is not only a matter of changing programs when the strategy changes. An effective competitive strategy depends in part on the core capabilities of the organization, and human capital is often one of them. It is easier to pursue an innovative new strategy when an organization already has talented people who are able to support it. A well-designed human resource system can track employee capabilities that are relevant to the challenges facing the organization.

RUBINA MAHSUD is an Assistant Professor in the Albers School of Business at Seattle University. Her primary areas of teaching and research include business strategy and strategic leadership. She has a Ph.D. in Organizational Studies from UAlbany, New York. She has earlier degrees in medicine, public health, and social sciences (including an MD). She can be reached at mahsudru@seattleu.edu.

GARY YUKL is a Professor of Management at University at Albany, and his primary areas of research and teaching include leadership, interpersonal influence, and management development. He has received several awards for his research and is a Fellow of the Academy of Management and the Society of Industrial Organizational Psychology. Yukl is the author of many articles and books, including *Leadership in Organizations* (Prentice Hall, 7th edition, 2009), which is used in many countries including Spain, China, and India. He can be reached at Gyukl@albany.edu.

Seattle University's Albers School Program Achieves Top-25 ranking in *U.S. News & World Report*



Albers' Leadership Executive MBA (LEMBA)
is ranked **21st** among Executive MBA programs
nationwide in U.S. News' 2010 edition of
"America's Best Graduate Schools."



SEATTLE UNIVERSITY

Questions from the Balcony

Each edition of *InSights* includes a question from local business leaders and C-level Executives. Questions answered, provide viewpoints based on the research and work of two Albers School of Business & Economics Faculty.

Question: As businesses look ahead to 2010, what are three economic indicators that business leaders should use for guidance in their decision making and why?

ANSWER: JOSEPH M. PHILLIPS

Whether it deserves to be called the “Great Recession” or not, our latest economic downturn was a unique one, distinguished by both its length and depth. Gauging the pace of this recovery will not be easy. The consensus view is that it will be a slow one. Here are a few indicators that bear watching:

Employment Growth: On the first Friday of each month, the US Labor Department reports employment growth and the unemployment rate for the previous month. Forget about the unemployment rate — that is very much a lagging indicator. Jobs created during the month is a much better gauge of activity. If it is in the 100,000-200,000 per month range, recovery is anemic. In the 400,000-500,000 range indicates strong recovery.

Yield Curve: One of the legitimate concerns about this recovery is the potential for inflation, a result of significant monetary stimulus, as indicated by a monetary base (bank reserves plus currency) in the range of \$1.8 trillion (about double trend). If the yield curve begins to steepen, that indicates the Fed is losing the PR war on inflation. The current difference between 3 month Treasury bills and 10 year notes is about 325 basis points. If that begins to increase, and/or the monetary base does not begin to decrease, watch out for inflation.

OECD Composite Leading Indicators Index: We live in a global economy, of course, so it is not just about the US economy. The Organization for Economic Development and Cooperation (OECD) publishes a composite index for the 29 OECD countries plus six large emerging economies (China, Russia, Brazil, Indonesia, India, and South Africa). The index hit bottom in February, 2009 and has been trending up since. Let’s hope that trend continues!

JOSEPH M. PHILLIPS was appointed Dean of the Albers School of Business and Economics July 1, 2001. He joined Seattle University after serving on the faculty of the College of Business Administration at Creighton University. Under his leadership, the Albers School has received several awards for academic excellence, including the Presidential E-award and several programmatic rankings in *U.S. News and World Report*, *CRO Magazine* and *The Princeton Review*.

Phillips graduated with a B.A. in economics from LaSalle University and received his M.A. and Ph.D. from the University of Notre Dame. He teaches primarily in the areas of money and banking and economic development. In 1986, while at Creighton University, he received the Robert F. Kennedy Award for Teaching Excellence, the university’s highest teaching award.



ANSWER: MEENAKSHI RISHI

There are three economic developments that need to be considered by business leaders. The first is a rising interest rate environment. The emergence of inflationary pressures may compel the Federal Reserve (Fed) to raise (short-term) interest rates from near-zero levels. Indeed, inflation may be inevitable given the massive doses of credit that have been pumped into our economy. Credit infusions and federal bailouts have also directly contributed to the national debt (over 11 trillion). Treasury bonds and bills that are traditionally perceived as safe havens

by investors may become less attractive in the current climate. Investors may either demand higher interest rates or dump their holdings of US treasuries in the future. This can result in a rise in US (long-term) interest rates with disastrous consequences for economic growth.

A second indicator to consider is the value of the dollar. The recent weakening of the dollar is probably good news for export oriented US businesses. But, this does not auger well for export focused Asian economies that will be under domestic political pressure to cheapen their currencies against the dollar. It is important to watch whether these economies continue to manipulate their currencies to promote exports, or raise domestic interest rates to control inflation.

Finally, US banks are still fragile given the volume of non-performing assets on their balance sheets. This continues to stymie the flow of credit in our economy. Business leaders should pay attention to the health of this sector

MEENAKSHI RISHI is an associate professor in Economics at Seattle University. She has taught previously at the College of Business Administration, Ohio Northern University. Dr. Rishi is a member of the American Economic Association (AEA) and the Committee on the Status of Women in the Economic Profession (CSWEP). She teaches International Political economy, Asian Economic Development, and Macroeconomics. Her scholarly work focuses on capital flight, institutional approaches to development, International finance, and pedagogy. Her publications include articles in the *Journal of Development Studies*, *IMF Survey*, *Annals of Public and Cooperative Economics*, and the *Journal of Education for Business*. Dr. Rishi has reviewed papers for the Journal of Developing Areas and World Development among others.

FACULTY SPOTLIGHT

Interview with Vinay Datar, Ph.D., Professor of Finance

CLF: You bring a rather unique background to Albers and the L-EMBA program. Tell us about it.

Datar: After my initial training as a mechanical engineer and graduate studies in computer science, I worked at Xerox in Rochester, NY. As I moved into management there, I became more interested in business possibilities. So I moved to California and started a laptop computer company that I later sold to Sperry (which later became Unisys). However, we dealt with large contracts with the IRS, Department of Defense, and the CIA. As I worked on the valuation of those projects, there were several aspects of valuation that intrigued me. I became very interested in Finance and went on to earn my Ph.D. at the University of Florida

I also began explaining to my wife what I was learning. She is a microbiologist, so I had to carefully articulate ideas in non-technical terms for a smart non-expert audience. While it was great fun I was actually benefiting by building deeper insights, and it got me interested in teaching. I came to Seattle University 15 years ago and really enjoy the people. Our students are upbeat and well-qualified — we have a very high talent level because of the strong business environment here.

I've also been doing consulting at The Boeing Company in the area of real options — analyzing the value of intangible assets using techniques in financial options. This involves examining the intangible value of tangible activities such as research and development.



VINAY DATAR, Ph.D.

CLF: You teach a course in Finance for L-EMBA. What is its focus?

Datar: The course is Global Corporate Finance. We explore the life cycle of corporations beginning with entrepreneurial start up through the initial public offering followed by a choice of its capital structure. This involves a

debt-equity mix, among other things. We then examine how the mix affects the behavior of management in terms of incentives and efficiencies. We also look at how excessive debt leads to financial distress, which then leads to transfer of ownership or bankruptcy.

Proper finance is essential, though not sufficient, for success. On the other hand bad finance can destroy a perfectly good organization. This presents special challenges to global organizations due to various political and institutional contexts. What works well in the US may not work as well in China, for example. I grew up in India, and that naturally helps me look beyond the US for broader perspectives.

CLF: What do you like about the L-EMBA audience?

Datar: I enjoy teaching all three audiences (undergraduate, MBA, and L-EMBA). EMBA's are looking for relevance and meaning of financial theories and how they could best use and communicate them within their organizations. They are highly motivated and driven. They are in the program because they *want* to be there. Their thirst for knowledge is refreshing — it keeps you on your toes. They are very open and discussion oriented, and the depth of their experience makes you question your assumptions.

CLF: How would you describe your teaching style and the ways you make the material relevant to the L-EMBA audience?

Datar: EMBA students are more concerned with the interpretation of financial theories and ways to communicate them to senior audiences, including the Board. For example, if we discuss Efficient Market theory, they want to understand what the limits are to the idea. With capital structure theories, we explore how the right-hand side of the balance sheet makes a difference in how the left-hand side functions.

I use a lot of articles from the *Journal of Applied Corporate Finance* with a text as a handbook. I also spend a lot of time on current issues from the financial media, such as *The Economist*. Students also bring in a short case description of corporate financial action in their companies. This is something non-confidential, such as dividend policy, sale-leaseback arrangements, risk management (e.g., hedging), employee stock ownership, debt policy, etc. We use these to illustrate some of the course principles.

CLF: What do you see as the most important issues they face going forward?

Datar: The typical L-EMBA student will not be a subject-matter-expert, but needs to have enough financial background to keep learning on his/her own and to ask the right questions in order to guide decisions. Finance is developing fast as our institutions change with globalization. At the end of the day, the core principles do not change but it's easy to lose sight of the basics when clouded by new detail. For a successful executive, it is important to keep abreast

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of the changing financial landscape while staying firmly anchored in basic bedrock principles. Finance can easily make a difference between success and failure of a perfectly healthy organization.

CLF: Do you feel they are prepared to address these issues when they leave your course?

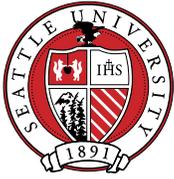
Datar: Yes, we give them enough to do that. We deal with most of the core issues and class discussions force students to articulate the core issues. I try to keep my opinions in the background and use a teaching method that is almost Socratic. I keep asking questions — ever more questions. This forces the student to keep probing — keep vocalizing the issues. In turn, this builds insight. The discussion is what gets them ready to ask the right questions once they leave.

VINAY DATAR has been teaching International Finance, Corporate Finance and Risk Management since 1994. Prior to doing PhD in Finance he worked for Xerox and co-founded a computer company in California. For over five years, he has consulted with the Boeing Company and holds a joint patent for valuation methods using Real Options. Dr. Datar has published fifteen articles in several academic journals including the Journal of Financial Markets, Journal of Financial and Quantitative Analysis and Journal of Applied Corporate Finance.

Survey Data Demonstrates Impact of CLF's Executive Leadership Programs in the Albers School

Puget Sound business leaders observe significant/tremendous growth on the following strategic competencies in their employees enrolled in the Center for Leadership Formation at the Albers School of Business and Economics.

EMPLOYEE COMPETENCY	DEMONSTRATED BEHAVIOR
Strategic Leader 83%	Creates vision, shapes strategy, charts the course, focuses externally, has strong decision skills, develops and retains top talent.
Driven for Excellence 83%	Demonstrates motivation, sets high expectations, has strong standards of excellence, optimizes self-development, inspires others to excel
Collaborative and Influential 100%	Inspires others, drives change, communicates with impact, treats others with respect and dignity, is engaging and persuasive, builds networks and relationships, demonstrates teamwork
Agile and Confident 86%	Takes risks, handles ambiguity well, develops creative solutions, is resilient, thrives on challenge, adapts effectively to change, show organizational savvy
Ethical Leader 100%	Behaves ethically, able to take the right action, acts as a role model, demands ethical behavior, responds appropriately to successes and failures
<p>*2007 Survey of Puget Sound CEO's and Senior Executives sponsoring students in the Executive Leadership Program. Visit us online for survey details.</p>	



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Slane Williams, Executive Leadership Program alumnus '06 and buyer at Costco Wholesale

The Albers School of Business and Economics

Executive MBA Info Session

The Albers School of Business and Economics Leadership-Executive MBA delivers a world-class education with an emphasis on executive leadership, core business expertise, and a commitment to social responsibility.

**Find out more at our upcoming
information sessions:**

- **Tuesday, October 6**
- **Monday, November 16**
- **Tuesday, February 2, 2010**

*All sessions will be held from 5:30 – 7:30 pm
on the Seattle University Campus*



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