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FACING OFF IN PUBLIC

Strategic Competition Between Companies and Social Activists

WHAT I LEARNED TEACHING BUSINESS BEHIND BARS

By Jon Huggett, MBA '85

STANFORD AUGUST 2003 • VOLUME 71, NUMBER 4 BUSINESS

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Teaching Inmates Business Basics

Prisoners at a South African prison proved to be quick learners of business principles in a course taught by an alumnus.

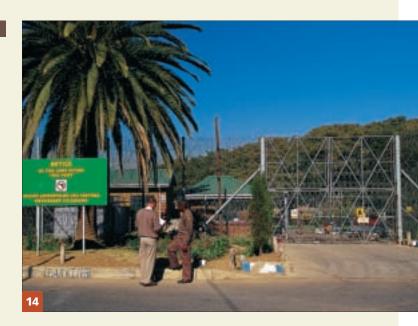
BY JON HUGGETT, MBA '85

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The Arsenal of Social Activism

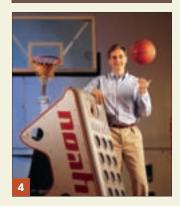
Professor David Baron illustrates strategic competition between social activists and global corporations with cases involving Coca-Cola, Anheuser-Busch, BP, Shell, and McDonald's.

BY DAVID P. BARON



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about this issue

A Way to Slim Down and Still Have Our Cake

YOU MAY HAVE NOTICED A SLIGHT CHANGE in the size of this issue of Stanford Business. If you looked first at your class's alumni notes, you might have noticed the reason: There are fewer classes covered. We are publishing more class notes and pictures than ever, but the section looks smaller because we are printing three different editions. There is overlap so all alumni still will be able to browse information about classes before and after their own.

In the past, we've been able to increase the number of pages to accommodate each new class. Now, like many of you and your businesses, we need to find ways to control costs without compromising the integrity of the magazine. We could reduce the space allotted to each class or the number of pictures, but these options don't appeal to us. Publishing different versions allows us to let the class secretaries have the same space they have had while saving on paper and mailing costs. For instance, Edition 1 this issue covers MBA classes from 1934 through 1982, Edition 2 covers 1978 through 1993, and Edition 3 covers 1987 through 2003. The PHD, Sloan, and SEP programs continue to have their separate columns covering multiple years and will be included in Edition 2. The "In Memoriam" column is in all editions, and we have added a School resources directory with phone numbers and email addresses for various departments of the School.

Before we decided to try three printed editions, we sent a survey to an eighth of our alumni readers asking them how many class years they read. The vast majority said they read only their own class column or one or two classes on either side of theirs. Three-quarters of the respondents said they thought breaking the notes into sections was a good idea. (The other quarter was split evenly between those who had no opinion and those who preferred to continue to get all years.)

Our technical experts are creating a password-protected section of the Web site to allow everyone in the alumni database to view the entire Class-Notes section. We do not have a start date, but we hope to be online soon. As many of you told us in the survey, the postman's arrival with the magazine is a reminder to check up on class and school news, but the online notes would be more useful in searching for someone with whom you might have lost touch.

For those of you who read the notes very broadly, we can email you a copy of the full ClassNotes until we have the password-protected Web site. Just email your request to us at alumni.news@gsb.stanford.edu.

EDITOR

Kottleen O Tosle

Letter to the Editor

I READ ABOUT Jim March's movie regarding leadership (in the May issue of Stanford Business, page 12). I believe I was one of the first in the course (maybe the first year—1978 or 1979). As was the case with

many of the really good courses at the GSB, I did not "get it" for about the first half of the course, but eventually found it to be one of the best I took. I still use lessons he taught us.

> WALT ROSEBROUGH, MBA '79 Batesville, Indiana

Building a Bridge to Leadership

EADERSHIP IS LIKE SWIMMING. It's a capability vou develop over time, through hard work and practice. It's something you learn mostly by doing; not something you perfect in a classroom. We expect that all of our graduates will need to develop leadership abilities in one form or another, as leadership is required in virtually every position and at all levels of an organization. We don't expect our students to learn everything about leadeship in the classroom. That would be like thinking someone could listen to a lecture on swimming and expect to be a good

swimmer instantly. You might understand intellectually why you won't sink and how kicking and arm strokes propel a body through water, which are important in building confidence, but it won't make you a proficient swimmer. You can hope that, with knowledge about the theory of water mechanics under your belt, you get a good coach to give you advice from the pool deck as you refine your technique through hours of practice.

Guidance and coaching—along with the solid theory, cases, and frameworks that are the logical centerpiece of the GSB curriculum—are precisely what we will try to provide through the leadership initiative

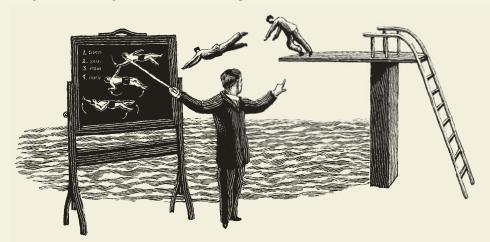
we will pilot this coming academic year. Roughly 60 student volunteers will be involved in the pilot program. In addition to taking courses and developing strong analytic skills common to all their classmates, these students will participate in learning labs that will engage them in experiences essential to leadership learning. These experiences will be aimed at helping students develop greater self-insight and, more important, practice and improve behaviors critical to their personal and professional development.

How will this pilot program work?

In my last column (May '03), I talked about the role of experiential learning, which will be an important part of the pilot. We have sound ideas about how students can strengthen behaviors critical to effective leadership. We believe students can improve their leadership capabilities through an integrated learning approach that combines and coordinates coursework, experimentation, feedback, and reflection. Together these four components will produce an experience through which students internalize leadership learning.

Coursework: We already offer 12 courses that touch on leadership, but over the next year some of our faculty will explore the design of a conceptual course treatment of the subject that includes strategies, behaviors, and contextual factors of effective leadership.

Co-Curricular Experimentation: The pilot group will form into "bridge teams," so named to symbolize the critical leadership challenge of bridging the gap between knowing and doing, as articulated by our faculty colleagues Jeff Pfeffer, the Thomas D. Dee II Professor of Organizational Behavior, and Bob Sutton, professor of management science and engineering in the School of Engineering. These six-person groups will work together on study-group assignments and on a first-year capstone project. The teams are a natural vehicle for working on teamwork and interpersonal skills.



You might understand how kicking and arm strokes propel a body through water, which are important in building confidence, but it won't make you a proficient swimmer.

Individual Assessment and Feedback: "Bridge labs" will build self-insight and help students understand their strengths and weaknesses and develop their own leadership perspective. The pilot will involve several of these required co-curricular workshops to provide feedback and support for efforts at applying leadership concepts in actual practice.

Structured Reflection: The labs and optional "bridge events" will provide students with opportunities to explore and reflect on leadership in the context of their own lives and personal experiences. Bridge events will occur quarterly and will use a variety of learning formats such as film, simulations, workshops, and retreats.

Through this pilot program and faculty research that will support it, we will learn a great deal about how to implement a leadership learning experience for the entire MBA class in subsequent years. The GSB is well positioned to advance both the "art and practice" as well as the "science" of leadership. It is a noble goal one that is right for our School in today's environment. I will keep you posted on our progress in this important undertaking.

Spreadsheet WHAT'S UP News About the GSB and Its Graduates



There's a New Arc Builder in Town

RACTICE USUALLY MAKES PERFECT when it comes to the free throw. But nothing really existed to give players concrete feedback on how to adjust their shot. To help his daughter, Alan Marty, MBA '84, improvised with a garden rake, carefully placed on end so that when she barely cleared the rake, the ball's arc improved her chances of making a basket.

That rake is now back in Marty's garage, having been replaced by a computerized device that helps free throw shooters build the perfect arc on their shots. Appropriately named after that famous ark builder, Noah monitors the trajectory of a free throw shot and instantly announces the ball's arc. After a complete session, the screen indicates the trajectory of each shot in color.

Marty brought up the idea to a fellow pickup player, Ridge McGhee, in 2001. The two started developing a prototype, and a chance conversation between Alan's wife, Cindy Thompson Marty, MBA '84, and Tom Edwards, Sloan '96, brought a mix of mathematics and NASA-based research history to the team. Finally, Jervis Williams, MBA '92, came on board in 2003 to assist with Noah's marketing and distribution.

A demo of the product can be seen at www.noahbasketball.com.

Career Services Expand for Alums

ALUMNI CAREER SERVICES received a boost this spring when the School's Career Management Center hired Heather Finke as an assistant director, the

first center staff member specifically devoted to alumni. Finke earned an MBA from the Kellogg School of Management and most recently spent nearly three years at Russell Reynolds Associates, one of the largest global executive recruiting firms.

Keeping it mostly in the GSB family Noah 's developers are (from left) Ridge McGhee, Jervis Williams, MBA '92, Alan Marty, MBA '84, and Tom Edwards, Sloan '96.

She and center director Andy Chan, MBA '88, say they will work with companies of all sizes and in all industries to increase the quantity and quality of opportunities available on the School's job board. "We want to make the job board an even richer resource to job hunters and to alumni in all stages of their careers," Chan says.

The center also will develop relationships with career counselors in all parts of the country to provide a more comprehensive support network. It will continue to develop career management workshops and other services.

India's Potential

INDIA'S WELL-EDUCATED, English-speaking talent pool gives South Asia a competitive advantage over China and other Asian competitors, a venture capitalist who invests in India told the School's first conference on South Asian economics.

"I know China has a way of getting things done. But when you talk about education and a talent base, that takes much longer to create," said Shujaat Khan, managing director of Chrys Capital, an equity firm that has invested in 13 companies in India since 1999 and saw positive returns in the first year.

The potential for growth is staggering, but much has to be done to integrate India into the world trading system, said GSB Professor Romain Wacziarg. He cited burdensome business licensing systems, tariffs, quotas, and so-called sanitary measures that keep imports locked up in customs for long periods.

The spring conference, which drew 300 participants, was organized by the School's South Asian Economic Forum, a student club.

e-Reports for Parents

TECHNOLOGY SHOULD MAKE IT as easy for parents to track their children's progress in school as it is to track stock portfolios, yet many schools don't take advantage of the information available to them, John Bailey, director of educational technology for the u.s. Department of Education, told a Business School education conference. "Every night in America, there's this common pattern around the dinner table: How was school today? Fine. What did you do today? Not much. Do you have any projects due next week? No." The scenario would change, Bailey said,



if mom and dad could track their child's academic progress online every day "as easily as they would monitor a stock portfolio."



mate Janet Kraus, Sherbrooke told the Business School's spring Women's Conference about her favorite request handled by the \$15 million, six-year-old firm. A businessman about to visit a dignitary of an African nation wanted to know what the proper gift would be, and a Circles employee dug into research.

"The answer was that the perfect gift would be a flock of sheep. We arranged to have the sheep there when he needed them," she said.

Then there was the New Jersey banker whose black cat wandered off at night. The answer: night goggles that let him spot the errant feline. Not every request demands such creativity from staff, she said. Routine requests ask for restaurant recommendations in unfamiliar cities or thank-you gifts for employees, customers, or Mom.

MBAs from Venus; Engineers from Mars

SHE HAS TAKEN JOBS SHE hasn't wanted because they were "rites of passage," Ann Livermore, Hewlett-Packard corporate vice president and president of HP Services, told Business School students recently. Trained in economics and

business, Livermore went to work for Hewlett-Packard after graduation from the Stanford Business School in 1982 and kept getting promoted. She eventually realized that "if I ever wanted to be a general manager, I was going to need to run R&D." In her first R&D meeting, she said, "I didn't understand half of what they were saying."

Before long, however, she figured out that managers were trying to make decisions that should have been made by engineers. Her job was to change the conversation to costs, resources, time, deliverables—not tech standards. "What is going to unleash the power of the team? That's what I had to figure out."

Teamwork and time management, she said, were the most important lessons she learned as a GSB student.

What Do Markets Say About War?

IN THE WEEKS PRECEDING the u.s. invasion of Iraq, two Business School professors started tracking betting odds on Saddam Hussein's survival. The Saddam Security, an Irish-based online exchange at www.tradesports.com, paid \$10 per share if Saddam was ousted by June 30. Justin Wolfers and Eric Zitzewitz, along with Andrew Leigh, who is a doctoral student at the John F. Kennedy School of Government at Harvard, compared the price movements of the Saddam Security to movements in stock prices, oil prices, and oil futures to get an estimate of the cost of threatening a war. Some of what they found:

As the probability of war rose, oil prices rose, indicating that the market estimated the war would raise oil prices by \$10 per barrel in the short term. Oil futures indicated this price spike was expected to be short and that the war was expected to lead to slightly lower oil prices in the long run—an average one-time savings of about \$250 per American.

The anticipated effects of the war, the threesome estimated,

reduced the S&P 500 by 15 percent, or the equivalent of a \$1.1 trillion loss of wealth when compared with a no-war alternative. The response of stock markets in 44 other countries indicated investors thought those most likely to be adversely affected by war in Iraq would be countries that are major oil importers or are tightly enmeshed in the world economy.

"Option prices revealed that the source of the large market discount was a small probability of an extremely bad outcome," Zitzewitz said. "As it turned out, the war went better than the markets feared, and the U.S. and other markets recovered about half of the pre-war discount."

The Double Life of Steve Jobs

STEVE JOBS, COFOUNDER OF Apple Computer and one of Silicon Valley's most successful college dropouts, defended his company's risky venture into retailing and painted an optimistic future for Pixar Animation Studios, which he also runs, during a May visit to the School.

The two companies, he said, are an interesting match. "Apple is the most creative of the PC companies; Pixar is the most technologically advanced entertainment company." Apple releases new products every few months; Pixar took four years to produce the hit movie Toy Story and hopes to make one movie a year by 2005. Pixar won't radically reduce development but will expand and multitask. By 2006, Jobs hopes, the company will be able to finance itself and retain a much greater share of the profits it now splits with Disney.

Apple, Jobs said, will grow its retail chain to about 70 stores by the end of the year. Asked why Apple can succeed where



ndy Evans, MBA '03, belongs to a very small club. The Canadian geologist is one of fewer than 1,000 people in the world who have stood atop the planet's two highest peaks, 29,035-foot high Mt. Everest and K2, about 260 feet lower.

Evans fought his emotions as he stood atop K2, the world's second-highest peak, which he climbed without oxygen tanks.

In July 2000, Evans stood atop K2 fighting his emotions as he realized a 20-year goal. He was elated, but he also thought of Canadian Dan Culver, who climbed K2 in 1993 with countryman Jim Haberl. Culver died on the way down. Haberl later died in a climbing accident in Alaska.

"One in seven of those who summited K2 died on the way down," Evans told a Business School audience. "Over the years 152 have made it to the top, but 22 died coming down.

"There's a seductive thing happening at these altitudes. You're making life and death decisions with only half your marbles [because of oxygen deprivation]. You have to be able to walk away.

"This is a very selfish endeavor, one I do for myself and not for anyone else," Evans told his classmates. "I find these expeditions are tremendously cathartic. They reaffirm, let you strip everything away, and let you focus on what matters to you and what you're made of. I've gained a lot from that over the years."

CHRIS SHAW

Spreadsheet



Class of 2003 Commencement

DEGREES GRANTED	
TOTAL MBAs36	•
MBA35	ć
JD/MBA	
PhD 1	Ę
Master's in	
Business Research	3
MS (Sloan)5	4
CERTIFICATES	
Global Management12	
Public Management10	(
	MBA

DECREES CRANTED

MBA AWARDS Alexander A. Robichek Award

Achievement in finance courses: Eric Owen Bannasch

Ernest C. Arbuckle Award

Contributed most to the fulfillment of the goals of Stanford Business School in and out of the School: Shani Reana Jackson

Henry Ford II Scholar

Top scholar: Craig Lang Yee

Arjay Miller Scholars

Top 10 percent of the class: Rahul Bammi Eric Owen Bannasch Bryna Trinette Chang Joanne Clain James Richard Dailey Yannis Dosios Brian Douglas Dye James Henry Edmunds David Barker Ford Jr. Funda Gurgoze Mark Stephen Hawkins Robert James Henry Chris Thomas Hyder Scott Jacobson Kevin Michael Kornoelje Niels Kröner Esq Sean Ichiro Macnew Korb Steven Matosich Thomas Endel McConnon Peter Richard McDermott Jonathan Joseph Meyer Natasha Freedom Moore Zachary Jon Nesper Tamara Olsen Michael Davis Patterson Marco Jagger Petta Jimmy Lamont Price III Kirthiga Reddy Sweta Sarnot **Gregory Samuel Shannon** Ashok Subramanian Martin Wesley Sumner Jr. David Randolph Thomas Emily Krannich Vanlandingham Eric John Wells Craig Lang Yee

Source Registrar's Office

Gateway has struggled, Jobs said his stores have better locations, better-trained staffers, and products that are not simply commodities. "The problem [with staff at most computer retail outlets] is that no one knows anything."

Jobs showed off iTunes, the pop music download service that sold one million tracks at 99 cents each during its first week in business. Nearly half the tracks sold during iTune's first month were sold as albums, not as individual songs.

He shed no light on speculation about the terms of Apple's agreements with the record companies, saying only "we don't make a lot of money on this, though we do sell a few more iPods." Looking forward, Jobs expects the iTunes collection to double in the next few months and promised a Windows version of the iTunes jukebox later this year.

Soapheads vs. Jocks

THERE'S NO SUPER BOWL for soap operas yet, but one just might emerge if Anne Sweeney has her way. The president of all the non-sports cable business at the ABC-Walt Disney conglomerate told Business School students at a lecture in May that she is giving ESPN a run for its advertising money.

ESPN was already a leader in televised sports entertainment when Sweeney's group launched a cable channel devoted to soap operas in January 2000. SOAPnet shows reruns of daytime soaps in prime time because women's growing employment outside the home has reduced the potential daytime audience for the serials, she said. The channel has landed in the top 20 prime time ratings many times, she bragged, and adver-

tisers are impressed because "when women 25 to 54 sit down to watch soapnet, they watch longer than any other cable network offered, with an average of 29 minutes."

Lecturing the morning after the Los Angeles Lakers lost a chance to return to the basketball championships, Sweeney couldn't resist observing that "my soap opera fans are far more loyal than, say, Lakers fans this morning."

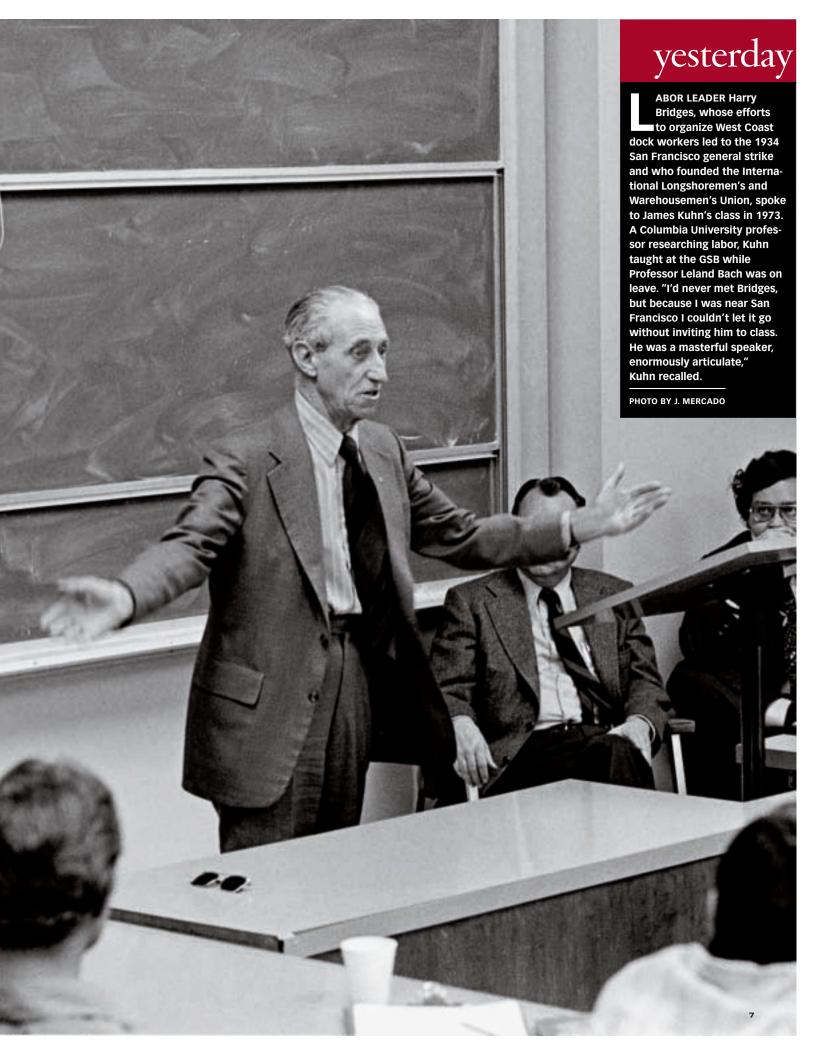
A Wrench in the Works Works

EVERY HOMEOWNER IS supposed to know how to turn off the water in an emergency, but few can twist those oblong knobs under the sink and toilet without getting bruised or bloody knuckles. As the resident manager of an apartment house, Robert Gordon, Sloan '59, had sworn at frozen valves so often that he decided to try to build a better wrench from scrap plywood. The result impressed local plumbers and now, at age 81, Gordon is president of the Gordon Tool Co. of Irvine, Calif. (www.GordonWrench.com).



Inventors' Digest named him an inventor "success story." Gordon advises other inventors that marketing is harder work than inventing. He suggests they look for media columnists who might describe their inventions. Gordon's breakthrough came when a syndicated handyman columnist suggested plumbing history could be measured as "Before G.w." and "After G.w."

6



lished the American company China Business Ventures (CBV), which exported American medical equipment to China. By July 1997, the company had an office in San

"I told him to get lost," Shao wrote five years later. "I had set up the company's policy not to bribe any officials in China. I am a Stanford MBA. I wasn't interested in unethical business practice. Our company had operated lawfully in China and paid all the relevant taxes. Yet our company was a rare species. It's hard to find a company that didn't evade tax and didn't bribe."

A longtime "permanent resident" of the United States, the Shanghai-born entrepreneur had to return to San Francisco at the end of the month to be sworn in as an American citizen. During his absence from China, CBV's bank accounts were frozen. The records that might have proved the company's innocence were not returned. Without them it could not continue to function. Back in San Francisco, trying to get a work visa from the Chinese consulate, Shao looked on helplessly from across the Pacific as 10 of his employees quit.

Shao was carrying his new American passport when he was stopped at the Shanghai airport in April 1998. He was detained in a hotel for five weeks, interrogated, sometimes through the night, he says, and then formally arrested. He was jailed for a year before going to trial and claims he was held incommunicado for the first 26 months. He says the first occasion he had to meet his



Jailed in China since 1998 on charges of tax evasion, a GSB graduate receives support from classmates and growing national media attention.



UDE SHAO COULDN'T MAKE IT to his 10th-year reunion. Shao, MBA '93, is confined in Qing Pu Prison near Shanghai, where he is serving a 16year sentence for two tax-related offenses, crimes Shao hotly denies committing.

At the May reunion his classmates vowed to find a way to free him. They were advised by John Kamm, founder and director of the Dui Hua Foundation, which has successfully intervened on behalf of hundreds of prisoners in China-mostly Chinese nationals but increasingly foreigners charged with business-related crimes. Kamm [see related story, next page] recently added Shao to the list of prisoners he discusses quarterly with the Chinese government and also was instrumental in putting Shao on a similar u.s. government list.

Shortly after graduation, with the backing of 16 investors, most of them MBA classmates, Shao estabattorney, whose hiring had been arranged by the American consulate, was in court. There, the prosecution presented what Shao insists was a fabricated confession as well as a witness facing a death sentence who testified against him. (The witness was later sentenced to 12 years.) Shao was not allowed to show evidence that would exonerate him and, to his dismay, learned that one of the two import companies he suspected of keeping the VAT was owned by the Shanghai Police Bureau.

On May 13, 2000, Shao was sentenced to 15 years for falsely issuing VAT invoices plus one and a half years for tax evasion, to be served consecutively. He appealed, lost, and two months later was transferred to Qing Pu, where foreign nationals are held.

The American consul and Shao's older sister, Jing Li, are Jude's only conduits to the world outside Qing Pu. They are each allowed one 30-minute visit a month. They bring him food, magazines, and newspapers and carry out his messages. With no direct access to email or fax, Shao wrote, "My sister prints out the incoming email for me and also receives faxes at her home. She then mails them to me in a letter every few days. The Chinese government scrutinizes every letter I receive."

Jing Li has made three trips to the States to update her brother's friends and recruit government officials and human rights advocates to his cause. Accounting records she salvaged from CBV's San Francisco office

after the trial prove his company's innocence, Shao says. Claiming this new evidence, he petitioned the People's Supreme Court of China two years ago for a retrial. The week of the reunion word came that the court had turned him down.

The Free Jude Shao Campaign gathered steam at the reunion. Classmates Chuck Hoover and Caroline Pappa-

john arranged a workshop and distributed material about the case to friends and press. They already had recruited the endorsements of several members of Congress. Representatives Zoe Lofgren, Mike Honda, and Anna Eshoo were first to write letters on Shao's behalf, and Lofgren sent a member of her staff to the reunion.

Print, radio, and television journalists also were present, and in the days that followed a wire service report of the meeting was printed in newspapers across the United States and in Taiwan. An independent documentary crew is working on the campaign, gratis. Class members vowed to bombard their senators and representatives with material about the case, exhort every contact in the State Department, and make sure that no visiting delegation of Chinese officials leaves the United States without hearing of Jude Shao. The investors in the now-defunct company even discussed suing the Chinese



Jude Shao, MBA '93

government for putting CBV out of business. That, they reasoned, would surely attract official attention.

While others press for his release, Shao spends most of his time studying Chinese law and poring over the minutiae of his case. He lives with three other prisoners in a 12-by-20-foot cell. There are steel slats on the only window and steel bars on the door. Near the

door are a sink and a Chinese-style toilet.

Garry Ohmert, a former cellmate who was released in February, traveled from Colorado to attend Shao's reunion. "Jude started suffering severe bouts of depression after his father died," Ohmert reported. The death wasn't unexpected, and Shao wanted his father's last sight of him to be in civilian clothes. "Jude had to fight for over an hour to win that right," Ohmert said, "even though he was handcuffed and escorted by six officers.

"Jude also has backaches, but he rises every day, puts a fireproof smile on his face, and never shows the depression he is suffering from. It's not until after lights out he lets down that facade." No matter what he suffers, Ohmert said, Shao will never confess to a crime he did not commit in order to reduce his sentence. "Jude is prepared to do every minute, every second of his time until some other way is found for him."

Serious Business for the Class of '93

"YOU'VE GOT A PROBLEM HERE," John Kamm told the assembled members of the MBA Class of '93, "and the problem is Jude Shao. My impression of Jude is this guy is one of those rare people who has principle. He really doesn't think he did anything wrong."

Dui Hua founder Kamm was formerly regional vice president of Occidental Chemical Corp. and president of the Hong Kong Chamber of Commerce. "I'm a civil rights activist now, but I still consider myself a businessman," Kamm told the group. "I'm in something called the 'extractive' industry, and what we're going to talk about today is what's involved in extracting Jude Shao from this situation.

"I'm often asked why American businesses should care about human rights in China. I used to say David Chow," Kamm said, referring to a Chinese American businessman he helped free last year. "Now I say Jude Shao. The same arbitrary abuses of power that are used to silence

dissent can also be used for other purposes."

There are three ways to win release of a prisoner in China, Kamm said. The first is legal, and Shao has exhausted his judicial resources. The second is to get the sentence reduced. This always involves an acknowledgment of guilt, and Shao is adamantly opposed to that. The third is parole: for medical reasons, good behavior, or "special circumstances." There are limits on the first two types: They can't go into effect until a prisoner has served half his term, and Shao has three years to go to reach the halfway mark.

But, said Kamm, "under Chinese law, such as it is, time limits on parole can be waived when there are special circumstances, which the law defines as matters related to China's foreign affairs, foreign economic relations, defense. In other words, if a case is politically important to the Chinese government, they let people go.

"So what do you do? You've got to make Jude Shao's case a matter of political importance to the Chinese people. It's that simple. Every time a delegation comes, you sit down with the head of the delegation and talk about Jude Shao. You get your government officials. You get the media. It becomes something on the radar screen of U.S.—China relations. And then one day some big shot's going to go there or some big shot from there is going to come here, and the two governments are going to discuss something called 'deliverables.' You want Jude Shao to be a 'deliverable.'"

As Kamm answered questions from Shao's classmates, he walked back and forth before a photo of Shao, taken in happier times, projected at the front of the room. With it was a message from Shao relayed by his sister. It said:

"Dear classmates, Thank you for your support. With your help, I believe this unfortunate incident will come to an end soon. Justice will prevail and I shall return vindicated. Have a great reunion and fun. I miss you all. Jude Shao"

For more information about the Free Jude Shao Campaign, visit www.freejudeshao.com

Technology and the Creative Process

Growing commercial pressures threaten creativity in the entertainment industry, according to participants in the 2003 Future of Content Conference.

> NTERTAINMENT IS BIG BUSINESS. That's hardly news. But in an age of digital production and global distribution, the economic rewards—as well as the risks—of producing popular culture have never been greater.

> Major studio blockbusters now debut on 3,000 screens and rake in over \$100 million in one weekend

survey the state of business and art in the converging media and entertainment fields.

"The Internet is the greatest vehicle for the distribution of entertainment ever invented," said Yair Landau, president of Sony Pictures Digital Entertainment, as he opened the conference. "The Web, the rapid advance of processor-driven, digital technology, and the rise of a

> global economy already have sparked revolutions in the music, electronic gaming, and movie industries. But since mass networking of entertainment content—unlike data content—is still in its infancy, the full impact of that revolution has yet to be felt," said Landau, MBA '89.

> Consider the Terminator, a series of three (so far) movies produced in the United States. Released in 1984, the first film in the series cost between \$5 million and \$6 million to make and grossed about \$38 million. Seven years later, Terminator 2: Judgment Day cost close to \$100 million to produce and grossed \$52 million the first weekend it was released. So far, the movie has grossed \$204 million in the United States alone, according to the Internet Movie Database (www.imdb.com).

> How did the numbers get so big? On the production side, crowd-pleasing but enormously expensive special effects not available for the original Terminator quickly ran up the bill, said Landau. Additionally, computer-aided manipulation of images allows for nonlinear editing, a technique that dramatically increases the number of shots and the pace of the movie. Previously, movies were edited by physically splicing snippets

Then there's the globalization of sourcing and distribution. Whatever his failings (or virtues) as an actor, Arnold Schwarzenegger was arguably the first international action star; he recognized the power of an international brand and traveled extensively to build it. Meanwhile, Hollywood had deepened its penetration of foreign markets with a sophisticated web of distribution partnerships. As a result, Terminator 2 has made even more money abroad—\$310 million—than it has in the United States. That brings the total box office gross to about \$514 million, not including sales and rentals of VHS tapes and now DVDs. Terminator 3, set for release in July, cost nearly \$200 million to produce, said Landau.



while a few, like Spider-Man, ultimately become billiondollar franchises, with a web of distribution and ancillary rights and products spread over much of the

Can the creative process survive in such an intensely commercial environment? And how will digital technology continue to shape the entertainment industry? Those were some of the questions addressed by a highpowered gathering of leaders and rising stars of Hollywood last spring at the Business School's studentorganized "Future of Content Conference," an annual event where alumni and others in related businesses

In business terms, the success of the *Terminator* demonstrates the exponential increase in the potential rewards for companies investing in modern mass entertainment—as well as the risks.

Not every film is as expensive to produce as *Terminator 3*, of course, but a typical major-studio movie now costs about \$55 million to make and another \$30 million to market, Hal Richardson, MBA '80, head of international television distribution for

Expect networks to

experiment with new ways

to support advertisers, such as

sponsored concerts or sporting

events that contain unzappable

commercial content.

DreamWorks SKG, said at the conference. And to break even on that \$85 million investment, a studio needs to gross \$170 million at the box office, because roughly 50

cents of every dollar in ticket sales stays with the distributor.

Not surprisingly, the huge investment required to make a major movie adds enormous pressure to every step of the process. Is that pressure killing creativity? Probably not, said Richardson and others on a conference panel addressing that topic, but they agreed commercial pressures certainly restrict, and sometimes damage, the creative process.

Because the risks are so great, major studios are less willing to gamble on creative but unproven people, projects, and ideas, said Jim Fleigner, MBA '95, a veteran of Paramount Pictures and founder of Hangin' Hams Productions, an independent production company. Instead they prefer to make sequels or remakes of proven successes. That same pressure makes it difficult for the creative process to remain iterative. "I often get some of my best ideas late in a project. But big studios don't like surprises, so making significant changes late in the game is difficult," said Fleigner.

Fleigner, whose recent work was screened at the National Gallery of Art in Washington, D.C., added that art house divisions and, to an even greater extent, independent moviemakers are poorer but more flexible.

Anyone with a child under 10 probably has been badgered to buy a seemingly endless series of toys, dolls, costumes, or "happy meals" based on the hit movie of the moment. And that's no accident. "I call the ancillary market the necessary market," said Richardson. Sales of merchandise, DVDs, and other tie-ins often generate greater margins than the movies themselves and push projects into profitability, he added.

In fact, *Terminator 2* might never have been made if its predecessor hadn't done so well in video release, Landau said.

As schlocky or distasteful as some might find movie-inspired merchandise, the need to sell it doesn't usually impinge on the creative work. "People accused us of making *Toy Story* to sell toys," said Ralph Eggleston, a director and production designer at Pixar Animation Studios. "It wasn't true. There weren't even toys on the market

when the movie launched."

On the other hand, there are exceptions. Eggleston delighted his fellow panelists with a story about the making of an animated movie

called *Quest for Camelot*. Warner Brothers, he recalled, hired a producer with little animation experience. The producer had heard that brown-haired dolls are hot sellers, so he promptly ordered the animators to make sure many of the characters had the correct shade of hair. The movie cost \$140 million to make and grossed about \$19 million, Eggleston said.

Here are a few of other key points made at the conference:

- The music industry, under severe pressure from people who download, burn, and distribute free, albeit illegal, copies of commercial songs, will recover but will be less profitable, said Landau. A likely price point: \$1 a song. Despite the hype, no major artist has become a star without the marketing power of a major label, he said.
- Digital distribution and projection of films is coming but is being slowed by high costs (about \$100,000 per screen) and concerns about piracy, said Carl Rosendahl, founder of Pacific Data Images and a 1979 graduate of the Stanford School of Engineering.
- TiVo and other similar hard-drive—based recording technologies are worrying the television industry but won't put an end to commercials. Expect networks to experiment with new ways to support advertisers, such as sponsored concerts or even sporting events that contain unzappable commercial content, several speakers said.
- Top-tier video games now cost as much as \$13 million to develop and market but can generate \$100 million in gross revenue, said Bing Gordon, MBA '78, cofounder of Electronic Arts. By 2010, costs may have to triple to keep pace with growing demand for realism.

Another Oscar for Bill Guttentag

three years has cotaught the Business School MBA elective Working in the Film and Television Industries, received an Oscar for the documentary short Twin Towers. The film profiles two brothers, a New York City firefighter and a police officer, describing the emergency response to the September 11 terrorist attack.

"In our hearts, we're all New Yorkers," Guttentag said as he accepted his second Academy Award.

"Bill was the central architect, conceptually, in creating the course," said Rod Kramer, the Kimball Professor of Organizational Behavior, who coteaches the elective.

"Bill has created a unique business school course for students interested in the entertainment industry, bringing to campus industry leaders such as studio presidents, network executives, producers, writers,



OSCAR WINNERS: Bill Guttentag, left, and coproducer Robert David Port won an Academy award for their documentary, Twin Towers.

directors, and actors to discuss their experiences and challenges," said Kramer, adding that Stanford may now have the only business school in the country with an Oscar winner on its faculty.

The GSB course addresses the process of project development, production, and marketing; emerging technologies and their impact on the industry; and the roles writers, agents, producers, studio executives, and others play in the making and distribution of film, cable, and television productions.

Guttentag and his coproducer, Robert David Port, received the Oscar at the March 23 ceremonies in Hollywood. It was Guttentag's fifth Academy Award nomination and Port's first. Guttentag, who produces and directs the NBC series *Crime & Punishment*, also holds two Emmy awards.

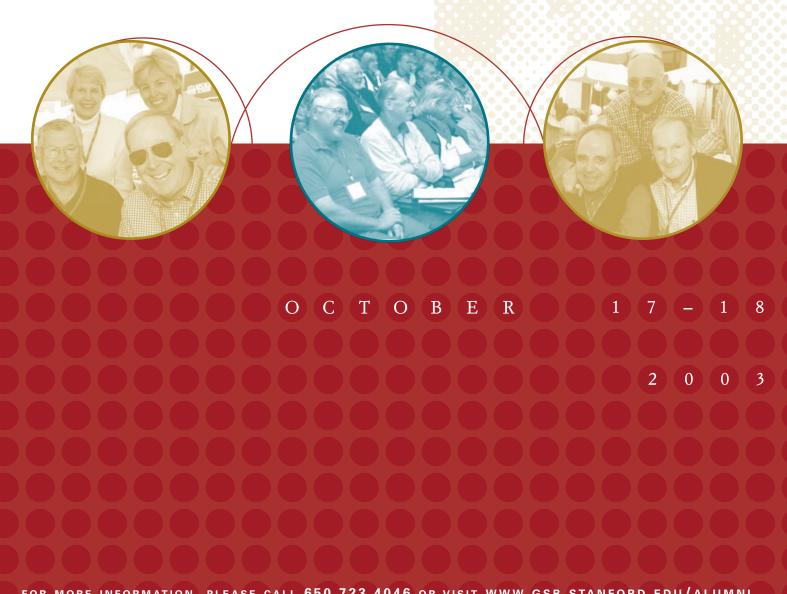






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Lead ACTor

BILL SCILACCI, MBA '49

INISHING UP THE INTERVIEW, Bill Scilacci asks the executive director of the family assistance organization for the phone numbers of her board members. "Oh, you don't need to talk to them," she replies. "They don't understand our problems."

"That's when the warning lights went off," says Scilacci, MBA'49, a retired banker and veteran organizer of Business School Alumni Consulting Teams—ACT for short. "If the paid director and board members of an organization aren't talking, they aren't ready for us," he says.

A veteran of 10 ACT projects, Scilacci usually works with partner Terry Erisman, MBA '90, to define projects that will be rewarding for the recipient organizations and the volunteer consultants. They make sure the organization has enough stability to benefit, and working with the paid director, they define the project before the rest of the team begins. "We now have MBA students on some teams, which is great because they are so talented with skills I don't have," Scilacci says. Each team produces written recommendations for the client; the client gives an oral status report a year later.

Scilacci, former president of the Bank of Santa Clara, finds the concrete projects an antidote to the frustration of some volunteer activities. He is a member of Santa Clara County's Juvenile Justice Commission

and, along with his wife, a trained advocate for children in foster care. "You almost have to be manic depressive" to do the latter job, he says, because "these kids have many highs and lows."

One of Scilacci's most satisfying projects has been for RAFT—Resource Area for Teachers, an organization that supplies surplus materials from Bay Area businesses for science and art educational activities to 5,000 teachers. Scilacci and seven others on the project team devised a checklist RAFT uses to decide when it is ready to replicate its program in other communities.

Unlike the director who did not want Scilacci to meet her board, Mary Simon, RAFT's director, welcomed the contact. "Taking our board's concerns into account reassured them," she says. "Now they are all very proud we have our first baby in Phoenix."

— KATHLEEN O'TOOLE

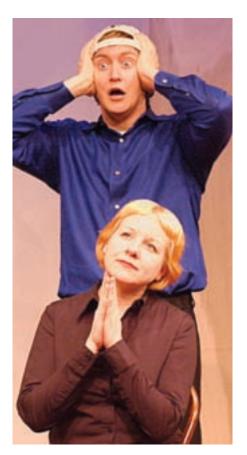
Funny Business

AL SAMUELS, MBA '95

L SAMUELS, MBA '95, small business owner, executive educator, and resident cast member of Chicago's famed Second City comedy theater, takes funny business seriously. Samuels performed in Second City's latest revue last night and just finished rehearsing his own company this morning. He will drive to Notre Dame this afternoon to lead an executive MBA workshop in improvisation. Yes, improv.

"Basically, we're trying to help people become improvisational leaders and help their companies become improvisational companies," Samuels explains. "In improv, you can't really make a mistake. So, instead of seeing change as something thrust upon you and becoming a victim, we teach you to use change to move yourself forward."

Business people love the skills used in improvisation and respond to them, he says. Most executives have taken team-building courses and think they've seen it all, he says. "They've been to the ropes course, they've built the giant toy sailboat, they've made the huge statue out of toothpicks. So their defenses are up. But deep down everybody wants to be a performer, and we show them how to do it. Some of these people have



I WENT TO BUSINESS SCHOOL FOR THIS? Al Samuels and fellow Second City cast member perform a sketch from the current show.

never been on stage—or only with a PowerPoint presentation. And now they're up and doing the kind of things you'd see on

Whose Line Is It Anyway?"

Samuels founded his company, Spark Creative, in 1996. Besides offering teambuilding and leadership workshops, Spark writes and performs shows customized to the specific company. Clients have included Fuji, Boston Consulting, Seagram, and McKinsey.

"I love theater," he says. "I would do it for free. I remember walking past the drama department on the way to a GSB job interview. I don't remember who the interview was with, but I remember thinking, 'Omigosh, I don't think I want to sell ketchup!'"

Samuels forsook ketchup, returned to Chicago, and auditioned for Second City. He made the touring company on the third try and then was invited to perform with the resident theater. Between local gigs he takes his own shows worldwide. This summer was typical: Charleston in June, Amsterdam in July, and the Edinburgh Fringe Festival in August. "Sometimes I wake up in the morning," he says, "and I think, 'Whose life am I living anyway? This is ridiculous!""

- JANET ZICH

WHEN I WAS ASKED TO TEACH A CLASS ON writing a business plan to a group of inmates in a prison outside of Johannesburg, South Africa, I expected it would be, well, educational. I've been a partner with Bain & Co. and run a startup, so I thought I could offer something. I also was intrigued, as I'd spent a week in prison myself 25 years ago. What I did not expect was to be inspired by inmates whose enthusiasm and smarts for business reminded me of my Stanford Busi-

TEACHING BUSINESS PRINCIPLES IN A SOUTH AFRICAN PRISON, A **GSB ALUM DISCOVERS THAT SOME PRISONERS HAVE MORE BUSINESS SENSE THAN SOME OF HIS BETTER EDUCATED FRIENDS.**

ness School classmates.

The prison itself has the charm of a subway tunnel. Drab hard surfaces echo. Prisoners walk languidly and view visitors cynically. As my first class gathered, however, I noticed a brisker pace and sparkling eyes. A few minutes into the session, I could see these inmates were passionate about business. Using strategic principles and the case method, we discussed the economics of armed robbery (scarily attractive), some moral issues (whether car theft is a legitimate form of income redistribution), and what could be done to cut crime. (Their responses were very Rudy Giuliani.)

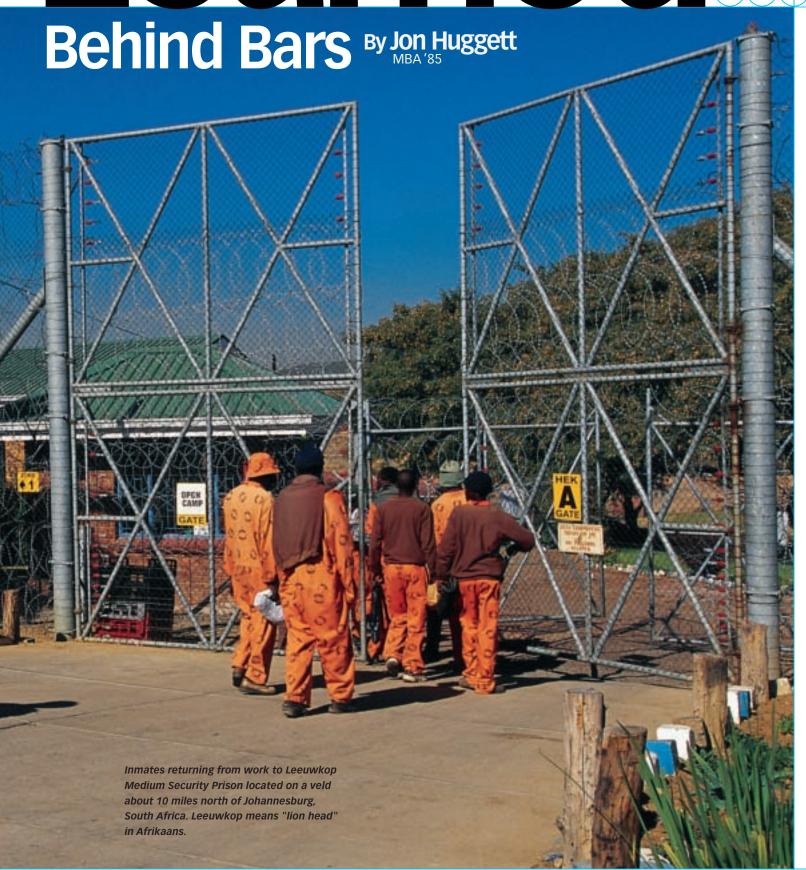
It all started for me when I saw a presentation by Khulisa, a nonprofit in South Africa doing rehabilitation programs for prisoners. They only admit a select group of well-behaved inmates in a handful of prisons around Johannesburg. Once the students are on parole, Khulisa helps them get established and not fall back into old ways.

At the end of his excellent presentation, one speaker announced that he had done time for car theft; another said he had served eight years for armed robbery. They invited us to attend their

Teaching Business STANFORD BUSINESS AUGUST 2003

PHOTOGRAPHS BY LOUISE GUBB

Behind Bars By Jon Huggett MBA'85



classes in prison, and I accepted. In Leeuwkop Prison the inmates quizzed me about what I did for a living and what car I drove. One asked me to help him with a business plan he was writing.

After a few days, Khulisa asked me to teach a two-part class to the medium-security group on how to write a business plan. "The guys in prison would really appreciate it," I was told. Flattered, I accepted, without thinking through how I would do it. My own business education has been with business people. I started working in retail 30 years ago, got an MBA from Stanford, and have received and given training at various companies, including P&G, BCG, and Bain & Co. But over the years, I've not had much success explaining the basics of capitalism to my friends outside business, many of whom retained deep suspicions of the profit motive. This class of 15 men in their 20s was serving sentences of 5 to 10 years for armed robbery, car theft, burglary. Most were high drugs. He always was very entrepreneurial.

I decided to use the first class to teach basic principles and the second to discuss the prisoners' ideas for businesses they wanted to start after release. As soon as I started, I realized that it was going to be fun. This was a bunch of guys who wanted to learn. Their notepads were ready. I was getting questions from all angles. Everyone was very polite.

I took them through the 10 principles I had picked for their business plans: vision, customers, competitors, capabilities, costs, partnerships, profits, people, capital, and action priorities. I'd planned on talking a while on this before taking them through a case to make it concrete. But the theory went quickly. The looks on faces and the questions asked suggested that they got the concepts. Somewhat nervously, I asked them for suggestions of businesses that they knew. "Let's leave the ones that you want to do for the homework. What businesses have

while parked or by holding up a driver and taking the car with the engine on. "With keys" requires carjacking.

Custom ordering came up, too: "The best [customers] are the ones that give you a specific order, you know, for a red BMW 3 Series convertible, or something like that. They pay well if you deliver exactly what they want. But nothing if it is not exactly right." Only the week before the newspapers had reported that car thieves had driven a car back to its owner and told her, "It's the wrong color."

Discussion of costs took us into risk and return. I asked the class what was the biggest cost of business in stealing cars. "You might get shot." Curiously, they reckoned that the risk of getting shot was less if you were carjacking than stealing from a lot, as the car was ready to drive away.

I brought up strategic partnerships with trepidation because it's a slippery concept that the best business minds have trouble

WHEN DISCUSSING CAR THEFT, TWO VISIONS WERE PROPOSED:

TO MAKE MONEY AND TO REDISTRIBUTE INCOME. THE CLASS AGREED THAT CAR THEFT IS NO LONGER A LEGITIMATE FORM OF TAKING FROM THE RICH TO GIVE TO THE POOR.

school dropouts, and all had learned English as a second language.

Two experiences helped me, though. Years of presenting to CEOs had taught me about getting to the point. I also could make some guesses about my audience, as I had spent a week in a prison in the United Kingdom as part of a program for Oxford undergraduates. The inmates I met there were bright but not well educated. They were not short of creativity and flair, and took great delight giving me tough cases to analyze, not unlike the job interviews I have given since to students in business schools. They were disappointed that I did not know how to break into a house or a car and taught me by the case method. No, I have not used these skills on any property but my own!

People have told me there is a strong correlation between juvenile delinquency and successful entrepreneurship. Personal experience bears it out. I've worked with more than my fair share of founders and entrepreneurs. They have energy, smarts, and little respect for rules. I've also seen this in prisoners and ex-convicts, and in an old friend who is now inside. I knew him 10 years ago in San Francisco and just read that he got arrested for dealing in a huge amount of

you already worked in?"

A forest of hands shot up. "I've worked in a shop." I wrote it on the whiteboard. "I've worked in a factory." Again, up on the whiteboard. "I sold vegetables." Written up. "I sold cars." The class laughed. I looked around and asked: "Did you sell them or steal them?" The reply came back: "Yes." More laughter.

We completed our list of businesses and picked the first to analyze. The winner by acclamation was car thieving.

I was a bit concerned that I might be helping them be better criminals, but I hoped this discussion would give them a chance to understand the principles they would use in legal businesses. In any event, there was nothing I could teach them about car theft. They taught me a lot, actually. Prisons are huge colleges of crime, which is why so many prisoners come out better criminals. As we went through each of the 10 principles I had picked, the discussion dove into much more than I had expected.

Segmentation came up as the critical issue when discussing customers. "There are different kinds of customers. Some want cars with keys while others will take them without." In South Africa, cars are stolen either

gripping. "If you are a car thief, who might you want as a partner?" I asked. Multiple voices answered together: "The police." I learned more about corruption.

After car theft, we had good discussions on running legal businesses, including a bar and a factory. Then I gave the class its homework: Develop a 10-point plan for a business they would like to start when they got out.

The one thing that prisoners do the world over is to dream about what they will do when they get out. This group wanted to run businesses legally, so they had thought through their ideas well by the second class.

One of the quieter students said: "I want to open a bookstore." Everyone looked at him curiously. "In my township there are 600,000 people, 12 schools, and no bookshops. People have to travel 15 kilometers by taxi to buy books for school."

Another had put together a detailed spreadsheet of his cash flows for the first year—by hand. (There is no Excel in prison.)

Yet another had some interesting ideas on hiring. "I'm going to hire ex-convicts. They will work harder, as they have something to prove. And I know the tricks so I can make sure that they don't steal."

The students were very helpful to each



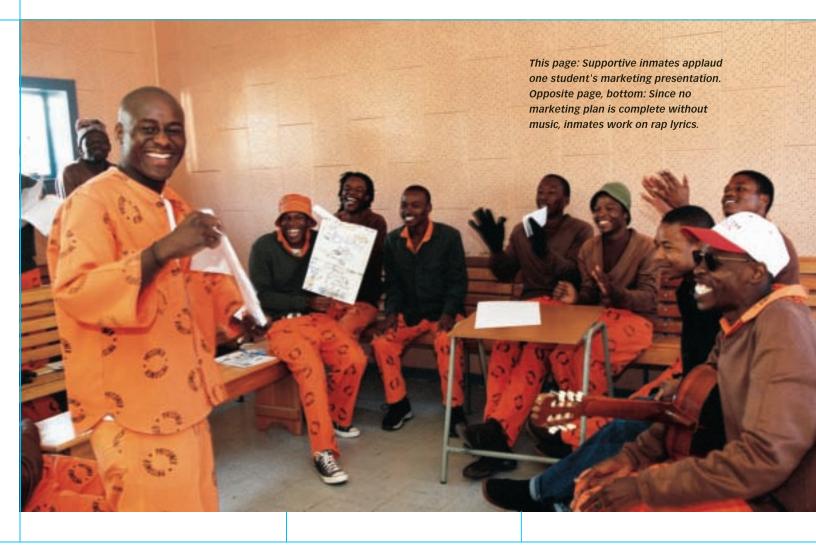


other, asking, "How will you make money with that?" and in offering good support. The class praised the aspiring custom furniture maker for his talents with wood. The potential wholesale grocer was acknowledged as being very sharp with numbers.

We also touched on ethics. When discussing car theft, two visions were proposed: to make money and to redistribute income. The class agreed that car theft is no longer a legitimate form of taking from the rich to give to the poor. But in apartheid days "tsotsis" (thieves) had acquired a certain cachet as guerrillas against the police and therefore the apartheid regime. Even today "tsotsi-taal" (thief language) is the hip slang of the country.

This is a bigger issue in South Africa than in most countries. The strategy of the banned African National Congress under apartheid was to make the country ungovernable. Taxes and rents went unpaid. The police were disrespected and disobeyed. The ANC, which came to power in the 1994 elections, is now on the other side of the fence.

Pravin Gordhan, the head of the South African Revenue Service, remarked to me on the paradox. An ANC leader, he was tortured by the apartheid police and now heads the transformation of part of the government. He was so successful in improving tax



TEACHING THE CLASS TOOK ME BACK TO THE GSB. AGAIN I WAS IN A ROOM FULL OF BRIGHT FOLKS WITH A PASSION FOR BUSINESS WHO BROUGHT A WIDE RANGE OF EXPERIENCES AND BACKGROUNDS TO DISCUSSING THE CONCRETE AND THE ABSTRACT.

collection that last year the government was able to reduce tax rates and increase spending while cutting the deficit. But he says that he still has a long way to go. Many South Africans do not yet see paying taxes as a civic duty.

I asked the class what they would do to cut crime in South Africa if they were president. What came back was similar to the changes that have transformed New York: Prosecute all crimes, big and small; keep the police honest; and improve the schools.

One retired armed robber educated me on the scarily attractive economics of his business. He made about \$900 per robbery and could do about eight per year. This is good money in South Africa, where \$2,000 is a good annual wage for the lucky ones who have work, and he had never managed to get a full-time job. On his 15TH robbery, he was betrayed by a former accomplice, caught, and convicted. He was relatively unlucky. In 19 out of 20 carjackings, for example, the

criminal is not caught. Many who are arrested get off. He served six years.

Prison itself is a scary prospect in South Africa, where 30 to 35 are crowded into a cell. Gangs rule. Estimates for HIV infection rates vary from 45 to 75 percent. I was told that gangs sometimes punish prisoners by deliberately raping them to infect them in a process called "the slow puncture." Forget trying to get drugs for treatment.

Most of my students are still inside, but they are getting out one by one. They are lucky to be a part of Khulisa's program. It has helped many of them graduate from high school while in prison and to learn other skills. When they get out they join a reintegration program to stay out of crime, rather than just go back to their old friends and old ways.

Their business plans were impressive and, frankly, they need to be. Few employers want to hire ex-convicts in a country with 40 percent unemployment. Starting an honest

business would keep them out of crime, provide a bit of money and dignity, and maybe employ a few of the millions of unemployed. If they fail, I'm convinced it will not be for the lack of energy or a nose for business.

That's why teaching the class took me back to the GSB. Again I was in a room full of bright folks with a passion for business who brought a wide range of experiences and backgrounds to discussing the concrete and the abstract. Anyone with the experience of Silicon Valley would have recognized the entrepreneurial talent. It's a pity that they spent their first 25 years without good education except in crime.

I hope I helped them. The class gave me so much, too. I learned something about how not to get my car stolen (again). But most of all their eagerness to learn and their passion for business energized me. So many business people I see lack this. I wish them every success. And I hope that they can keep inspiring people!

NEW BEGINNINGS

SINCE THEY WERE RELEASED from a South African prison last year, Ben Maphosa, Thabo Hermans, and Humphrey Shongwe have founded a venture with partner Catherine Wreyford of NKS Consulting. Called Sisonke, a name that means "together" in four South African languages, the business provides outsourcing services such as data capture, warehousing, and analysis, and technical assistance to labor unions.

"We have developed a program called Ilungawise [mean-

Jon Huggett

ing "member wise"] to capture more than 800,000 members' details," Maphosa said. "We charge for the software and for data entry." The hardest part, he added, is marketing, but the group hopes

to expand and employ other ex-offenders within five years.

Maphosa, Hermans, and Shongwe are graduates of Khulisa, a program founded in 1997 by South African Lesley Ann van Selm to rehabilitate prisoners. Largely staffed by ex-offenders, the organization offers weekly workshops in creative writing, personal transformation, group therapy, and vocational skills development to inmates with good prison behavior records. My business plan class was part of that

> program. On release, Khulisa links participants to jobs and selfsustaining opportunities pledged by local businesses. Fewer than 20 percent of its graduates have been rearrested after their release compared



with more than 80 percent for the prison population overall.

"I got involved with Khulisa, not really knowing what it was," says Hermans, who had landed in prison after starting a life of crime: stealing cars and burglarizing houses as an adolescent member of a gang. The workshops allowed him to see himself in a different light. "I realized I was a talented person and acknowledged that I could—and must—set myself goals in life." — JON HUGGETT

Lesley Ann van Selm, center, founder of the Khulisa Offender Rehabilitation Program with two former students, Ben Brown, left, and Simon Kunene, who has been employed by Khulisa for five years. Brown, who introduced the author to the scary economics of car hijacking, is a master HIV/AIDS trainer and has just bought his first car.



HOTOGRAPHS BY LOUISE GUBB, CORBIS

Face-Off

Environmentalists hijacked Coke's polar bear ad campaign to fight global warming, a strategic maneuver in the battle between social activists and big business.

IN THE SUMMER OF 2000, with the world gearing up for the Sydney Olympics, Greenpeace launched a boycott against Coca-Cola. Coke, an Olympic sponsor, used hydrofluorocarbons, or HFCs, as refrigerant in its dispensing machines—gases that Greenpeace said contributed to global warming. Greenpeace Australia produced a downloadable poster under the caption "Enjoy Climate Change" depicting Coke's family of polar bears worriedly sitting on a melting ice cap. It urged the public to download the posters and paste them on Coke machines.

Bowing to increasing public pressure, Coca-Cola announced that it would eliminate the use of HFCs in refrigeration by the 2004 Athens Olympics.

Greenpeace's decision to target Coke is an example of a campaign strategy that has become increasingly common over the last decade. It reflects a growing reliance by activists on private politics to effect corporate change. *New York Times* columnist Thomas Friedman, writing in 2001 about an international boycott against Exxon Mobil for its refusal to address global warming, characterized the movement as "globalization activism." He quoted Paul Gilding, the former head of Greenpeace, who explained, "The smart activists are now saying, 'OK, you want to play markets—let's play."

Smart environmentalists "don't waste time throwing stones or lobbying governments," Friedman wrote. "That takes forever and can easily be counter-lobbied by corporations. No, no, no. They start with consumers at the pump, get them to pressure the gas stations, get the station owners to pressure the companies, and the

By David P. Baron

Illustration by DANIEL ADEL



companies to pressure governments."

An activist's decision to take on a company and a firm's response constitutes strategic competition. Boycotts are one of the primary weapons in the activists' arsenal. They often are reinforced by demonstrations, public chastisement, or criticism of a firm's leaders.

Several studies have measured the stock price performance of companies that were boycott targets. The empirical evidence is largely inconclusive. Moreover, the boycotts we remember are generally the ones that worked. If data were available on all attempts, it would probably show that most boycotts fail. However, just as one cannot infer the importance of the veto by examining the small percent of bills vetoed by the president, one cannot infer the significance of private politics from the number of campaigns initiated. Congress anticipates the president's veto and modifies bills accordingly; many firms attempt to proactively adopt policies that reduce the likelihood of becoming targets.

A useful step in thinking proactively is to put yourself in the activists' position. The first thing activists need to do before launching a boycott is to assess the saliency of their issues. Can the message be clearly articulated in a straightforward way? Is it a morally compelling argument? Will it likely engender public support? Is the issue capable of attracting the media's attention?

Activist Strategies When Launching a Boycott

SELECT A STRONG ISSUE

- Can it be articulated in a simple and accessible way?
- Is it morally significant to a wide segment of the public?
- Is it likely to attract media attention?

SELECT A GOOD TARGET

- Companies that make consumer goods.
 Public can punish by not purchasing goods.
- Companies that make products with low switching costs.
 Public can easily purchase another product.
- Companies that produce negative externalities (such as pollution).
- Multinational companies. Operations in one place can be attacked by activists in another.
- Companies with a combative or confrontational style.

Once the issue is identified, the key for any activist is to assess, and then select, a target. A company that makes consumer products, such as Coca-Cola, is susceptible because consumers, if motivated to do so, can switch to competing products. (Companies that make nonconsumer products—like machine tools, which are sold to other businesses—are not as vulnerable.) A company could be particularly vulnerable if consumers' switching costs are low, as is the case with soft drinks.

Activists also need to take a hard look at the firm's operations. Does the firm truly produce negative externalities—such as pollution or global warming? Does it have an image that can be exploited? Or is the firm a good corporate citizen?

Firms, when faced with a boycott, need to understand the activist groups, their agendas, and concerns. Companies must also quickly ascertain the extent of public support for activist agendas. Where is the issue in its life cycle, and how rapidly is it progressing? Are

government officials likely to get involved? Are sympathetic individuals likely to act? Determining the most effective strategy requires understanding the nature and strength of activists and interest groups, the concerns that motivate them, the likelihood of media coverage, how much damage they might cause, how central the issue is to their agenda, and whether they are led by professionals or amateurs. Professionals are more difficult to co-opt, but they may be more practical. With limited resources, activists and interest groups may abandon an issue when winning appears unlikely.

Some companies seek to avoid becoming targets by positioning themselves as "socially responsible." That strategy, as we shall see, is not without risk. Other firms, sensing that the activists may hit on an issue with potential for strong public backing, seek to preempt a boycott by bargaining with activists.

When activists miscalculate their strategic approach, their boycotts tend to falter, squandering valuable organizational resources and credibility. When companies mishandle their nonmarket strategies, they may have to pay a steep, if unanticipated, price.

WHEN BOYCOTTS WORK

Greenpeace vs. Shell UK

IN THE SUMMER OF 1994, Greenpeace learned that Shell UK was planning to dispose of Brent Spar—a 453-foot-high cylindrical oil storage facility weighing about 14,500 tons—in the North Sea. Greenpeace, founded in 1971, was by that time the world's largest environmental group with about 3.1 million contributors and a budget of about \$140 million.

The Brent Spar issue seemed to be a solid choice for Greenpeace. It was relatively easy to grasp (Shell was dumping its "garbage" in the North Sea) and morally suspect (deep-sea dumping was bad for the environment). "The average citizen thinks, 'Here I am dutifully recycling my garbage, and there comes big business and simply dumps its trash into the ocean,'" Harald Zindler, head of campaigns for Greenpeace Germany, said in a case study of the controversy.

The issue also fit with Greenpeace's more general strategic approach. "We try to keep it simple," said Steve D'Esposito, an American who was executive director of Greenpeace International. "One, we raise environmental awareness. Two, we want to push the world toward solutions, using the most egregious examples."

Shell UK turned out to be an excellent target. It sold branded gasoline worldwide, and consumers could switch to another brand without any significant cost increase. The company turned out to have a cautious and reticent approach to dealing with public issues. Greenpeace's approach was quite different. "The whole point is to confront; we try to get in the way," said D'Esposito. "Confrontation is critical to get coverage in the press or to reach the public some other way."

On April 30, 1995, Greenpeace activists landed on Brent Spar by boat. The group was expelled by Shell, but German television broadcast extensive coverage of soaked activists throughout the three-week occupation. In response to the media coverage, expressions of outrage and protest grew in Germany and the Netherlands—satisfying a key element of private politics: public support. On May 22, the worker representatives on Shell Germany's supervisory board expressed "concern and outrage" at Shell's decision to "turn the sea into a trash pit."

Under pressure, executives of Shell Germany met with Jochen Lorfelder of Greenpeace. The chairman of Shell Germany said that

"All Joe Six-Pack knows is that if he dumps his can in a lake, he gets fined. So he can't understand how Shell can do this."

studies indicated deep-sea disposal was the best alternative for the environment. "But Joe Six-Pack won't understand your technical details," Lorfelder shot back. "All he knows is that if he dumps his can in a lake, he gets fined. So he can't understand how Shell can do this."

In June, Shell's German sales dropped 20 to 30 percent—in some areas, 40 percent. The mayor of Leipzig banned Shell gas in city vehicles. Boycotts spread to the Netherlands and Denmark. Shell resorted to high-powered water cannons to keep a Greenpeace helicopter from approaching Brent Spar—providing graphic television images. On June 19, German economics minister Guenther Rexrodt announced his ministry would join the boycott.

For its part, Shell's response was uncoordinated and unfocused, so the German public received inconsistent messages from the company. Although Shell Germany suggested the project could be halted, Shell UK refused to stop towing Brent Spar toward the dumpsite.

The pressure continued to build, and the firm chose perhaps the most direct way to resolve the issue: It gave in to activist demands. Shell UK announced that it would abandon plans to sink the Brent Spar. Instead it would attempt to dismantle the platform on land.

WHEN BOYCOTTS FAIL

PUSH vs. Anheuser-Busch

THE REV. JESSE JACKSON, founder of Operation Push, had what seemed at first blush to be a powerful issue: economic equality for black Americans. In 1982, Jackson sought an economic reciprocity agreement with Anheuser-Busch, the St. Louis-based beer company. Blacks consumed 15 percent of Anheuser-Busch's output, Jackson reasoned, and therefore 15 percent of the company's deposits should be in black-owned banks, 15 percent of its wholesalers should be black, and 15 percent of its purchases should be from black suppliers.

The issue, pitched as one of economic fairness, seemed to have saliency. Jackson had previously reached more modest agreements with Seven-Up, Coca-Cola, and Heublein. If Anheuser-Busch did



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not agree to an economic reciprocity program, Jackson threatened to launch a nationwide boycott using the theme "Bud is a dud." He planned to kick off the boycott in St. Louis and then carry it to other cities with large black populations.

In this case it was the activists who were poorly positioned visà-vis the company. Earlier in the year, PUSH had irritated the St. Louis black community when it held an economic reciprocity conference and charged \$500 for admission. The *Sentinel*, a black weekly, attacked Jackson in an editorial, and Jackson threatened a libel suit.

Furthermore, while it might have been easy for consumers to switch to another beer, Anheuser-Busch turned out to be a poor target. The company was proud of its minority employment record and had established good relations with the St. Louis black community and its leaders. Eighteen percent of its employees were minorities, including 9.6 percent of its managers and officers. The company maintained deposits of \$10 million in minority banks and purchased \$18 million in goods from minority suppliers. It had two black board members, including Wayman F. Smith III, vice president for corporate affairs. Anheuser-Busch believed its minority programs were among the nation's best. It decided to fight back.

One key to Anheuser-Busch's counterattack was that is was proactive. First and foremost, it adopted an aggressive media campaign. Smith traveled to cities where Jackson was appearing and held press conferences of his own, presenting information on the company's minority programs.

Another key element of the company's strategy was that top-level officials refused to meet with Jackson. August A. Busch III, the company chairman, denied Jackson the opportunity to negotiate directly, diminishing the opportunity for a media event. Smith was willing to meet Jackson, but he controlled the release of information and refused to give out statistics on black employees. The company's policies, he said, focused on all minority groups.

The result was a stalemate, and Jackson was forced to seek rapprochement. Busch finally agreed to meet him in September 1983. Following the meeting, Jackson seemed to step down. "You may recall that Operation Push has, on past occasions, been critical of the extent of Anheuser-Busch's commitment to providing the black community with opportunities for advancement," Jackson said. "As a result of my recent meeting with August Busch III, I believe that our prior view of the sufficiency of his and his company's commitment may have been attributable to a failure of communication."

REDUCING THE BOYCOTT THREAT?

BP and Social Responsibility

ONE WAY THAT FIRMS try to avoid the glare of private politics is by taking proactive steps to reinforce a socially responsible image. British Petroleum is a company that has positioned itself as a model of corporate social responsibility. In May 1997, the Lord Browne of Madingley, BP'S CEO, told an audience at the Stanford Graduate School of Business that it was time to "consider the policy dimension of climate change."

"A new age demands fresh perspective of the nature of society and responsibility," said Browne, Sloan '81. "We are all citizens of one world, and we must take shared responsibility for its future." To that end, BP announced specific goals to reduce by 10 percent its carbon dioxide emissions contributing to global warming.

Browne's words and policies earned his company praise from environmentalists and the public. "Compared to other oil companies, BP was the first major to come out in favor of policies to reduce co₂ emissions," said Chris Rose, deputy executive director of Greenpeace. Rose called BP one of "the good guys in this industry."

BP set targets for reduction of overall air, waste, and water emissions, and built BP Solar International into one of the world's leading manufacturers of solar power generating equipment. The company inked a \$30 million contract with the Philippine government to install over 1,000 packaged solar systems in 400 remote villages. BP also pledged to eliminate flaring—the burning of natural gas generated in conjunction with crude oil production and a major source of carbon dioxide emissions.

This type of positioning may diminish the risks of private politics. But in suggesting that oil companies ought to accept greater social responsibility, Browne opened BP to the challenge of meeting that higher standard. That eventually became a problem for BP, which remained the largest producer of oil on the North Slope of

Strategies for Responding to Public Pressure

- Position the firm as socially responsible.
- Meet with activists; cooperate and bargain; negotiate a resolution that may go beyond what is required by law.
- Launch proactive and counteractive media offensive.
- Accede to activist demands.

Alaska. When BP initially sought permission to drill in the Arctic National Wildlife Refuge, environmentalists cried foul. Activists placed a shareholder resolution on the BP annual meeting agenda seeking to phase out oil and gas production. (It received only 7 percent of the vote but attracted considerable public attention.)

"[BP] built their brand on how environmentally friendly they are," a Greenpeace campaigner told the *Wall Street Journal*. "This has given us the impetus to push them to fulfill the implicit promises they've made."

In November 2002, BP stated that it would stay on the sidelines on the Refuge issue and pulled out of the lobbying group spearheading the campaign to open the wildlife area to drilling.

SYNERGY ON SOLID WASTE

McDonald's and Environmental Defense

WHEN CONFRONTED WITH a private politics campaign, one possible response is to evaluate activist claims and determine they have merit. When faced with an increasing solid waste problem in the early 1990s, McDonald's decided to cooperate with activists. The result—instead of boycott—was a negotiated settlement that arguably left both sides, and the environment, better off.

McDonald's, at the time, was an ideal target for a private politics campaign. On any given day, millions of people held McDonald's Styrofoam coffee cups and sandwich containers in their hands. The fast food giant used 50,000 tons of foam packaging each year, a concern to environmentalists working on problems of solid waste disposal. Others targeted the volume of paper it used and the timber cut as a consequence. By 1990, under pressure from the Citizens Clearinghouse for Hazardous Waste, McDonald's had agreed

to replace its polystyrene clamshell sandwich container with paper, and it had begun to experiment with on-site incineration, but the massive solid waste problem was still much in evidence.

The company's strategy changed when an invitation came to discuss the issues with Environmental Defense (ED), an advocacy organization that had been critical of McDonald's on-site recycling plans. McDonald's and ED established a joint task force, which analyzed the company's operations. A final report in 1991 identified 40 steps to reduce solid waste by 80 percent. McDonald's formally agreed, for the first time, to consider waste reduction when making decisions on disposable packaging.

"The results of the task force far exceed all of our expectations and original goals," said Keith Magnuson, McDonald's director of operations and a task force member. "We started out to study waste reduction options. Instead, we developed a comprehensive waste reduction plan that is already being implemented."

HOW DO ACTIVISTS GAUGE THE SUCCESS of a private politics campaign? How can firms know if, in the end, they have adopted an effective strategy in the nonmarket arena? Sometimes, when there is no bottom line to examine and no earnings to tabulate, it can be very difficult to know who, in fact, has "won."

In the Anheuser-Busch case, for example, the company seemed cognizant of the potential impact Jackson's barbed campaign might have had on its image. In a statement released after Busch and Jackson finally met, the company took pains to reaffirm its commitment to minority programs and detail steps it had already taken.

"Anheuser-Busch has a record of which we are proud," Busch said. "We are not perfect. We are committed to a course of fairness and are determined to build upon an already strong record. We recognize our obligations to work closely toward that end with all respected civil rights organizations."

Though Jackson did not get his reciprocity agreement, the issue had been placed squarely on the company's radar screen, and its chairman, in the end, had publicly promised to keep it a top priority.

Consider also the epilogue to the Brent Spar case. Soon after Shell UK backed down, a report came out in the journal *Nature* concluding that the environmental impact of dumping Brent Spar in the ocean would "probably be minimal." Indeed, the article stated, the metals might even be beneficial to the deep-sea environment. Furthermore, according to some scientists, land disposal posed more serious environmental risks. At this point, however, Shell UK said it would stick to its decision to abandon deep-sea disposal.

The Brent Spar was towed to a fjord in Norway. After an independent Norwegian inspection agency surveyed the contents, doubts arose about Greenpeace's estimates of the remaining oil sludge. Greenpeace uk's executive director, Lord Peter Melchett, admitted that the estimates were inaccurate and apologized. Shell uk welcomed the apology and announced its intention to include Greenpeace among those to be consulted the next time it was considering actions with environmental impact. After a year of acrimonious competition, in which both sides expended tremendous resources, it seems the two adversaries ended up where they might have done well to begin. After an open process to explore disposal options, the Brent Spar was dismantled and used to build a quay in Norway—identifying a new solution to an environmental problem.

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faculty news

Students Honor Outstanding Teachers

IS LECTURES WERE like command performances," said one MBA student nominator of Yossi Feinberg, associate professor of economics, who was honored with the 2003 Distinguished Teaching Award at a ceremony in May. In addition, doctoral students honored Darrell Duffie with the PHD Distinguished Service Award for his teaching, advice, and support of students and the acafessor was demanding of his students in the required first-year microeconomics course, he demanded even more from himself.

Kicking off the ceremony, Dean Robert Joss set the context for the award. "Here at the Stanford Business School, we produce ideas and graduates who are expected to have a high impact on the world," he said. "Our faculty play a key part in the production of both."

In nominating Duffie for the PHD award, one doctoral student said: "Darrell is the most dedicated teacher I have ever had. He wants all students in his class to learn and is willing to put in the effort and time to make sure that happens. The best students from math, statistics, engineering, economics, and the GSB take this class. There is no better way to learn asset pricing than from the master."

Students also praised Duffie, the James Irvin Miller Professor of Finance, for supporting their job searches, helping them expand their educational

horizons, and spending his personal time on their issues.

In nominating Kasznik, Sloan students said the associate professor of accounting taught "in a comfortable and safe learning environment for those of us who thought accounting would be particularly challenging. He drew upon our experience and allowed us to learn from each other as well as him. Accounting is not usually considered to be interesting, memorable, and fun, but Professor Kasznik made it all of those."

avid Brady, who loves to argue politics Uand discuss ethical dilemmas, and who's been known to debate what kind of fishing fly to toss at a native trout, has been honored by the Business School faculty with the Robert T. Davis Award recognizing extraordinary lifetime contributions to the School.

Brady is faculty advisor to the Public

Management Program, a past associate dean, and recipient of the Silver Apple Award presented by the Stanford Business School Alumni Association for service to alumni. He is the Bowen H. and Janice Arthur McCoy Professor of Political Science and Leadership Values at the Business School, a professor of political science in the School of Humanities and Sciences, a senior fellow at the Hoover Institution, codirector of the Stanford Social Science History Institute, and director of Stanford's Undergraduate Program in Public Policy.

He holds Stanford's Dinkelspiel Award for Distinguished Teaching and the Phi Beta Kappa Distinguished Teaching Award, and is acting vice provost for Learning Technologies and Extended Education at Stanford.

member of the Business School faculty for 33 years, David B. Montgomery has been named dean of the School of Business of Singapore Management University. The Sebastian S. Kresge Professor of Marketing Strategy, Emeritus, Montgomery is internationally recognized for his work in marketing and is the 2002 recipient of the American Marketing Association's highest award for contributions to marketing strategy.

Ronald Frank, the Singapore university's president, praised Montgomery as an excellent teacher, prolific author, and effective consultant on five continents.

hree faculty members have been honored with new academic chair titles. They are V. Seenu Srinivasan, the Adams Distinguished Professor in Management; Lawrence M. Wein, the Paul E. Holden Professor of Management Science; and David M. Kreps, the Theodore J. Kreps Professor of Economics.

Srinivasan is an internationally known specialist in marketing who has revolutionized academic and applied thinking in his academic field. He has received the Churchill Award for lifetime achievement in marketing research and the Converse Award for outstanding contributions, among others. Srinivasan's work centers on conjoint analysis (methods for understanding customer preferences), new product development, market structure analysis, and brand equity measurement.



Students in three programs honored faculty members (from left) Darrell Duffie, Ron Kasznik, and Yossi Feinberg.

demic process. The Sloan Excellence in Teaching Award went to Ron Kasznik for the second time in three years.

"The quality of teaching here is amazing," remarked a humble Feinberg when he accepted the MBA award. "I still think there's a mistake," he joked.

There was no mistaking the praise for Feinberg, as cited by first-year MBA student John Abbamondi, who introduced him. "What shows up again and again in these comments [from fellow students] is the portrait of a man who taught with wisdom and compassion, simultaneously pushing his students extremely hard while doing everything he could to ensure that they succeeded." Most notably, he added, although the pro-

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Wein, who joined the Business School faculty in the fall of 2002, is recognized for his work in operations management, supply chain management, medical treatment, and e-commerce. Most recently, he has authored several papers that have influenced government policies in preparing response plans in the event of bioterrorist attacks with pathogens such as smallpox or anthrax.

Kreps, who currently is senior associate dean for academic affairs at the School, is an economic theorist of international reputation. He is a recipient of the John Bates Clark Medal recognizing his work in economics and is a member of the National Academy of Sciences and the American Academy of Arts and Sciences. Kreps' pathbreaking work concerns dynamic choice behavior and economic contexts where dynamic choices are key. He has contributed to the literature of axiomatic choice theory, financial markets, dynamic games, bounded rationality, and human resource management.

arissa Tiedens, associate professor of organizational behavior, is the 2003 recipient of the Ascendant Scholar award, which recognizes individuals who have made significant professional contributions during the early part of their career and who show promise for the future. The award is presented by the Western Academy of Management.

Her research interests focus on the feeling and expression of emotions in organizations and social hierarchy and power.

peter Henry, associate professor of economics, testified before Congress last spring concerning the Bush administration's desire for free trade agreements with Singapore and Chile that would improve the access of u.s. financial services companies in those countries. Henry, whose research involves understanding how financial reforms affect developing countries, told the House Financial Services Committee that free trade agreements "should refrain from any language that inadvertently pushed countries into prematurely liberalizing dollar-denominated foreign borrowing." He did, however, say that all countries would ultimately benefit from liberalization, provided that it occurs gradually.

"All the evidence we have indicates that countries derive substantial economic benefits from opening their stock markets to foreign investors. There is no reason to think that Chile and Singapore will be any different in this regard." (See more on Henry's research, page 28.)

faculty publications

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ANI HON GINC

Debt Relief Works for Some Poor Nations



HAT DO JESSE HELMS, THE POPE, and rock star Bono have in common? In recent years, they have all been calling on the wealthy nations of the world to relieve the debt of developing countries. The International Monetary Fund also has been working to garner support for a mechanism that would assist countries drowning in debt.

Is debt relief a viable solution to worldwide poverty or a waste of time and money? Arguments on both sides have appeared to be theoretically plausible and persuasive, making the debate particularly prolonged and acrimonious. "The problem," says Peter Henry, associate professor of economics, "is that both sides hold strong views but have not bothered to look at the facts." In a recent study funded by the National Science Foundation and the Stanford Institute for Economic Policy Research, Henry and Stanford graduate student Serkan Arslanalp analyze data that may finally settle the question.

To evaluate the pros and cons of debt relief, they employed a traditionally reliable source of economic information: the stock market. They examined how the stock markets of the 16 developing countries that reached debt relief agreements under the Brady Plan (named after former U.S. Treasury Secretary Nicholas Brady) between 1989 and 1995 responded to news of their own Brady agreement. The researchers found that the stock markets appreciated by an average of 60 percent in real dollar terms in the year prior to the announcement—the period in which each country was outlining its debt relief strategy with the anticipation of acceptance under the Brady Plan.

The evidence thus shows that debt relief was beneficial because market participants expected it to have a positive economic effect. To determine whether the stock market reaction was a reliable predictor of real economic improvement or merely shortlived "irrational exuberance," the study also considers whether the market increase accurately predicted a greater influx of foreign investment and higher levels of economic growth in these countries. "It turns out that the stock market was almost always right," says Henry. "Within a year of each country's Brady agreement, foreign capital began flowing back in, and robust economic growth resumed.

"The major problem for the Brady countries was that they ran into temporary diffi-

culty servicing their debt," Henry explains. "Creditors got worried and rushed to collect on their loans all at once. This meant that no one could be paid at all, which caused a complete economic standstill. Once some of the debt was relieved, it cleared the way for new funds to come from other sources. This provided the impetus the countries needed to stimulate investment and growth."

But debt relief is not the best use of funds across the board. The study finds, in particular, that debt relief for what has been referred to as the "highly indebted poor countries"—a group of 42 of the world's poorest countries, mostly in sub-Saharan Africa—will not produce the salutary effects that it did for the Brady countries. Whereas the Brady countries were suffering from a temporary inability to service their debt, the poorest debtridden countries suffer from a more fundamental problem.

"They lack much of the basic social infrastructure that forms the basis for profitable economic activity—things like well-defined property rights, roads, schools, hospitals, and clean water," Henry said.

To compare the social infrastructure of countries, he used a measure that ranks 127 countries. The United

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For some coun-

tries, debt relief

because market

was beneficial

participants

expected it to

have a positive

economic effect.

States has the best social infrastructure; the median Brady country ranks 63RD, while the median highly indebted poor country ranks 102ND.

"Since the principal problem of this latter group is a lack of social infrastructure, there is little or no scope for profitable lending to them in the first place," explains Henry. "Hence, there is no reason to believe that debt relief there will stimulate a sudden rush of foreign capital that leads to higher investment and growth."

What the study implies, then, is that highly indebted poor countries should be targeted not for debt relief but for direct aid that would assist governments in building social infrastructure. "This is what would eventually make them attractive places for both domestic and foreign investment," Henry says.

Debt relief would be efficient in highly indebted (but not so poor) countries—such as Indonesia, Pakistan, Colombia, Jamaica, Malaysia, and Turkey.

"The message of the study is ultimately a hopeful one," he concludes. "It indicates where and how international resources can best be used to help developing countries."

- MARGUERITE RIGOGLIOSO

"Debt Relief: What Do the Markets Think?" Serkan Arslanalp and Peter Blair Henry, 2002. NBER Working Paper No. 9369, National Bureau of Economic Research, Cambridge, Mass.

Organizational Behavior

Hailing Outside Prophets Can Threaten Inside Profits

T'S BEEN SAID THAT NO ONE IS A PROPHET in his own land, but can anyone be a prophet in his or her own organization? Apparently, the ancient adage seems to hold true even in our modern temples of commerce, says Business School Professor Jeffrey Pfeffer. People in most companies, he has found, value knowledge possessed by outsiders more than they do that possessed by members of their own organization.

The finding is revealed in a paper he wrote with Tanya Menon, PHD 'oo, an assistant professor at the University of Chicago Graduate School of Business. "The study occurred almost accidentally, while we were analyzing a merger," said Pfeffer, the Thomas D. Dee II Professor of Organizational Behavior. "We saw how one of the companies proceeded to destroy the company it bought, despite the fact that it had initially held this company on a pedestal."

A preference for the knowledge of outsiders seems to contradict prevalent theories characterizing organizations as being dominated by favoritism for the "in-group" and biased against ideas from the outside—the familiar not-invented-here syndrome. To study the phenomenon, Pfeffer observed the inner workings of several companies, interviewed their managers and employees, and analyzed data from questionnaires that

were administered to business school graduate students.

The first real-life scenario he observed was the merger between two salad buffet chains—Fresh Choice and Zoopa. Initially, Fresh Choice management admired the lively look and feel of Zoopa's restaurants, which contrasted with the relatively sterile environment of their own. Although competitors, Fresh Choice turned to Zoopa in order to overcome their own business difficulties by copying food offerings, elements of the restaurant design, and employee motivation initiatives.

Once Fresh Choice decided to "buy the cow," however, trouble began. Before the acquisition, managers described Zoopa's personnel as "bright," "creative," and "energetic," but after the merger, they consistently denigrated the performance of the new arrivals. Within three months of the acquisition's closing, Fresh Choice had lost all three of Zoopa's original general managers.

Why did this happen? One reason, suggests Pfeffer, is simply that when people begin working together, they start seeing one another's flaws. "Familiarity may not necessarily breed contempt, but it removes the curtain to reveal the wizard in all of his imperfections."

Pfeffer also observed the phenomenon "in reverse" at Xerox. In 1994, the company began developing Documents.com, a technology that placed complex word processing services on the Internet, including printing, summarization, and translation. Customers could manipulate their documents with a click and then they would be charged. The project was fraught with funding struggles and infighting as top managers continued to look at it with skepticism. Eventually, Documents.com was dissolved and Xerox partnered with an external company named Impresse to adopt a nearly identical product.

"The Xerox case illustrates another reason why people tend to elevate knowledge provided by outsiders—insider competition," Pfeffer says. "If I borrow knowledge from you and you're inside the organization, I've elevated you for promotions and raises; whereas if I borrow knowledge from outside the organization, there's no competitive threat to my status inside the company. Moreover, I've engaged in something that's rather valued, which is competitive benchmarking."

People also place outside knowledge at a premium, Pfeffer says, particularly if they have spent a lot of money to get it.

The study has important ramifications for companies' bottom lines, he argues. "By overlooking the value of the knowledge that's within your own organization, you're missing opportunities for internal innovation," he says. "And you're going to spend a lot of time and money either hiring consultants or doing what firms do all the time, which is to buy companies for their technology and insights, only to devalue or undervalue those resources once they're inside the organization. So, essentially, you're wasting your money."

-MARGUERITE RIGOGLIOSO

"Valuing Internal vs. External Knowledge: Explaining the Preference for Outsiders," Jeffrey Pfeffer and Tanya Merton, GSB Research Paper #1776, January 2003.

Familiarity may not necessarily breed contempt, but it removes the curtain to reveal the wizard in all of his imperfections.

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Committing Altruism Cloaked in Self-Interest

HY DO PEOPLE DONATE THEIR TIME and money to charitable causes? Is it because humans are inherently good, decent, and sympathetic, or do we act simply when there is "something in it for me"?

Social and political theorists have debated this question for centuries, as it touches on the essence of human nature. The prevailing cultural norm in the United States, expressed by everyone from neoclassical economists to consumer marketing strategists, to the person on the street, bears out the belief that most individuals act primarily out of self-interest.

Challenging that belief, Dale Miller argues humans often claim to be acting in self-interest to hide deeper feelings of compassion and urges toward altruism. Miller, the Morgridge Professor of Organizational Behavior and codirector of the Center for Social Innovation at the Business School, points to a growing body of social science research that shows the simple self-interest model doesn't hold up.

Some 150 years ago the French philosopher Alexis de Tocqueville wrote: "Americans enjoy explaining almost every act of their lives on the principle of self-interest. They do themselves less than justice, for sometimes in the United States, as elsewhere, one sees people carried away by the spontaneous impulses natural to man. But the Americans are hardly prepared to admit that they do give way to emotions of this sort."

Miller said people believe their charitable acts are in their own self-interest "because they believe to do otherwise is to violate a powerful descriptive and prescriptive expectation." If this is so, then how do nonprofit organizations seeking donations provide cloaks for their donors' altruism?

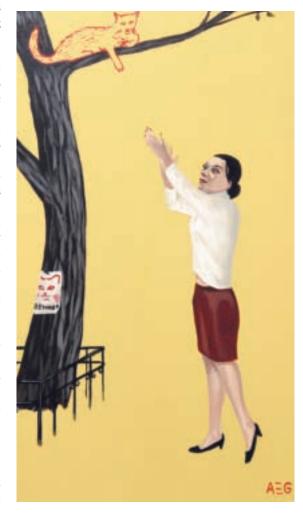
"Our research shows that people like to have it both ways," Miller said. "They like to give to causes they consider worthy under conditions that are well defined and limited," such as when a charity offers a product in exchange for a donation.

With coauthors John G. Holmes, professor of psychology at the University of Waterloo, and Melvin J. Lerner, a visiting scholar at Florida Atlantic University, Miller conducted two field studies to test the hypothesis that people's willingness to help a charitable organization is greater when the act is presented as an economic transaction rather than as an act of charity.

The studies involved charity appeals to students on a university campus to help children. The "low need" script asked for funds to buy equipment for a softball team, while the "high need" pitch pleaded to help children who were emotionally disturbed. The researchers also compared the effects of offering a product in exchange for a donation. When the victims' needs were high, the offer of an exchange increased the donation rate threefold. With less urgent needs, the exchange had no significant effect, suggesting that in either case, the donor did not care about the product itself but the donor's perception of the worthiness of the cause made a difference.

The high-need appeal presumably elicits more sympathy and willingness to help; the product exchange then provides the donor with an excuse to give. And the exchange makes it easier for the donor to acknowledge the deeper feelings of compassion or reduces the fear that the donor is entering into a long, open-ended relationship with the victims or the charity.

Miller's research can help nonprofit organizations recognize the wide range of motives behind donations of both money and time. "Just because people respond to material incentives, that is not incompatible with some deep current of public spirit and compassion," he said. "There may be other ways to tap and unleash that, especially with respect to recruiting and motivating



We often claim to be acting in self-interest to hide deeper feelings of compassion and urges toward altruism. volunteers. There is a big difference between motivating people to give and making them comfortable doing what they are already inclined to do."—LISA EUNSON

"Committing Altruism Under the Cloak of Self-Interest: The Exchange Fiction," Dale Miller, John G. Holmes, and Melvin J. Lerner, Journal of Experimental Social Psychology 38, 2002.

Game Theory

Queuing Theory Meets Your Morning Latte

MAGINE: YOU WALK INTO THE DEPARTMENT OF Motor Vehicles to get a new license, and you're not bombarded by crowds of irritated citizens waiting in endless lines. (Resume reading when you wake up from your faint.) A lit board informs you about several options you can take to move through the system most speedily, and you choose the route through multiple counters that seems the most reasonable to you. Ten minutes later, new photo ID in hand, you're strolling out the door whistling "Dixie."

Sound like nothing more than a sunny scene from a Jimmy Stewart film? Perhaps, but Professor Sunil Kumar says that such a real-life scenario may be possible with just a little help from queuing and game theory. His most recent paper, coauthored with Stanford doctoral student Ali Parlakturk, explores the theoretical possibility of channeling customers through a service network in a way that allows them to pick the "shortest route," while also subtly controlling them so that they don't end up inadvertently clogging up the works in their zeal to get out as fast as possible.

The study picks up where the famous Braess paradox leaves off. In the 1950s, German mathematician Dietrich Braess, who was studying traffic flow in road networks, showed that adding an improvement to a system in order to relieve congestion, such as building an extra road to reduce traffic, can actually make things worse. That's because each person's self-interested action of trying to find the fastest route actually makes the overall system worse. The result? More delays than ever. In fact, as shown by later work, the delay can increase infinitely.

How, then, does one design a network to service customers that will not "infinitely deteriorate" but will still give them choices for proceeding through that system in ways that are most beneficial to them? Kumar, associate professor of operations, information, and technology and the Louise and Claude N. Rosenberg Jr. Faculty Scholar for 2002–03, uses queuing theory to determine how a two-station service system can use rules to handle customers in the most efficient way possible. "Say you have two counters at Starbucks, one that serves the coffee and one that takes the money," Kumar explains. "Let's say you give customers the option of either paying first or getting their coffee first in order to

minimize their wait time. We can assume that customers will always do what is in their best interest. But given that this can ultimately make the system deteriorate, as in the Braess paradox, can Starbucks create rules that maintain customer flexibility in routing while also preserving the functioning of the system? Can the cafe guide customer choices in a way that will actually benefit the company?"

Kumar's model suggests that a "network" like Starbucks can essentially set up a "game" and study a situation in which an individual customer cannot benefit from unilaterally changing her decision while all other customers keep their decisions unchanged. Economists refer to such a situation as a Nash equilibrium, named for Nobel laureate and mathematician John Nash. But some Nash equilibria leave everyone worse off. "In our example, Starbucks will need to intelligently apply scheduling rules to prioritize customers properly, and thus induce good Nash equilibria," Kumar says. "For instance, each of the service stations will have to keep an eye out to make sure that the other isn't starved for work. If this does happen, they'll have to adjust the rules for handling customers in the moment."

That might mean that if the coffee counter gets too busy and the cashier is idle, the coffee server tells customers that rather than handling people in line order, he will now give priority to those who have already paid. If the cashier gets overwhelmed and the coffee counter is idle, she may announce that she'll now serve first those who have already picked up their coffee. Ideally, all customers would be informed of such a possibility up front so that they could make their choices as to which counter to go to first—that is, play the rapid-exit "game"—accordingly.

"Such dynamic scheduling rules would balance the workload, thereby minimizing delays caused by customers routing themselves selfishly and leading to a Nash equilibrium with excellent performance," says Kumar.

The model has other applications, such as for manufacturing processes that can be conducted in multiple sequences depending on customer preference. "For example, shape deposition manufacturing is a process used to rapidly produce product prototypes," says Kumar. "Customers will generally choose a production route that will minimize delivery time of the prototype to them. This can ultimately bog the manufacturing operation down, however, reducing its ability to generate revenue. Again, using our model, you can avoid this by making slight modifications in the scheduling rules regarding how customers will be handled within the routes they've selected."

Kumar hopes that his model, which is currently only theoretical, may become the basis for empirical testing. "In fact, real-life situations are much more complex than the two-station network we analyze," he admits, "but I am currently looking into how such a model can be applied more generally, especially in communications networks."

— MARGUERITE RIGOGLIOSO

"Customer Choice and Routing in Queuing Networks," Sunil Kumar and Ali Parlakturk, GSB Research Paper #1782, January 2003. How do you design a network to service customers that will work to their advantage?

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Newsmakers

WHO'S IN THE NEWS | A Roundup of Media Mentions



Saving Lives— One at a Time

A TRIP TO TANZANIA last year persuaded Miles White, MBA '80, that he and the company he heads, Abbott Laboratories, could and should do more to fight the AIDS pandemic in Africa. When he returned home to Chicago, White, the firm's CEO and chairman, cut the price of Abbott's HIV/AIDS inhibitor drugs to below cost for African and other poor nations. The company also announced it would spend millions rehabilitating a major Tanzanian hospital and donate nearly 20 million HIV/AIDS diagnostic test kits over five years. USA Today asked White, who is also on the board of the Federal Reserve Bank of Chicago, how he determined the amount to give. He answered with a story of "a fellow walking along a beach where thousands of starfish have washed up. He saves them one at a time by throwing them into the surf. Another guy tells him that there are too many starfish to make a difference. The fellow throws one into the surf and says, 'I made a difference for that one."

White added that sharehold-

ers also should be told that while giving does serve a business interest, companies give because they can and should.

Prep School Picks First Headmistress

SHE WAS CONTEMPLATING divinity school when a friend sent **Elizabeth Duffy** a business school application. "I had no idea [business school] was also for general management," says Duffy, a molecular biologist who this summer became the first woman headmaster of the selective Lawrenceville School, a 192-year-old private high school five miles from Princeton University.

Duffy, MBA '93, who is also a trustee of Princeton, told the *Daily Princetonian* that business school was "like learning a foreign language" and that she has used the credentials to enhance her commitment to educational justice.

Singapore Imports the Silver Bullet

IT ISN'T JUST MBA students at Stanford who sometimes get upset about not getting into their preferred classes. Ivan Png,

Miles White walks with Tanzanian students whose school received funding from Abbott Laboratories, where he is CEO.

PHD '85, found that out at the National University of Singapore, where he is a professor and vice provost. Students had been unhappy with a balloting system that allowed the university's computers to pick the winners at random when a course was oversubscribed. They circulated an online petition of complaint that quickly garnered 400 signatures. Png responded for the university at a February press conference covered by the Straits Times. Under a new online bidding system that might sound familiar to Stanford MBA graduates, each of the 20,000 students is given 1,000 points with which to bid for courses. Someone with a real yen for a particular course can bid all his or her points for it.

Skittish Sideliners Sink Startups

TOO MANY OF THE Silicon Valley's most experienced entrepreneurs are sitting on the sidelines, according to Jennifer Gill Roberts, a general partner with the venture capital firm Sevin Rosen Funds in Palo Alto, "I've sat through over a dozen lunches with former high-level, hightech executives talking about new ideas and consulting arrangements. Unfortunately, not one of my luncheon partners was willing to take on the actual work of running a new company," wrote Roberts, MBA '93, in an essay for the San Jose Business Journal.

Venture funds want startups to have full-time experienced

leaders, but they are finding that those with the credentials are only willing to be part-time advisors, she said. Some are working in the nonprofit sector; some are taking a sabbatical; some have downsized their careers to devote more energies to parenting, hobbies, and coaching. "Many, having failed with their last company, are once burned, twice shy. Others can't get the CEO title they once had and don't want to go back to being vice president of marketing or sales."

Repeat entrepreneurs "bring critical skills and early funding. Their experience helps a startup pace itself, sustain its efforts, and avoid the worst mistakes of the boom era."

Real Simple Execs Win Over Advertisers

ADVERTISERS HATED IT, but readers kept coming in ever-larger numbers to Real Simple, a magazine without a glossy cover launched by Time Inc. in April 2000. The magazine is drawing a young, affluent readership seeking a simpler lifestyle, according to AdWeek, which named Real Simple's top three managers the executive team of the year. As marketing director, Steven Sachs, MBA '93, conducted reader research and created innovative cross-marketing partnerships, such as giving Pottery Barn a small catalog insert in exchange for the retailer emailing an offer of free copies of Real Simple and a small gift to its customers. Time Inc. Chairman Ann Moore said Sachs, now a vice president of consumer marketing, called in all his fa-vors and asked her to follow up. "He was unmerciful," she said.

Sloan Supercop II

WHEN THIS MAGAZINE photographed Sir Howard Davies, Sloan '80, for its May 2002 cover, it would have been hard to predict that another Stanford Sloan graduate would replace him as Britain's "supercop" of financial services. M. Callum McCarthy, Sloan '82, the chairman of Britain's gas and electricity regulator Ofgem, has been selected to take over in September as chairman of Britain's expansive Financial Services Agency from Davies. The FSA is the equivalent of multiple state and federal financial and consumer regulators in the United States. McCarthy's appointment "confounded most forecasts," The Economist reported in April, but added that he had "good credentials" and a background "uncannily close to Sir Howard's: same school, same Oxford college, and (same again) a year at Stanford Business School, followed by several civil service posts." McCarthy was instrumental in implementing Britain's competitive energy market, which has brought down wholesale electricity prices by 40 percent.

Silicon Valley Adopts Pay-as-You-Go Model

THE WORLD MAY THINK the high-tech bubble has burst but a big bang is under way, according to *Fortune*, which says the successful companies now are those who are cutting prices for their customers—other businesses and consumers—rather than increasing profits for their investors. Among those lowering prices are Arena Solutions and other "pay-by-the-drink"

Callum McCarthy is the second consecutive Sloan graduate to head Britain's Financial Services Agency.

enterprise software providers, the magazine said. Arena's specialty is allowing outsourced manufacturing to be managed over the Internet. The GSB alums involved in the company include board chairman John Pasquesi and investors Dan Baldini, Andy Drexler, David Edelson, and Paul Vogel, all from the Class of '85, and Tien Tzuo from the Class of '98. Michael DeLapa, MBA '85, is vice president of business development.

Gay-Friendly Schools

IN THE PAST SEVEN YEARS, the nation's top business schools have become increasingly gayfriendly, according to a study by Jason Lorber, MBA '95 and president of Aplomb Consulting. Based on interviews with school administrators, faculty, students, and alumni, Lorber concluded that the highest ranked in the gay-friendly category were Stanford, Harvard, and Whartonthree schools that rank at the top in other categories, too. Lorber said 71 percent of the schools surveyed currently host corporate employers who specifically recruit gay, lesbian, and bisexual students, and 29 schools profile gay students in their admissions brochures. Stanford MBA Program Director Sharon Hoffman told PlanetOut News that the GSB was one of the first to profile a gay student in a recruitment publication and that "we saw more people coming out in their applications the subsequent year. On that front we contributed to breaking down a door that really is the last bastion of acceptable prejudice."

Banker Faces Obstruction Charges

AS OF PRESS TIME, Frank Quattrone, MBA '81, had been indicted by a federal grand jury on charges that he obstructed justice and destroyed evidence. Quattrone has maintained his

innocence and was expected to mount a vigorous battle against prosecutors who are looking for their first criminal conviction of a financier stemming from the stock market bust, the New York Times said. The charges arise from the allegation that Quattrone sent an email to colleagues asking them to follow the company's policy and clean out their files. Prosecutors claim the email came after he had been told by his employer's lawyers that regulators and prosecutors had issued subpoenas for documents concerning the allocation of stock options at Credit Suisse First Boston, where Quattrone, during the bull market's heyday, was among Wall Street's elite investment bankers and helped push CSFB to the top of the IPO rankings. Many friends of Quattrone have been quoted saying they believe prosecutors singled him out as an example to other investment bankers who followed similar stock allocation practices. In a March letter to the San Jose Mercury News, GSB classmates Debbie and Russ Hall said Quattrone "is an honest and generous man, and loving father and husband....We can no longer sit back and watch the press make Frank a scapegoat for the fall of the market."

From Clicks to Bricks

Rob Forbes, who founded his furniture store online in 1999, has been busy opening bricks-and-mortar stores. As he prepared to open a Design Within Reach studio in Manhattan, the *New York Times* dispatched a reporter to Forbes' Russian Hill penthouse to check out his personal style. He found Forbes, MBA '85, liv-

ing in a converted ballroom with just a smattering of his firm's vintage pieces from the mid-20th century. The private company says its sales were about \$60 million in 2002.

Defense Déjà Vu

DEFENSE SECRETARY Donald Rumsfeld is embracing a course with "uncanny parallels to the early 1960s" and to actions taken by then Secretary Robert McNamara, according to the Christian Science Monitor. To bolster its argument, the newspaper quoted GSB Professor Alain Enthoven, who headed McNamara's systems analysis office. Instead of depending on massive nuclear strikes, Enthoven said, McNamara wanted stronger conventional forces, and expanded the president's menu of options to include the same troops of Special Forces now favored by Rumsfeld.

Shareholders Reject CEO's Pay Package

UNDER A NEW investor-protection law in Britain, shareholders of GlaxoSmithKline voted by a slim margin to reject the proposed pay package of the company's chief executive, Jean-Pierre Garnier, MBA '74, the New York Times reported in late May. The vote is not binding but directors ignore the results at their own peril, investors said. The pay plan component that drew the most criticism, according to the newspaper, was a severance provision that would have entitled Garnier to \$23.7 million in bonus salary and stock if he were to resign or be dismissed any time through 2007. ■

Rob Forbes, Design Within Reach founder, at home in San Francisco



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AUGUST

AUGUST 1-16:

Business Camp for Inner City and Local Teens sponsored by the National Foundation for Teaching Entrepreneurship

AUGUST 3-13: Executive Education "Strategic Marketing Management"

AUGUST 3-15: "Executive Program in Strategy and Organization"

AUGUST IO-22: Executive Education "AeA/ Stanford Executive Institute' (formerly American Electronics Association)

AUGUST 17-22: Executive Education "Mergers and Acquisitions"

AUGUST 24-29: **Executive Education** "Managing Your Supply Chain for Global Effectiveness"

SEPTEMBER

SEPTEMBER 14-19: "Human Resource Executive Program"

SEPTEMBER 14-20: Executive Education "Executive Management Program: Gaining New Perspectives," Stanford Sierra Conference Center

SEPTEMBER 17: Lifelong Learning Leadership Workshop "Issues Related to Application of High-Performance Leadership," Professor David Bradford (must have taken OB372: High Performance Leadership with Bradford)

SEPTEMBER 30-OCTOBER 4: Lifelong Learning "Interpersonal Dynamics for Alumni," Professor David Bradford and staff

SEPTEMBER-OCTOBER: MBA Admissions information sessions around the globe. Alumni/ae interested in helping the School reach out to prospective MBA applicants, contact mba@gsb.stanford.edu

OCTOBER

OCTOBER 5-10: Executive Education "Information Strategy for Competitive Advantage"

OCTOBER 8: Lifelong Learning Leadership Workshop "Building High-Performance Teams," Professor David Bradford, in Boston

OCTOBER 15: Lifelong Learning Faculty Seminar "Built to Last," Professor Jerry Porras

OCTOBER 16: Lifelong Learning Web Seminar "Winning on the World Series: Behavioral Finance Meets Sports Betting," Professor Justin Wolfers



OCTOBER 17-18: Fall Alumni Weekend and MBA class reunions for '53, '58, '63, '68, '73, '83. See www.gsb.stanford. edu/alumni/reunions. Contact diven claudia@gsb. stanford.edu, or call 650.723.4046

OCTOBER 19-24: Executive Education "Negotiation and Influence Strategies"

NOVEMBER

NOVEMBER 2-7: Executive Education "Leading Change and Organizational Renewal"

NOVEMBER 5: Lifelong Learning "Relationship Building: Understanding Brands, Understanding Consumers," Professor Jennifer Aaker

NOVEMBER 9-14: **Executive Education** "Finance and Accounting for Nonfinancial Executives"

*FUTURE EVENTS

DECEMBER-JANUARY: "Dinners on Break" hosted by a current student and an alum for prospective MBA applicants in selected international cities. Alumni/ae interested in cohosting a dinner, please contact mba@gsb.stanford.edu

FEBRUARY 15-27: Executive Education "Executive Program for Growing Companies"

FEBRUARY 16–18: Executive Education "Financial Leadership in the New Economy," in Dubai

FEBRUARY 29-MARCH 12: Executive Education "Executive Program for Nonprofit Leaders"



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