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STANFORD BUSINESS MAY 2003



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Virtual Teamwork

TIPS FOR MANAGING ACROSS TIME ZONES

NET PREP BOOSTS CLASSROOM LEARNING
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As global virtual teams become more of a reality, so do the corresponding logistic and cultural barriers. Managers are tackling these challenges out of necessity.

BY BILL SNYDER



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ALUMNI/AE OF THE STANFORD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS

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www.gsb.stanford.edu/news/bmag

about this issue

A Shakedown Posing as Tax Evasion ?



Kathleen O'Toole

SOME OF YOU HAVE HEARD THAT JUDE SHAO, a member of the Class of '93, has spent the last five years in a Shanghai jail. Classmates who believe Shao was erroneously convicted of tax evasion in a sham trial have organized a letter-writing campaign and have lobbied in Washington, D.C., in hopes that visibility will lead to a new trial or release for Shao, a Chinese-born American citizen who started a business that exported U.S.-made medical equipment to China. Spearheaded by Caroline Pappajohn and Chuck Hoover, Shao's classmates are planning a briefing by panelists

knowledgeable of Shao's situation and Chinese law and customs during their 10th reunion this month. The briefing is an opportunity not just for the Class of '93 but for others in this community to deal with an uncomfortable aspect of working in the global economy.

Shao, who is allowed only one visit a month from his sister and one from the U.S. consul general, says evidence that was ignored at his trial could clear him. He has told his classmates in letters that his troubles began when he refused to pay a bribe to the local tax auditor. In an era when business executives are faulted for weak ethics, it seems especially important for all of us to consider any evidence that some have sacrificed their freedom for principles.

In the spring of 2000 the School hosted a panel discussion on ethics in the global economy as part of its 75th anniversary, and this magazine reported on it in a cover story. A member of the Class of '63—30 years ahead of Shao—wrote us a letter suggesting that the panel and story had not sufficiently probed questions of corruption and bribery. "Perhaps there was not more discussion because bribery is against the law for U.S. citizens. Perhaps it is just uncomfortable to talk about. That does not make it any less a real issue," wrote Tom Williamson, a retired auto executive, who added that he had never been asked to approve a bribe but would be surprised if many in his business and era had not paid them. In countries where corruption is debilitating, he contended, governments cannot solve the corruption problem, only business people can end it.

Many of you in this audience have probably faced difficult ethical choices in this country as well as abroad. On page 8, a member of the Class of '72 tells us about losing a project because he refused to make a "god of wealth" offering in Nepal. Perhaps it is time to revisit this issue. If any of you have experiences that you would like to share with this community, we would be happy to pursue an in-depth look in an upcoming issue of this magazine. In the meantime, we will try to aid the Class of '93 in its effort to help Shao by reporting on the panel discussion. You can look for coverage on our Web site after May 6 at www.gsb.stanford.edu/news/bmag/

Kathleen O'Toole

EDITOR

The Value of Learning by Doing

THIS EDITION OF *Stanford Business* includes an article on the innovative work being done by our professor-turned-entrepreneur (on leave) Paul Romer to develop Web-based tools that can greatly enhance a student's ability to learn economics. Unlike the simplistic notion of "distance learning," where the Internet is used only as a ubiquitous and low-cost 24/7 communication channel for disseminating information, the exciting feature of Paul's approach is that it offers real promise for improving actual learning—by both improving the quality of student effort and raising the productivity and value of the instructor.

The purpose of a university is to promote learning, and the purpose of the Graduate School of Business is to promote learning about management. As Paul's effort reminds us, we need to practice what we preach and continually search for ways to improve the learning within our School.

In this regard, I find an old proverb very insightful:

I hear, and I forget.

I see, and I remember.

I do, and I understand.

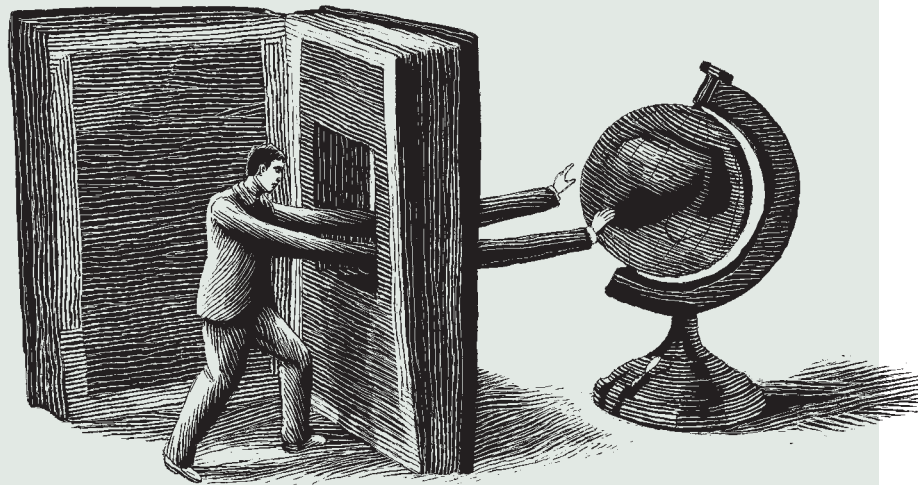
Understanding might be viewed as the highest form of learning, for it is understanding that stays with us and gets integrated into our habits and practices. Indeed, some research on learning indicates that we may retain only about 10 percent of what we read, maybe 20 percent of what we see and hear in a lecture, and perhaps 80 percent of what we experience personally. Learning may increase even more to the extent that we take what we have experienced, put it into our own words, and then explain or teach it to others.

In their best-selling book our colleagues, professors Jeff Pfeffer and Bob Sutton, have made numerous managers aware of the "knowing-doing" gap. Too many people and institutions *know* what to do, but just don't *do* it! As a school of management, this gap must concern us greatly.

There are several ways to learn. In a broad sense, we can talk about two main approaches: (1) theory modes of learning—where one learns about the concepts, theories, and frameworks that describe a body of knowledge; and (2) practice or experiential modes of learning—where one learns by actually practicing and doing. Theories and concepts are very important, and certainly a university is exceptionally strong at delivering this type of knowledge. Our faculty create and disseminate enduring frameworks and theories, which our students learn and apply in their own work—while at the Business School and throughout their professional lives. The School is second-to-none when it comes to providing a

tremendous life-lasting base of knowledge as a solid foundation for the career endeavors of our alumni/ae.

But we also know that practice and experience can greatly enhance learning. Personally experiencing concepts brings them to life. Imagine the near impossibility of trying to teach a young child the concept of "hot" by merely imparting knowledge to the child. It is when they touch something hot and burn their fingers that they really get the concept! So it is with much learning about management and leadership. As our alumni know so well, the learning by doing, or "burning one's fingers," that comes from the difficult work of managerial leadership is absolutely critical to one's deep



understanding of what we have learned intellectually. Theory and practice work hand in hand to support the learning process—theory makes sense only through practice, and practice makes sense only through reflection enhanced by theory.

Therefore, one of the innovations we will be trying to build more systematically into our student programs at the Business School is more experiential learning—more learning by doing. Important groundwork has been laid by a number of faculty who have already designed courses with a significant experiential component: *Managing Through Mutual Agreement*, a pre-term course designed by Margaret Neale, Deborah Gruenfeld, and Larissa Tiedens; *Business Process Design* and *E-Business Process Foundry* designed by Jim Patell; and, of course, the *Interpersonal Dynamics* course designed by David Bradford, to name just a few. You will be hearing a lot more about our efforts to integrate experiential learning in the months ahead, particularly as we experiment with ways to better prepare our students for taking on the responsibilities of leadership throughout their careers. ■

Understanding might be viewed as the highest form of learning, for it is understanding that stays with us and gets integrated into our habits and practices.

Spreadsheet

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



San Francisco Muni Multitasker

A LOT OF PEOPLE SAY THEY WEAR SEVERAL HATS at their job. Kerstin Magary, MBA '78, does, both literally and figuratively, for San Francisco's Municipal Transportation Agency. From a hard hat on the assembly line for the city's new fleet of electric trolley buses to the ubiquitous Muni driver's cap she sometimes wears when meeting with fellow employees, this senior project manager is heavily involved in a wide range of capital projects. What's keeping her busiest of late is the massive coordination of a \$230 million project for the assembly, testing, and deployment of 273 new electric trolley buses, part of which are made in the Czech Republic but which must include 60 percent American-made parts. The shells of the buses arrive in San Francisco where the final assembly takes place in an unassuming pier on the waterfront. Magary visits frequently, speaking with production line workers one moment and then with Czech executives on a conference call the next.

Another facet of her job is to oversee the restoration of the city's growing fleet of historic street cars. Magary supervises a project to re-engineer ten 75-year-old Italian street cars for the city's system. In her five years with the agency she also has utilized her real estate broker's license to guide the agency's land procurement for additional yards and substations and other projects. And if that's not enough, she uses her pre-GSB marketing experience to manage advertising contracts for ads on Muni vehicles and transit shelters.

"What I like so much about my job is that the end product is something tangible," she says. So tangible she can ride one of these new buses or historic streetcars every day. Also, the team environment appeals heavily to her. That was one of the carryovers from her days at the Business School—working on a team to tackle problems and produce the most effective solution.

Kovacevich on Leadership

MANAGERS AND LEADERS have different strengths, says Richard Kovacevich, MBA '67, recipient of the 2003 Arbuckle Award from the Stanford Business School Alumni Association. The CEO and chairman of Wells Fargo told a dinner audience that "Managers rely on systems, leaders rely on people. Managers work on getting things right, leaders work on the right things. The answer to every problem, choice, or opportunity in our company is known to someone or some team in the company. The leader only has to find that person, listen, and help them effect the change."

Kovacevich, who is the 33rd recipient of the Arbuckle Award, told the audience he hires the best people and gives them lots of responsibility because "you cannot share vision unless you share the power to achieve that vision."

Mimic the Bugs

BETLES AND OTHER CRITTERS can show human designers how to cool buildings, collect water in the desert, keep pipes from clogging with scale, and manage air traffic, science writer Janine Benyus told an overflow Business School audience during winter quarter. The lecture by the author of the book *Biomimicry: Innovation Inspired by Nature* was sponsored by the School's Center for Social Innovation.

In the desert with no groundwater, the Namibian beetle stands on its head and traps water from fog on microscopic bumps on its wings, Benyus said. The bumps have smooth sides that encourage water to flow down to the tip of the bump, where it is channeled into the beetle's mouth. British engineers are now making sheets that mimic the beetle bumps to trap water for agriculture and for use on tents for refugees in desert settings.



Benyus challenged her audience to initiate and maintain dialogues with those investigating the world through ecology, agriculture, medicine, technology, renewable energy research, and other sciences. "There is more to discover than to invent, she said."

Bush Names Two to Trade Positions

ALLEN JOHNSON, MBA '93, is in the thick of the international controversy over subsidies and tariffs on farm products. Since President Bush selected the Iowa native as chief agricultural negotiator for the Office of the U.S. Trade Representative, Johnson has represented the government in bilateral negotiations with China, Chile, Australia, and the European Union. He also leads the U.S. effort to persuade other countries in the World Trade Organization to sign on to a multilateral agricultural reform proposal that would reduce agricultural subsidies and tariffs across the board. "We're willing to cut if everyone goes along, but we are not going to unilaterally disarm," Johnson told a conference of the American Farm Bureau Federation in February.

SARAH WILKINS

Meanwhile, President Bush named Robert Grady, MBA '88, to the 45-member Advisory Committee for Trade Policy Negotiations, a group that advises the trade representative's office on negotiating positions. Grady is managing director of Carlyle Venture Partners, a private equity firm.

Publication Spotlights Social Innovation

THIS SPRING the Business School will introduce a new publication—the *Stanford Social Innovation Review*—designed to support the exchange of ideas among public, private, and non-profit sectors. The *Review* was created to advance innovative and cross-sector solutions to important social problems.

Some of the articles scheduled for the first issue include:

- Business School professor

David Baron on how companies respond to challenges by activists.

- Robert Sutton of the Stanford School of Engineering on weird ideas that spark innovation in nonprofits.
- Christine Letts and Bill Ryan of the Hauser Center at Harvard University on what recipients really think of high-engagement philanthropy, or what some call venture philanthropy, which provides nonprofits with much more than just technical assistance.

The *Review* is supported by the Business School's Center for Social Innovation (CSI), which was founded in 1999 to foster innovative, effective, and efficient solutions to social problems through research, teaching, and outreach. CSI is codirected by faculty members James A. Phillips Jr. and Dale T. Miller.

Academic editor for the *Review* is Stephen R. Barley, the Charles M. Pigott Professor in the School of Engineering.

Subscriptions may be entered electronically at www.gsb.stanford.edu/ssir or with the postcard found in this magazine.

Get Uncomfortable

IF YOU'RE COMFORTABLE in your job, you probably aren't learning enough. Don't be afraid to hire people who are smarter than you or to fire people who aren't getting the job done. These were some of the nuggets offered by Myrtle Potter, Genentech executive vice president of commercial operations and chief operating officer, at the 20th annual Black Business Students Association conference, "Building Black Economic Power," held February 1. Potter urged students to "get comfortable getting pushed out of your comfort zone. Push yourselves and ask other people to challenge you."

Potter, who said she hires the smartest people she can find, inherited a mediocre team when she was hired to run the poorest performing company at Merck.

She cleaned house. "It was the most courageous thing I'd

ever done." Within three months, her company had risen to number one within Merck. "I ask myself, how is this job going to be better because I'm in it?"



Executive Rocker

BUSINESS SCHOOL ALUMNA Lindsay MacDonald Hubbard has a demanding day job as a consultant at McKinsey & Company. On weekends she is often selling CDs after concerts for the folk/pop/rock band Rockwell Church. The 2002 GSB graduate is the wife of rocker and first year MBA student Nathan Church Hubbard, who sings and writes songs for the touring duo, which has built a strong fan base on the college circuit. On Valentine's Day eve they performed a concert at the Business School to benefit Challenge for Charity, the inter-business school competition that raises money for Special Olympics.

Before Business School, Church Hubbard was among the first 10 employees at Telephia, a provider of market intelligence for the wireless industry founded by Tom Frangione, MBA '93, and John Oyler, MBA '96. After meetings with clients by day, Church Hubbard often performed at night. "I'd rip off my suit backstage—my 'rock star clothes' underneath—and step on stage in time to perform," he says with a laugh.

One day soon, his rock and business clothes will merge. "I believe the recording and entertainment industry is ripe for a paradigm shift," he says. "Having an MBA and being an artist will be critical for shaping this new frontier."

Grousbeck Team "Got Game"

"I can't sleep when we lose, and I can't sleep when we win," Wyc Grousbeck, right, MBA '92,

told a Business School audience in February when his Boston Celtics were vying for a place in the annual National Basketball Association playoffs. Grousbeck and his father, Business School consulting professor H. Irving



Grousbeck, are two of four managing partners and 19 limited partners who bought the fabled Celtics for a record-setting \$360 million last Dec. 31. Other investors include Business School alumni Mark Wan, MBA '92, and Stephen Luczo, MBA '84.

The younger Grousbeck, who was a general partner at Highland Capital Partners, said his father had wanted to buy a sports team starting in the 1980s, but they waited for an opportunity with a chance to field a winning team and not lose their shirts. The Celtics earn above-average revenues year after year because the team has been good and the fans are fanatical, said Wyc, who lives in the Boston area. "There are only a few things to do in Boston in the winter: Shovel snow, go to a Celtics or Bruins game, or wait for the pitchers and catchers to report" to spring training. Even in a losing year, he said, the revenues should be sufficient to more than cover interest payments on a \$180 million loan.

Irv Grousbeck, who codirects the Business School's Center for Entrepreneurial Studies, said he conservatively estimates that investors will earn 10 to 12 percent annually over the long term. While they don't want to lose money, most bought in because they want the lifestyle of going to the games, Wyc said. Irv added with a smile: "It didn't hurt that there aren't many 30 to 40 percent venture capital deals around these days."

ASSOCIATED PRESS/OLIVIERO TOSTA

Spreadsheet



Hmm ... So You Say You're a Cardinal

AT LEAST SINCE JAY GATSBY tried to impress Daisy by claiming to be an Oxford man, a few prominent Americans are disrobed each year when the world finds out they lied about having an impressive educational credential. Resume padding took on new financial seriousness last year, however, when the stock of Veritas Software lost more than \$1 billion on news that its chief financial officer, Kenneth Lonchar, was resigning because he had claimed an accounting degree from Arizona State and an MBA from Stanford, neither of which he had earned. In an area like the Silicon Valley with many Stanford degree holders and where people often break the ice by discussing school ties,

Slate magazine noted, the lie about the Stanford credential was particularly brazen.

Yet, enough people falsify their educational credentials that some employers and employment agencies deem it worthwhile to verify degrees. The office of Stanford registrar Roger Printup receives about a thousand verification requests a month, but double that in the weeks following commencement. The University recently made the chore easier by outsourcing credential verification to the national Student Clearinghouse, a nonprofit association founded initially to track student loans and current enrollments.

FCC Overruled by Supreme Court

JANUARY 27 WAS a red-letter day for James Madsen, MBA '89. That is when the U.S. Supreme Court handed a victory to NextWave Telecom, the wireless firm Madsen cofounded in 1995. NextWave had been locked in a 5-year legal battle with the Federal Communications Commission, which tried to repossess spectrum licenses that NextWave had acquired in

1997 for a bid of \$4.7 billion. The federal agency established 10-year installment payments for the licenses, and NextWave had made all required payments when it filed for Chapter 11 bankruptcy protection in 1998. The FCC twice blocked NextWave's reorganization plans and instead seized the licenses and reaucted them for more than \$16 billion. In January, the Supreme Court ruled 8-1 that federal bankruptcy law protects the company's assets from seizure by regulatory agencies, just as the law protects the assets of companies in bankruptcy from other creditors.

For Madsen, vindication was a long time in coming, and a more personal version of the Business School course *Business and the Changing Environment*. About that class, he said, "I learned on an intellectual level how the government can be a significant influence on your business, but I never dreamt how huge it could be." But, he adds, "The old adages 'persistence pays,' 'stay focused on your long-term goal,' and 'never give up if you believe you are right' are corny but true." The company, where he is senior vice president for strategy, hopes to

be the first in the United States to offer what is called 3G CDMA broadband mobile Internet service, with up to 2 megabits per second, metropolitan-area-wide wireless access to data through mobile devices.

Git Along Li'l Doggies

TEXAS INVESTMENT ANALYST Randy Chappel moved with his wife and toddler last winter to a 20-by-20-foot cabin in Two Rivers, Alaska, so he could train with 24 dogs for the Iditarod, the 1,150-mile Super Bowl of dogsled races. Chappel, MBA '94, got interested in mushing when his wife, D'Ann, persuaded



Nome, Alaska is far from Texas for Iditarod finisher Randy Chappel.

him to tour Alberta, Canada, from the back of a sled. He later sponsored an Alaskan woman competing in the Iditarod and developed a two-year plan to train for his own entry. He warmed up by running shorter races in the 2001-02 season.

Chappel was a partner with Richard Rainwater, MBA '68, at Goff Moore Strategic Partners LP until a year ago. Coworkers helped him finance the acquisition of dogs, each of which costs upward of \$3,000. "We're following his progress and rooting for him the whole way," Rainwater told the *Fort Worth Business Press* last winter.

On March 15 Chappel crossed the finish line in Nome, Alaska, 11 days, 15 hours, and 22 minutes after he started. He finished 29th in a field of 64. Like other rookies—a car dealer from Germany and a family practitioner from Wisconsin—he was seeking adventure rather than the \$65,000 purse. ■

NEW VENTURES

David Arfin, MBA '91, estimates there are 60 million people with music files stored on their hard disks, most of whom would like to listen in via a stereo system or some other output source not part of their computers. Enter HomePod, a device that allows users to beam music files to other locations. HomePod, which is scheduled to start shipping this spring, is the first tangible product created with technology from Arfin's Palo Alto startup, **GLOOLABS**. CEO Arfin demonstrated HomePod at last winter's MacWorld Expo in

San Francisco. "We're building a developer community that is coming up with incredible ideas," says Arfin. He and two engineers make up Gloomlabs' founding braintrust. The firm develops open platform digital technologies to enable other developers to build applications like HomePod.

Taking advantage of growing dissatisfaction with the inconveniences of commercial airlines,

Amanda North, MBA '82, and two colleagues have started **ASCEND AVIATION**, a Woodside, California-

based company that partners with owners of private airplanes to offer full-service flights. Customers can buy 25-hour blocks of flying time and schedule their trips throughout the western United States to meet their needs. North, told the *Palo Alto Weekly* that people who don't specialize in aviation have a hard time contracting flight service efficiently on their own because of the broad range of questions that need to be asked. For more information, see www.ascendaviation.com.

New on the Bookshelf



Natural Dance

Hal Eastman, MBA '62, and Keith Clemons
Peregrine Images, 2003
A photographic collection of women dancers exploring movement in congruence with their surroundings. Unique time-lapse photography evokes impressionist style.

The Ultimate Guide to Getting the Career You Want (And What to Do Once You Have It)

Sherrie Gong Taguchi, MBA '89, and Karen O. Dowd
McGraw-Hill Trade, 2003
Practical strategies for job searchers and career changers who want meaningful, dynamic careers over a lifetime. Features case studies of GSB alumni and self-assessment exercises.

The Future of Jazz

edited by Yuval Taylor; essays by 10 jazz critics including Ted Gioia, MBA '83
Acapella Publishing, 2002
Ten critics tackle issues surrounding the future of jazz. In his piece, Gioia observes how contemporary jazz now mirrors fragmentation of the postmodern art movement.



Today's Hidden Racism: A Polite Apartheid

Dave Lefkowitz, MBA '82, and A. J. Nino Amato
The Foundation to End Polite Apartheid, 2001
Explores claim of racism in America today as a more subdued, and often subconscious, "polite apartheid." Six principles—modeled after those successfully used by multinational corporations to end apartheid in South Africa—are offered.

It Pays to Talk: How to Have the Essential Conversations with Your Family About Money and Investing

Charles R. Schwab, MBA '61, and Carrie Schwab-Pomerantz
Crown, 2002
Investment father-daughter duo sheds light on family-related financial matters. Emphasizes familial discussions of life-stage events; delivers comprehensive investment particulars.

Shale Oil: Tapping the Treasure

Robert Alden Loucks, SEP '80
Xlibris Corporation, 2002
Former petrochemical specialist explores feasibility of shale oil as an alternate fuel source. Cites controversial development and research from the '70s and '80s.



Designing Effective Organizations: How to Create Structured Networks

Michael Goold, MBA '71, and Andrew Campbell
Jossey-Bass, 2002
Focuses on corporate-level organization design. Authors utilize logic and experience as replacements for politics and personality as organizational design rationale.

Results from the Heart: How Mini-Company Management Captures Everyone's Talents and Helps Them Find Meaning and Purpose at Work

Kiyoshi Suzuki, MBA '81
Free Press, 2002
How creating "mini-companies" within larger organizations can have a positive effect on employees' sense of purpose. Foreword by the Dalai Lama.

Skyscrapers: Inside and Out (Technology—Blueprints of the Future)

Leonard M. Joseph, MBA '75
Powerkids Press, 2002
Senior vice president of Thornton-Tomasetti Engineers gives grade schoolers and up a sound overview of the planning, design, construction, and operation of skyscrapers.

N O M I N A T I O N S

FOR THE 2004 ARBUCKLE AWARD



DO YOU KNOW SOMEONE WHO MAKES A DIFFERENCE?

Since 1968, the Ernest C. Arbuckle Award has been presented to an individual closely associated with the Stanford Graduate School of Business in recognition of excellence in the field of management leadership. ■ A candidate must be an individual whose actions and achievements have demonstrated excellence as a professional administrator who is committed to principle and who has a continuing concern for and sensitivity to the changing needs of society. ■ We invite you to submit the names of men and women who qualify for this prestigious award. Send your letter of nomination to Claudia Diven, Stanford Business School Alumni Association, Graduate School of Business, Stanford University, Stanford, CA 94305-5015 (fax: 650.723.5151). Nominations for 2004 should be received no later than July 1, 2003.

THESE INDIVIDUALS HAVE MADE A DIFFERENCE

1968	Ernest C. Arbuckle	1988	A. William Reynolds
1970	Edmund W. Littlefield	1989	John M. Lillie
1971	Malcolm MacNaughton	1990	Robert K. Jaedicke
1972	Douglas R. Fuller	1991	David S. Tappan Jr.
1973	Frank T. Cary	1992	Philip H. Knight
1974	Stephen D. Bechtel Jr.	1993	John W. Gardner
1975	Arjay Miller	1994	John B. McCoy
1976	Frederick G. Larkin Jr.	1995	Charles R. Schwab
1978	John A. Young	1996	John P. Morgridge
1979	Roy A. Anderson	1997	Frank Shrontz
1980	John B. Fery	1998	Lorenzo Zambrano
1982	James F. Dickason	1999	Rebecca Q. Morgan
1983	H. B. Atwater Jr.	2000	A. Michael Spence
1984	Claude N. Rosenberg Jr.	2001	Lord Browne of Madingley
1985	Donald E. Petersen	2002	John H. Scully
1986	John G. McCoy	2003	Richard Kovacevich
1987	George P. Shultz		

Bridging Valleys with Technology and Heart

After two false starts David Sowerwine's company is moving people and goods through Nepal's fragile countryside with technology borrowed from the tropics.

WE LANDED IN KATHMANDU in the December chill of 1991. I had been recruited as the business advisor in a U.S. Agency for International Development initiative to kick-start agribusiness activity in Nepal. That plan changed direction many times. Now 11 monsoons later, Nepal is still home to my wife, Haydi, and me, a place of ongoing adventure, challenge, learning, and satisfaction.

In the West, contracts provide the framework necessary to encourage investment and resolve economic and social problems. In Nepal these rules are, at best, only at the discussion stage. Nepal is really a "low trust" country. Court decisions are ignored, and contracts are essentially unenforceable. A fellow foreign investor has had three Supreme Court decisions in his favor and has yet to collect from his former Nepali joint venture partners. The habits and mindset of a feudal society—authoritarian government, self-aggrandizement, and fatalism—block needed reforms. The resulting economic stagnation together with Nepal's exploding population—nearly a fivefold increase since the early



1950s—have brought deep and increasing poverty. Another consequence has been a confused Maoist revolutionary movement whose six years of violence may only now be transforming, we hope, into a reform movement.

Nonetheless, I have found many opportunities to get involved. In 1993 Nepali friends provided the necessary visas and asked us to stay to help address some of these issues. My corporate experience seemed relevant—Esso in the Far East, Dole/Castle & Cooke in Latin America, Raychem and small startups in the San Francisco Bay Area. Financially, we were lucky: The rent from two homes in Menlo Park was enough to cover living expenses and allowed us to hire good employees and start a Nepali business called EcoSystems Pvt. Ltd.

We made two false starts. At first we sought permission to build a network of video-based rural education centers, which stalled when we were informed by one of the bureaucracies that all tapes would have to be censored (conveniently by the very same bureaucrats, for a significant payment) and that our needed permit would not appear since we had failed to do a proper *Ganesh puja* (god of wealth offering)—code for a bribe.

The second was an 18-month effort at the invitation of the government to organize a sanitary landfill for Kathmandu's solid waste that would be run as a private business. A Dutch environmental organization funded the engineering. This proposal also encountered unacceptable demands, such as hiring all 800 employees of the bloated, moribund public solid waste corporation. The garbage is now being dumped along the holy Bagmati River.

The third attempt succeeded when we finally received government permission to design and build rural transport and energy products. Traditionally, the international banana companies elsewhere in the world have used so-called cableway transport systems to move banana stems from their plantations to the central packing plants. This standard technology, which we took as our starting point, resembles a rural monorail, except that the track is a tightly stretched wire instead of a rail, and the 4-ton trains of bananas are pulled by a person walking along a path beneath the wire.

We first adapted the cableway system to move people safely across rivers where the only alternatives are long walks up or downstream to a bridge, use of a *'tween* that involves extremely dangerous hand-over-

The rugged countryside is just one of the many barriers facing business in Nepal.

hand movement on a cable that normally is wound on convenient trees, or no crossing at all. We designed a safe carriage that rolls with pulleys on two wires (four for a big river). Schoolkids using our WireBridges can be seen at www.ecosystemsnepal.com. Gravity propels the passengers half way, and they pull on a climbing rope looped like a tenement clothesline for the rest of the trip. Our people-and-goods-movers now cross 21 rivers and, we estimate, have made more than 500,000 accident-free crossings. There is a long queue of villagers who are counting on us to find cofinancing so that they too can finally get their products to market, their kids to school, and their sick to a health post via our safe WireBridge. Stanford bridge sponsors are welcome.

Nepal is really a "low trust" country. Court decisions are ignored, and contracts are essentially unenforceable.

In the meantime, we are refining another version of this system to become an inexpensive rural monorail. An international development agency whose mandate is to help with eco-friendly, pollution-free transportation is interested in financing a significant prototype within the Kathmandu Valley. If successful, it may evolve into a broad public transit network. There are tens of thousands of kilometers of reasonably level, beautiful river valleys in Nepal and a large swath of the Gangetic Plain where, for lack of an alternative, roads are being bulldozed or cut by hand. The fragile structure of the hills and poor construction techniques guarantee that these roads collapse, trigger landslides, consume arable land, are unusable in the monsoon, and generally are a dreadful environmental and economic choice. The WireRoad, as we call it, will be a kinder, gentler, cheaper solution.

Currently, around 70 percent of the Nepali people live without access to electricity. While Nepal has large potential for commercial hydropower, the cost of running wires is prohibitive for many areas. Reliable small, mini, and micro hydropower sites are becoming more common, but again will serve only a small part of the population. Solar power is expensive. Our energy-related project, still in an early stage, is to design and build hand- and pedal-driven generators ranging from 10 to 120 watts to provide reliable, inexpensive electricity for lighting, battery recharge, and other applications.

A Nepali partner is not required to obtain a business license, so most of the foreign-owned firms are owned exclusively by their foreign entrepreneurs. Six years ago, facing the risk of losing a visa after having made our investments here, some of us formed FIIN, the Forum of International Investors in Nepal (www.fiin.org), to coach newcomers, resolve regulatory issues, and help HMG (His Majesty's Government) improve Nepal's investment climate. As a result, we now have secure visas and an excellent relationship with HMG and its key reformers.

Because of the six-year Maoist rebellion, the royal massacre of June 2001, and 9/11, tourism, a major source of income, has fallen off drastically. The recent announcement of a cease-fire has many hopeful that the necessary reforms by both HMG and the insurgents may radically improve the climate for change, restore the attraction of Nepal for tourists, and provide renewed hope for the suffering people and damaged economy. In spite of the past security threats, killings, and bombings, which we know have had extremely negative reporting in the American press, we ourselves have never felt at personal risk, which is not to say that we have not been discouraged by what has been happening in this beautiful little country.

Additionally, building on the trust established through EcoSystems and FIIN, I have been coaching one of Nepal's district governments to shift the entire development process into a public-private partnership mode, where the public schools, health facilities, agricultural development, and other aspects of physical and social infrastructure would be contracted to private providers on performance-based agreements. In this scenario, the providers will be paid in accordance with their performance record. Several international donors will be needed to subsidize the public's obligations in this partnership during a transition period of 10 years while the local tax and income base is expanded to support the partnership's ongoing service costs.

Haydi and I are often asked by our California friends when we plan to move "home." We say that we hope to stay here as long as our work is rewarding, our health is good, and we can still stay connected with our families. We would be two of many skilled people available to deal with regional social and environmental problems in the Bay Area, and Nepal has so few. There are opportunities here for all of us who would try something new with our lives. ■

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Up for the Challenge

Akiko Jackson has straddled cultures since childhood, but she never expected to reengineer a Japanese bank while raising twins in two hemispheres.



AFTER SEVERAL DISAPPOINTING EXPERIENCES, I had no intention of ever working in Japan again. But my parents live there, and I visited in June 2001 to show them my newly born twins. One thing led to another, and now I am working for Shinsei Bank in Tokyo, the first bank in Japan ever to have non-Japanese major shareholders. I not only accepted an offer made by David Fite, MBA '90, but moved with my twins and nanny, leaving my better half (Tim, MBA '93) alone in Sydney. Our life of two children, two careers, and two houses in two countries should be in its 18th month when you read this.

Shinsei Bank used to be called the Long Term Credit Bank, a prestigious commercial bank focused on providing financial products to very top-end corporate customers. These customers respected LTCB bankers and, in the world of “arranged marriage,” the guys at the bank benefited from the brand name.

When the Japanese bubble economy burst, however, this bank, which was lending with very lousy credit

standards and taking overpriced land as collateral, saw its financial performance tumble. The Japanese government nationalized Shinsei in 1998 and sold it two years later to a group of non-Japanese investors, with controlling interest going to the American investment group Ripplewood Holding.

Since then, the new management has separated the bank into two business units, one focused on “normal” credit customers and the other on those whose credit rating is “need caution” or below. The latter customers are handled by specialists who try to negotiate repayments on overdue loans and offer products such as debt-equity swaps to minimize our bank’s financial burden.

My responsibility as general manager of the Corporate Banking Group is to develop and quickly implement a new business model for the “good” bank, the one with virtually no bad debts. A few months after my arrival, we agreed to become a niche investment bank. To implement the strategy, however, we had to deal with a huge clash of cultures.

Imagine a group of gray-haired Japanese businessmen who do not necessarily speak English and have been used to providing mainly lending facilities to customers who respected them. Put these gentlemen together with a group of young American investment bankers who do not necessarily speak Japanese, never worked in Japan, do not know Japanese customs, and do not have company loyalty. Ask them to work together marketing investment banking products to customers who have suffered financial losses from the earlier bank’s collapse. Building trust is the necessary first step.

This is not my first exposure to cultural clashes, but I am facing them with a different attitude this time. The reason I was initially adamant about not working in Japan is that I had my own difficulties fitting in here before. I was born in Japan, but my parents moved to New York for a few years when I was in kindergarten. When we returned to Japan, I was ostracized for being different—for speaking up in class, for sitting on the floor cross-legged, for questioning the reasons for rules rather than just following them. During my senior year in college, I was lucky enough to win an essay contest that sent me on an exhilarating fellowship year in Canada. As I stepped off the plane, I felt a sense of freedom, knowing I could behave more like what I thought of as natural.

Later I was one of the first five women hired by a Japanese bank under the Equal Opportunity Act. It seemed like progress, but I was into my fifth year there when I found myself serving tea while trying to close a

derivative deal with the CFO of a medium-sized company. I applied to the GSB, and when I was accepted, I felt my future was opening up to work outside of Japan, and not for a Japanese company either.

People still ask me, “How are you being treated as a woman?” To be honest, I am loving this job, the change, the creativity, and the people. My earlier experience in strategic management consulting and in corporate strategy for an Australian bank that was managing a turnaround has given me the confidence and skills necessary to do this job.

In this world where many still judge a manager’s performance by the number of hours spent in the office, my attitude of running out at 6:30 p.m. to be with my 2-year-old twins is certainly received as a surprise. This is a life of balancing. I work on the train to and from work; I read, if necessary, while I am taking a long bath after the twins are in bed. It also is critical to delegate work to team members as much as possible. Therefore, having the right team is the key to success, and I am still working on it.

This is not my first exposure to cultural clashes, but I am facing them with a different attitude this time.

People also are curious about how Tim and I manage our family life from two countries. First, we managed a year-and-a-half long-distance relationship between New York and Sydney right after business school. We sent emails every day, called each other every weekend, and met somewhere every three months.

It is similar this time, but with children, we feel it is critical for them to see their parents often and see them happy together. Tim visits here at least nine days every month. He usually takes the red-eye leaving Sydney on a Friday night and returns two Monday mornings later. It is an 8 1/2-hour flight, and the new Tokyo International Airport is three hours outside Tokyo, so he has become an expert on Tokyo land transportation.

It is not the easiest life but I have support. My parents live in Tokyo and a few of the expatriates working at the bank have their family members outside of Japan. If you have someone to talk with who is in the same situation, it is a lot easier. Tim and I are taking this a year at a time, which is how we started our relationship. We agreed last September to try another year of our life of “twos.” I suppose life has taught me that not everything worth doing can be planned. ■

New Courses on Financial Reporting

IN THE LAST TWO YEARS, no areas of management have come under greater scrutiny than financial reporting and corporate governance. The most egregious lapses have made everyone aware of the enormous price paid by employees, investors, and the U.S. capital markets. Executives now find themselves in an era of reform: New York Attorney General Eliot Spitzer extracted \$1.4 billion in fines from 12 investment banks. The Sarbanes-Oxley Act has been characterized as the greatest change in financial reporting since the Securities Act of 1933. The White House is significantly bolstering the Securities and Exchange Commission budget.

While reform is welcome, expect confusion. When you’re an executive or board member, how do you ensure that financial reporting is faithful—to the spirit, as well as the letter, of the law? It’s a brave new world. And to address it, the Graduate School of Business has added to its considerable teaching emphasis on financial reporting with a new spring MBA elective, *Financial Reporting and Corporate Governance*. At the same time, the School is developing an Executive Education course, *Corporate Governance: Effective Oversight for Today’s Board Members*, to be offered to board directors May 28-31. “The quality of financial reporting has always been an important issue, but the cases we’ve seen are vivid reminders of how essential it is to have credible financial reporting,” says William Beaver, the Joan E. Horngren Professor of Accounting.

The spring elective will be cotaught by Business School and Law School professors to students from both schools. It will cover securities law and the management direction needed to ensure that accounting reflects reality. The faculty members behind the course have been immersed in studying financial reporting controversies for years. The Business School team of accounting professors includes Beaver, who is a giant in the field of financial reporting and an expert witness in securities litigation; Mary Barth, a member of the International Accounting Standards Board, which aims to bring consistency to international rules; and Maureen

McNichols, a leading researcher on earnings management and the incentives and biases of securities analysts. They will teach alongside Law School professors Joseph Grundfest, a former SEC commissioner and nationally known expert in securities law, and Kenneth Scott, a specialist in bank regulation and securities.

For MBAs, financial reporting has been taught in the core course *Intro to Accounting* for as long as anyone can remember. *Global Financial Reporting* and *Evaluating Financial Statement Information* have been around for more than two decades, too.

“Fifteen years ago, professors worked overtime to find examples of financial manipulation,” says McNichols, who recalls one of the few cases for teaching such issues was about Harnischfeger, a heavy machinery company that cooked the books in 1984 by boosting earnings with aggressive assumptions. “By the early 1990s, we saw a few more,” says McNichols, who is the Marriner S. Eccles Professor of Public and Private Management. “By the late 1990s, examples were everywhere,” she said, recalling the 1998 case of Sunbeam, which stretched the definition of revenue so far that it resulted in the firing of CEO Al Dunlap. Boston Chicken understated its bad-debt expenses and exploited GAAP rules so investors couldn’t see what trouble the company was in. Signature Resorts went bankrupt after understating bad loans and aggressive revenue recognition. Even blue chips like IBM came under SEC scrutiny and were warned.

“I’m very impressed with how often the students are outraged at some of the things they see in the cases,” says McNichols. “It bodes well for the next generation.”

The new Executive Education program will bring together eight Business School professors from the areas of strategic management, finance, organizational behavior, and accounting. Unlike the MBA elective, it does not cover law and focuses exclusively on management and reporting issues. “The program aims to bring directors from varying professional backgrounds up to speed on issues that are essential to financial reporting credibility,” says Barth, the Atholl McBean Professor of Accounting. ■

Don Quixote's Lessons for Leadership

Drawing on classical literature and contemporary film, Jim March creates a movie produced in Europe and America based on the idealism in Cervantes' novel.

A RETIRED PROFESSOR OF BUSINESS, education, political science, sociology, and psychology—not to mention the author of six books of poetry—James G. March recently turned his attention to film. Nearly a decade after he last taught his landmark course *Organizational Leadership*, March has translated part of it into the lecture-length film *Passion and Discipline: Don Quixote's Lessons for Leadership*.

March wrote the script and narrated the film against backgrounds in Europe and the United States. *Passion and Discipline*, which was produced by Schecter Films for the Graduate School of Business, was directed and edited by Steven Schecter, an independent producer and director of nationally broadcast documentary films. The film features an original score written and performed by flamenco guitarist Gerardo Nuñez; conversations with the late John Gardner and other leaders; and a wealth of clips from televised news broadcasts, classic films, comedy shorts, and dramatic versions of the Cervantes classic. In short, *Passion and Discipline* is a lecture come to colorful, provocative, joyous life.

But why Don Quixote? What lessons can we learn from the fictional 16th-century gentleman who careered around the Spanish country-

side tilting at windmills and challenging sheep to battle? Indeed, as March says in the film: "We live in a world that emphasizes realistic expectations and clear successes. Quixote had neither. But through failure after failure, he persists in his vision and his commitment. He persists because he knows who he is."

Quixote lived his life with passion and discipline, March says, much as a flamenco dancer performs with seeming abandon, yet acts within the strictures of the art. Leaders can learn from Quixote, whose life was dedicated to imagination, commitment, and joy. "The

critical concerns of leadership are not technical questions of management or power; they are fundamental issues of life," March says.

If the bumbling Don Quixote seems an unlikely role model for leaders, so March's required reading—*War and Peace*, *Othello*, *Saint Joan*, and *Don Quixote*—must have appeared ill suited to the study of *Organizational Leadership*, the class that inspired the film. Back in the seventies March had been teaching a traditional course in business leadership when he realized the questions it asked were better addressed in great literature than in any of the standard texts on leadership.

"We probably overestimate the intelligence of our students, but we underestimate their intellect," March says. "Most of them have come through very good undergraduate programs. They want to learn the techniques of business, but they're starving for intellectual conversation. If you give them a chance to have a serious conversation about a serious subject, they dig in. One of the great things about the Business School here is that it treats students as if they have intellect as well as intelligence."

Each year for nearly two decades some three to four hundred undergrads and grad students flocked to March's revised leadership class, which was cross-listed in many departments of the University. About 100 were MBA students. They met for two hours of lecture and discussion twice a week and in additional, optional discussion sections. "I would never share this with any teaching assistant, so I taught all the discussion sections," March recalls. "It was a considerable drain on energy, but it was really exhilarating. All day Friday I had these sections. My wife said I came home on a total high."

In 1999, four years after March retired from Stanford and the course, which by now was legendary, he was approached by Joel Podolny, then a senior associate dean at the Business School, who suggested he try to put the course on film. "I said, 'No. This is an idea course.' I didn't want to just film lectures. It was hard for me to see how to translate it into film."

Undeterred, Podolny introduced March to Schecter, and March was won over. "Steve brought an entirely different set of talents to the project. He had the artistry and the technology to produce it," March says. "What impressed me about Jim," says Schecter, "is how open he was to learning new things."

The March-Schecter marriage of talents wasn't always harmonious, however. "We fought all the time!" March recalls. "I'd say, 'It's a wonderful image, but it



ROBERT HOLMGREN

doesn't have anything to do with the film." Says Schecter, diplomatically: "Jim had a very specific idea of how the argument would unfold according to the intellectual content. Sometimes this was at odds with my idea of how to tell the story." Despite their disagreements and despite the sinking feeling on both sides that they would never wind up with a film that met their differing but no less exacting standards, both are pleased with the final product. There isn't a scene that wasn't okayed by both.

In the spring of 2000, after three months of dickering over the script, production began in March's own backyard, where he interviewed his old friend and Common Cause founder John W. Gardner in what was probably the great man's last interview. March then traveled to Denmark to catch turnaround expert Annette Kreiner, a former Stanford executive student, in a laughter-filled conference with her colleagues. Schecter continued to Spain to scout locations, select flamenco dancers, and arrange for two local farmers to play Don Quixote and Sancho Panza in the background of one of March's scenes. In Madrid, on his way back to the States, he hired the guitarist who wrote the score for the film.

Shooting resumed in New Jersey, where

March's former undergraduate student Cory Booker was running for mayor of Newark; in West Virginia, where March interviewed his former doctoral student Jerry Beasley, who is president of Concord College; and in California, where his former MBA student and CATS Software founder Rod Beckstrom, MBA '87, told of learning his own lessons in leadership. The film-

The critical concerns of leadership are not technical questions of management or power; they are fundamental issues of life.

makers returned to Spain at grape harvest time in September 2001 to shoot the Spanish scenes, and then spent much of the following year editing.

Of the film, March says, "It is what it is, and it is what it can become." While *Passion and Discipline* stands alone as a creative work, it is intended to provoke thought, he says. This is where its true value lies.

Passion and Discipline had its official premiere at Stanford in February. But a few weeks earlier, before an audience peppered

with former students, the film was quietly previewed as part of the GSB's Lifelong Learning initiative. Following the show and a break for tapas and Spanish wine, March led a discussion where more questions were raised than answered, much like those Friday sections he so enjoyed.

How do the issues raised in the film apply to our daily lives? How do we recognize a Don Quixote if we meet one? How can we tell if he is someone who has something valuable to contribute or if he is just going to waste our resources? How do we tell good ideas from bad ones? "Overwhelmingly, new ideas are bad ones," said March. "It's very hard to tell the difference. I'd say it's a hopeless endeavor." He smiled. "Although I suppose deep down I think I'm pretty good about telling them apart."

So what does March do for an encore? Asked if he would consider making another film, perhaps about one of the other classics assigned in his course, March said it was unlikely. His reason was quite simple. "You know," he explained, "I've already done a film." ■

Passion and Discipline can be ordered in DVD or VHS format. Please email queries to: gsb_info@gsb.stanford.edu

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Priming the Pump

for better classroom performance

WHEN ECONOMIST PAUL ROMER ARRIVED AT THE GRADUATE SCHOOL OF BUSINESS in 1996, he assumed he would be teaching some of the smartest, most disciplined adults in the nation and there would be no need for pop quizzes. “They were old enough to make their own choices. If they paid their tuition and went to the golf course instead of my class on macroeconomics, that was fine with me,” he recalls thinking. It wasn’t long, however, before the MBA students were grumbling. Romer might be the esteemed father of new growth theory, but having the option to listen to him wasn’t enough. They wanted him to push harder so they would learn more.

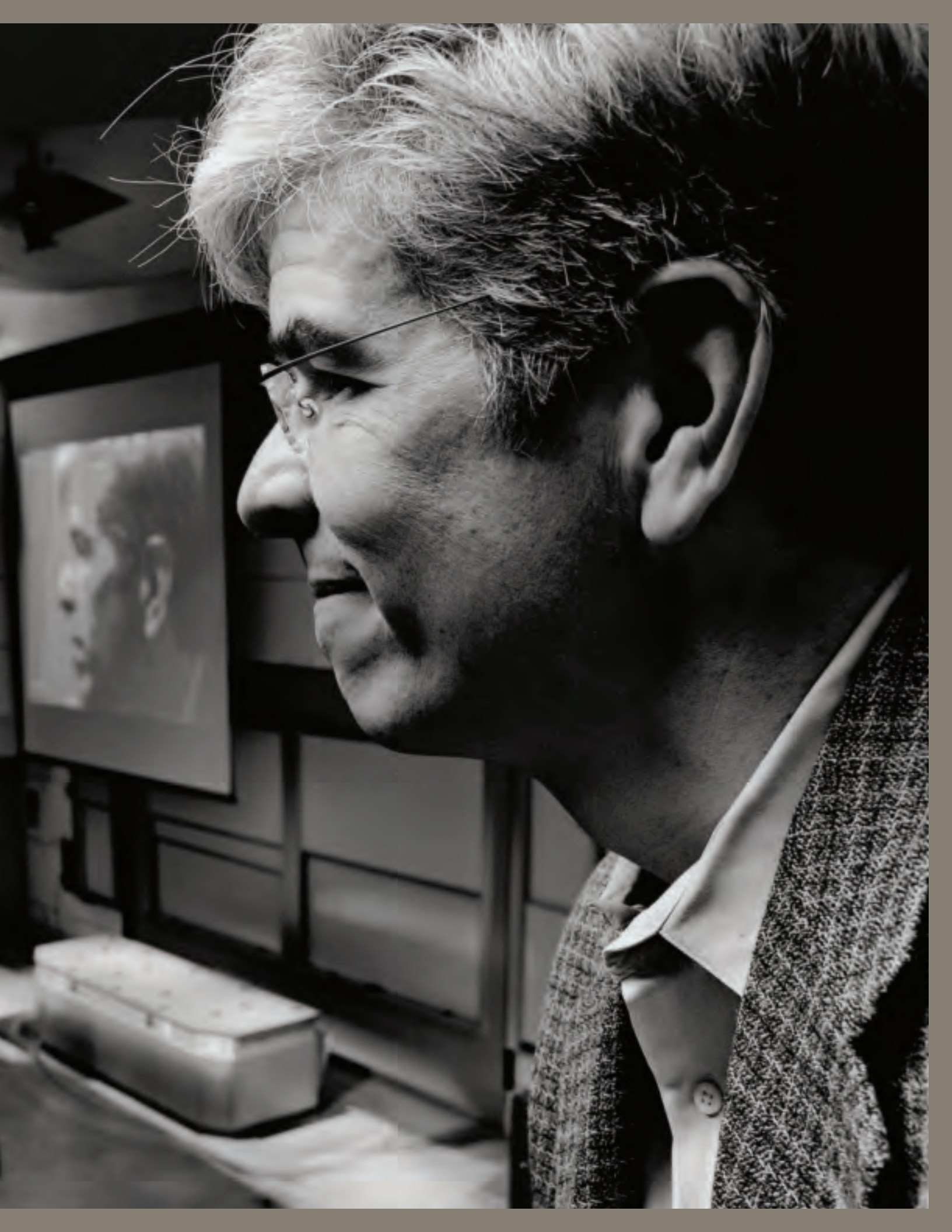
Out of this experience, a company that just might revolutionize higher education instruction was born. Aplia Inc. began selling Internet-based software to college teachers of economics last fall, and preliminary results look promising. According to one professor, Kristen Monaco of California State University, Long Beach: “Now that my students are using Aplia, they’re coming to class more prepared.” Adds Professor Melanie Marks of Longwood College in Farmville, Va.: “For the past several years, my testing style has been exactly the same and my average on the first test was always around 74....The only change I have made this semester is that I am using Aplia for practice problems and quizzes. My students just averaged an 81 on my first test.”

An avid classroom learner himself, Romer thought of the GSB students who wanted him to push them harder as lacking self-discipline until he had a chance to walk—or rather run—a mile in their shoes when he joined an athletic team to please his wife.

To his surprise, he started exercising much more and did things that he never thought he would be able to do, such as complete a triathlon. Suddenly it dawned on him: “I think my students are immature because they are asking somebody to make them put forth regular effort,

College classes can be deadly dull if students aren’t prepared. Economist Paul Romer tackles the problem with Internet-driven homework and a business model that challenges conventional textbook publishing.

PHOTOGRAPH BY PETER STEMBER



yet here I am working with a coach and a team because I couldn't make myself exercise enough on my own."

On a two-year leave of absence from the Business School, Romer found investors and launched Aplia. For \$28 a student, the company offers Internet-based instructional materials designed to push students to exert more effort outside of the classroom without imposing on professors the drudgery of collecting and grading more homework.

Instructors at 100 institutions used the Aplia material to teach *Principles of Microeconomics* last fall to approximately 10,000 students. In January, the company announced it was adding macroeconomics and intermediate microeconomics to its product line. *Stanford Business* caught up with Romer recently at his corporate office in a warehouse district of San Carlos, Calif.

Q: You are the son of Roy Romer, the superintendent of the Los Angeles schools and the education-oriented former governor of Colorado. Did your interest in education come from him or vice versa?

A: I learn about what it's like out in the trenches from talking to him. He learns from me about the connection between education and long-run economic growth. So our discussions are like a tennis match. After a while you forget who served.

My interest also comes from thinking about how our economy benefits immeasurably from investments that were made in the 19th century in creating the modern university system. For example, the Morrill Act created the land grant universities, a whole new system of higher education, which spurred our economy to faster growth in the 20th century. New growth theory suggests the potential for us to do that again, to even further speed up the rate of growth. In so doing, we can help not just people in the United States but ultimately everybody in the world. Every problem we face, whether it is insufficient water or pollution or global warming, is going to be easier to deal with if we have more economic resources and better-trained people.

So I have this impulse to see how we can make the world better. One way for me to do that is to try to influence the policy process a little bit; e.g., to get the federal government to provide more support for the training of scientists and engineers. But another way is to try to change how the educational publishing industry works, change how it interacts with professors and raise the quality of the educational experience for kids in schools. By myself I'm not going to come up with something like the land grant universities, but as you agitate for the big things, you also try to build the little things and hope that somehow along the way you make a difference.

Q: Technology has been useful in many areas of economic life. How about in education?

A: There is this old saying that when you've got a hammer, everything looks like a nail. I think people took the technology tool and said, "We can computerize accounting, banking, education"—they started with the tool and went looking for something to hit with it. So far in education this hasn't helped. I think you need to start with an understanding of what the problem is; then you can figure out the ways various resources can help solve it.

The fundamental problem in higher education is how to give students enough structure to make sure they do enough work outside the classroom. That is something that technology can help with because a key part of any solution is information collection. You need to set up an incentive system that has little pats on the back and little wagging fingers. To implement this, you've got to meas-

ure what students have done, then pass that information to the professor and back to the student. This is the kind of thing that information technology is good at. Others have argued: "Let's turn the computer into a professor who will answer the students' questions," or "Let's use multimedia to bring these concepts alive." Those were impulses driven by "Wow, we have this new tool; what can we do with it?"—not by a clear statement of the problem and a well-designed solution.

Now there is a big push on distance education—we'll just teach the courses over the Web. I am very skeptical of that approach, because I think proponents underestimate the importance of this motivational problem. That human presence, the fact that there is

a person who really cares, is a crucial part of getting students to stick with the difficult and often unpleasant task of learning.

A lot of us who are in education got there because we love to learn. We tend to think that everybody loves to learn, but the reality is that learning is painful for lots of people. It's kind of like running laps during training for a marathon. It's rewarding when you finally run the race and do well, but it can be pretty boring and

unpleasant during training. We need to structure things so that people who know that it will ultimately be good for them can stick with it. The biggest folly in computer education is saying, "Oh, we'll use computers to make learning fun! We'll turn it into video games; lots of kids will learn their math skills while shooting down rockets." The reality is that lots of learning is not fun.

Q: You have software for economics courses that allows students to participate in a market for textbooks. Isn't that fun?

A: That is fun, but if we just let them do the fun part, they would say, "I love trading; that was great." But then you say, "Describe how that helps you understand what just happened in the market for oil last week." You have them engaged, but you've got to have some of that hard, tedious work in advance to get them ready to trade, and then you have to make them struggle with some hard concepts and solve some problems afterward to make sure they take the lesson out of the experience.

Q: Tell us how your Web materials help a professor do that.

A: The Aplia system offers problem sets and other homework that can be machine-graded, and it supplies results back to the students and professor before the next class begins. The professors don't have to waste as much class time going over material that students were supposed to read before class because now they can measure whether the students actually read it. We are trying to remove the drudgery for the professor so he or she can have a more active, open, free-flowing classroom that in the process gets us out of that deadening lecture mode.

Q: You have talked about changing the way academic publishing is done. How do you see Aplia doing that?

We are trying to remove the drudgery for the professor so he or she can have a more active, open, free-flowing classroom.

A: Right now the business model for academic publishing is to incur very big fixed costs to generate content. The issue in this kind of business is where do you put in a big markup so you can recoup your upfront costs. Book publishers put it on paper and ink, and they give away a lot of things on Web sites. What that means is that the quality of material on Web sites is very low. Nobody is actually building a business around providing high-quality software for teaching.

We are trying to provide a different business model. We prepare high-quality content, and we are trying to charge for access and use of online materials. We think this creates new incentives. For example, book publishers end up competing with the used book market. They have to bring out a new edition every three years just to try to make the old edition obsolete. In our business model you don't have that same incentive to create artificial turnover. If we have content that works on our Web site, there is no reason for us to try to change it. We can also publish and sell smaller pieces of content, so that instead of signing up a few big authors to write a whole textbook, we can work with individual contributors to write single problem sets, experiments, analyses of what's in the newspapers, and so on. We can rely on a much bigger pool of contributors and facilitate more of a professor-to-professor exchange about what works.

Q: In one news article, a community college student complained that Aplia's Web content was an add-on cost to the textbook. Do you see that changing?

A: People are unhappy about how much textbooks cost, and professors worry about asking students to pay a little bit more for our product. The professors have seen a lot of low quality content on the Web. Once they are familiar with what we offer, it seems well worth the cost.

Economists talk about the cost of time. We say it has gone up because there are a lot more things to do with a given hour in a day. College students have a cost of at least \$8 or \$9 an hour because they can make that working at Starbucks. Even if they don't pay any fees, they are spending time worth \$24 or \$27 per week just going to three hours of lectures. Based on that, \$28 for an entire term to use our materials is trivial if it makes time spent in the course a success.

Q: Will you expand to different products in economics or to other subjects?

A: Initially we'll stay in economics because staying with what you know is the first imperative. Ultimately, I think the problems in economics education are pervasive in many other parts of education. The kind of machine grading we do of things involving graphs, diagrams, equations, and math translates to many other scientific disciplines. It would be much harder to translate to something like teaching language or writing.

Q: Why did you choose a for-profit business model?

A: I thought about trying to emulate something like the open-source movement where lots of professors contribute and everybody who is working on material for their classes would share. But that doesn't generate enough revenue to cover the fixed costs to do things such as offering an easy, useful interface for students. For the most part open-source software is usable by geeks, but it isn't very user friendly for others. It is missing some of those basic production values in terms of design and ease of use that, unfortunately, are expensive. There is lots of material out there on the Internet that

is free, but it never has been put together in a package that has been important enough to change how people teach. That's what we're trying to do.

Q: If this type of program is widely adopted, will it lead to evaluation of higher education?

A: Our goal is to facilitate the really exciting, challenging, hard-to-quantify learning experience that can take place in the classroom by making sure that students are prepared before they go into class. To really measure how well universities are doing and see the benefits of that kind of exciting classroom experience, we need much more sophisticated assessment tools to measure what students have learned. Our Aplia problem sets are very good at motivating student effort outside the classroom—to do some reading, think through things, figure out how to solve problems—but our problems are not rich enough to judge the depth of what a student should learn in a first-rate economics course. You would have to have things like an essay or an oral exam where a student could really grapple with a nebulous problem. Ultimately, I would like to see educators develop better assessment tools so we could see how well we are doing. The same principles that apply to students apply to us as teachers. If we can measure how well we are doing, then we can provide feedback and create incentives for teachers to do a better job.

A distant dream for me would be to offer online education to hundreds of millions of kids in China and India and to combine this with the kind of high-quality assessment that I just described. The quality of life in those countries is going to depend a lot on how much the informed elites understand about economics, and this will depend on how well universities teach them economics.

You need to set up an incentive system that has little pats on the back and little wagging fingers.

Right now, we are flying blind. We don't know how well universities are doing in this basic task.

For now, we not only have to work on pushing the bounds of what our software can do in terms of more complicated questions and responses that we can process, but we are also out there trying to explain how it works to professors. There are people in economics who

think the experiments we and others are designing will change the teaching of economics, but it takes some effort to explain how this works to someone who is not familiar with it.

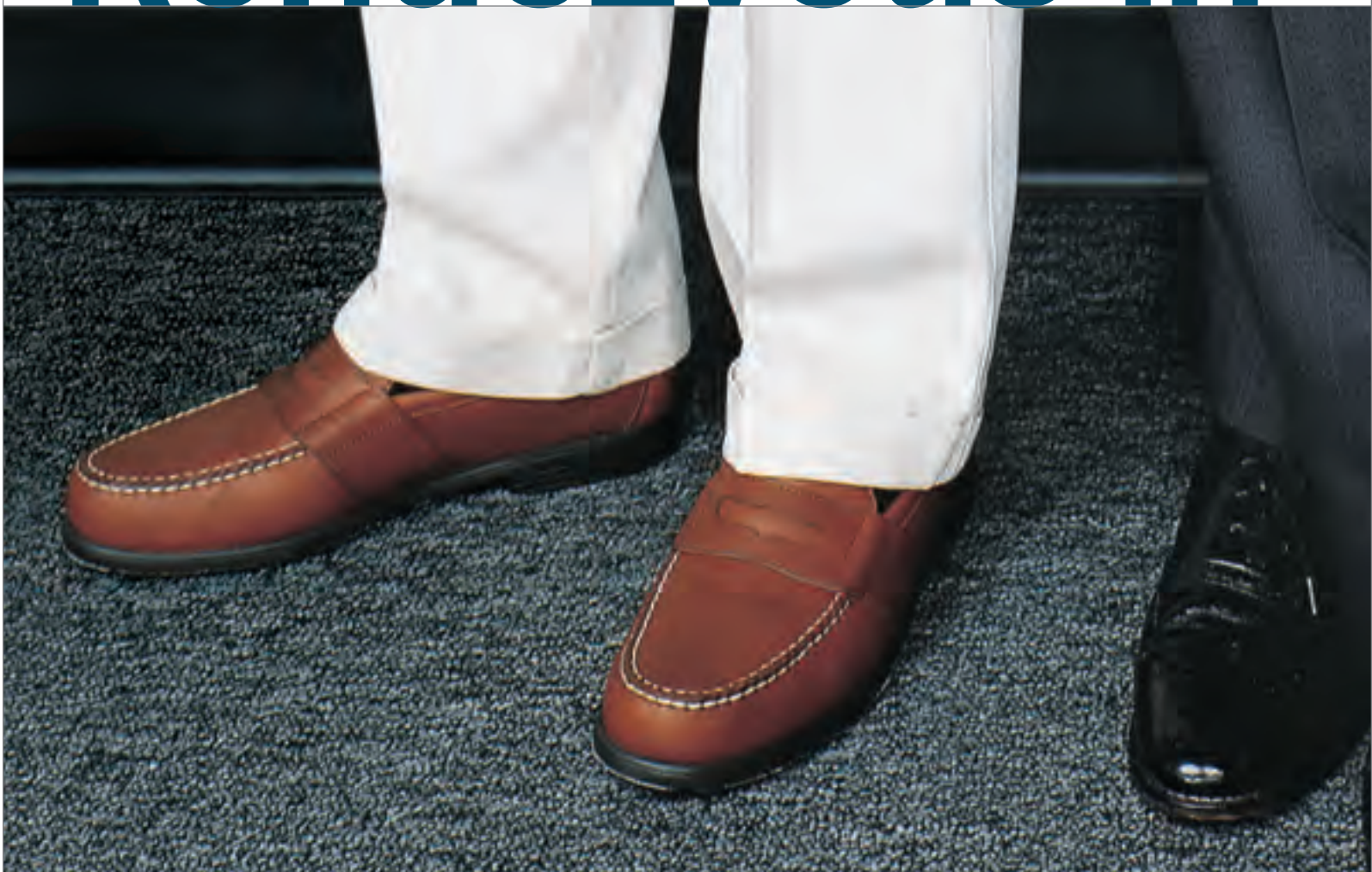
Q: Give us an example.

A: The most basic experiment is one that was developed by Vernon Smith, who received the Nobel Prize for this work. You give students roles as either buyers or sellers; tell them, for example, "You just took a chemistry course; you have a used textbook to sell." You tell each seller what it costs him or her to deliver a textbook to somebody else, and you tell each buyer what the book is worth to him or her if he or she buys one. You turn the students loose to buy and sell on the Internet, and they see what happens. When they get to experience a phenomenon like a shortage or the change in a price caused by a new tax, they learn it in a way that they don't if they just read about it. ■



SCHEDULING A MEETING CAN BECOME FRAUGHT WITH INTERPERSONAL FRICTION

Rendezvous in



FORGET COFFEE AND DONUTS. GLOBE-STRADDLING WORK TEAMS AND THEIR MANAGERS ARE DEVELOPING NEW RULES FOR WORKING TOGETHER ACROSS DISTANCE AND TIME ZONES

HOW'S THIS FOR A MANAGEMENT CHALLENGE: Run a 16-country, multilingual team that operates on both sides of the International Date Line, make it capable of interpreting thousands of arcane and sometimes conflicting government regulations for product designers back home—and do it at a time travel budgets are tighter than ever.

That was the mission Hewlett-Packard gave John Monroe, the now retired head of the company's Corporate External Standards (CES) organization, in 1999. A 24-year HP veteran with a doctorate in electrical engineering, Monroe knew that the team members needed to trust each other, solve common problems quickly, and demonstrate a significant return on investment to the company's

increasingly cost-conscious management. "Sure, I was unhappy that we couldn't travel much, but I just told myself to get over it," Monroe says.

Get over it he did. His team saved the company \$800,000 a year in compliance costs for consumer products in Argentina and \$200,000 a year in avoided costs and faster cycle times in Korea. In 2002, the HP-Compaq Merger Integration Team adopted the CES organization structure and business model.

Not every company with a dispersed workforce has challenges on the scale of HP's external standards group, of course. But as business expands and diversifies, and supply chains routinely span the globe, more and more managers are required to build and run

PHOTOGRAPH BY TIM BRADLEY



cyberspace

By Bill Snyder

teams whose members rarely work face to face—whether they are prepared or not.

“It’s scary. A lot of organizations create virtual teams with almost no understanding of the unique implications of that decision,” says Margaret A. Neale, the John G. McCoy–Banc One Corporation Professor of Organizations and Dispute Resolution at the Graduate School of Business.

Making those teams work isn’t easy. Relatively routine tasks, such as scheduling a meeting, become complex and fraught with interpersonal friction when one person’s work day begins as another is sitting down to dinner or is sound asleep. A simple email exchange frazzles nerves because of cultural misunderstandings, and information needed in one place sits on a desk in another because there’s no routine mechanism to share knowledge.

“We put people in a complex virtual environment and we don’t give them training, because we don’t know what to train them on,” Neale says.

For Neale, understanding the virtual environment is a natural extension of her research and teaching on collaboration and negotiation. Neale and colleagues Terri L. Griffith of the Leavey School of Business at Santa Clara University and Elizabeth A. Mannix of the Johnson Graduate School of Management at Cornell University have studied and written about virtual teams for four years.

While still incomplete, their research suggests that despite inherent limitations, the virtual team model can be used successfully by a variety of businesses. *Stanford Business* interviewed Neale and Griffith recently and spoke with executives at companies fielding virtual teams to solve difficult business problems.

Go to Your Rooms

It’s a common sight in many offices: groups of people huddled around a spiderlike Polycom speakerphone for a meeting with colleagues in any number of remote locations. Meeting via phone is often a useful tactic, but have you ever noticed the dynamics of those meetings? If the groups are uneven in size, members of the larger group tend to dominate the conversation and engage in side talk while someone else is speaking. Unable to see each other, people inadvertently interrupt and miss significant visual cues. Some members almost never speak, and by the end of some sessions it appears that there have been two meetings (or three or however many nodes comprise the meeting) instead of just one.

At the Sutherland Group, a Rochester, N.Y.-based provider of call centers studied by Neale and her colleagues, managers found a creative way to solve the Polycom dilemma. “They send people to their rooms,” jokes Griffith. Rather than meet in conference rooms, team members stay at their workstations and dial into a phone bridge.

The result: one meeting, no side talk, and everyone has immediate access to data needed for the discussion. Of course, phone bridges cost money and do not have un-

limited capacity. Some companies use various forms of video conferencing, ranging from inexpensive Web cams mounted on individual monitors to theaterlike conference rooms with equipment that sends a high-bandwidth signal to another conference room.

Whichever model is followed, regularly running remote meetings takes tact, cultural sensitivity, and creativity.

Although English is the official language of HP’s standards group, not every non-native English-speaking employee finds it easy to communicate in a meeting, especially during a teleconference. As a result, those employees tend to be quiet, and the company loses the chance to benefit from their ideas. HP managers noticed this and instituted the “warm-up” at the beginning of every meeting. According to Monroe, it works like this: A manager asks each participant to “check in” with the team by relating a two- to three-minute story in English about some event in their personal or business life. The topic, he says, isn’t important. “At one meeting we discussed the World Cup. It got everyone’s motor running.”

As a result, team members get to practice speaking and, just as important, listening in English. They learn more about each other—which builds trust—and get a sense of what skills other members bring to the team.

Thanks for What?

Even when employees have good language skills, they naturally interpret written and verbal communication through the filter of their own culture. Consider a situation that developed at Check Point Software Technologies Ltd., an Internet security software firm with most of its 1,200 employees split between offices in Israel and the United States:

“People in Tel Aviv asked me why their U.S. counterparts would sometimes seem upset by email exchanges,” says John Alexander, the company’s Redwood City–based director of human resources. A major problem? Not exactly. But Israelis, who tend to be rather direct, and even blunt, were sending emails that seemed, well, a bit rude to their American counterparts. And, he says, the Americans were sending emails that seemed “wishy-washy.”

Americans, for example, tend to frame requests with phrases like “Thanks in advance for sending me ...,” and Israelis would say, “Thanks for what? I haven’t done anything yet,” recounts Laurie Guarino, a member of the company’s public relations staff.

Although individual incidents tended to be rather minor, the company knew that cumulative effects could affect morale and hinder the development of the team. Check Point brought in an Israeli-born consultant to help Americans understand how Israelis think and communicate. “Now,” says Guarino, “I’ll simply write something that’s polite, but very direct, like ‘Please send me the memo by 5 p.m. your time.’”

Check Point’s managers dealt with the situation before it

became a major issue, but not recognizing—and ameliorating—conflict when it does occur is a common problem in virtual settings, says Neale. “People hope conflicts will go away. But they get worse. It is the responsibility of the team leader to be hypervigilant, to keep these problems from spiraling out of control,” she says.

Staying on top doesn’t necessarily mean bending your budget to acquire new technologies. In any case, the current economic slump makes it difficult for managers to win the case for exotic new technologies. But even in better times, whiz-bang technology isn’t always the key to success. Neale recalls one company that “spent inordinate amounts of time trying to get the latest and greatest technology and then found out that what their people used was the telephone.”

“The telephone is easy, it’s synchronous, and it’s broadband. That is, I can get a lot of information from your voice if I know you,” Neale says.

By now, most people understand the downside of email: flaming, inadvertently distributing messages very widely, and shooting from the hip. But it’s also worth noting, says Neale, that email, unlike spoken communication, gives the author a chance to finish a thought without interruption. And it gives people time to think, because they don’t have to respond instantly.

Neale and her colleagues have found that email is the key enabling technology for virtual teams. One drawback that, in fact, extends to the whole virtual team process is the difficulty of sharing knowledge. Reading a long email thread can be difficult, and many search engines index email poorly. Moreover, some organizations lack the storage space to archive it for long periods of time.

More broadly, much of the knowledge developed by virtual team members is scattered across their computers, filing cabinets, and most important, their brains. When they leave the company, how can that knowledge be retained? Although corporate portals and sophisticated search engines are helpful, there’s no easy answer.

What Time Is It?

Everyone has heard stories about inconsiderate managers who consistently call subordinates in other time zones well outside of normal business hours. But less common are organizations that find creative ways to gain advantage from significant time differences.

Lode Coen, the art director of Antics Online, a small marketing agency based in Belmont, Calif., works from an office in Brussels, where it is nine hours later. California staffers send projects to him at the end of their work day (which is the beginning of his), go home, and find Coen’s additions to the project ready when they log on to the computer system the next morning. The result: a saving of one workday, a crucial edge in an extremely competitive market.

The disadvantage: The window of time for U.S. and European staffers to actually discuss the work is rather small, and multiple emails are sometimes necessary to clarify points

that could be dealt with in a quick conversation.

Moreover, Antics cofounder Kevin Welsh warns that not every team would cope as well with a nine-hour time difference. “If Lode and Charlie [Antics cofounder Charles Ogden] and I hadn’t worked together for years [while colocated at another company], this might not work.”

Because Antics is small and close knit, the time difference rarely leads to personal grievances. But avoiding the 5 a.m. conference call is much tougher at a larger business. HP’s Monroe says his team learns to share the pain. “We rotate the hours, so everybody gets to work in their pajamas at times.”

Don’t Be Afraid to Fight

Writing about social change more than 30 years ago, activist Saul Alinsky said, “Only in the frictionless vacuum of a non-existent abstract world can movement or change occur without that abrasive friction of conflict.”

Modern business is far from frictionless, of course, so the real question is not can conflict be avoided, but how can it be managed. The first step: Understand that there are different types of conflicts. Neale and her coauthors identified three:

- Relationship conflict is an awareness of interpersonal differences; it may include personality differences, hostility, and annoyance between individuals.
- Task (or cognitive) conflict is an awareness of differences in viewpoints pertaining to the team’s task.
- Process conflict includes disagreements regarding how to do the task or how to delegate resources.

Conflict can be frightening, but it can also be very useful. “Task conflict,” Neale says, “is the conflict of ideas or controversy. And this is exactly the kind of conflict that is absolutely essential. It’s the type of conflict we want to create and encourage in teams because it gets people to share their ideas. The battle of ideas occurs, and something better comes through the interaction—or else we wouldn’t even have the team there.”

So the task of managers is to ensure that conflict about ideas doesn’t turn into what Neale calls a “relationship clash.” Not surprisingly, she says, “virtual teams have a much more difficult time distinguishing the conflict of ideas in their virtual environment from the conflict of personal relationships.”

The antidote? Trust. The more team members trust each other, the less likely they are to mistake the battle of the idea for the battle of the ego. Again, this places more responsibility on the team leader. “You [the leader] have to be much more intentional about it,” Neale says.

Neale emphasizes that successful managers of virtual teams build trust with face-to-face contact. “There’s no substitute,” agrees HP’s Monroe. “Driving travel costs to zero is a false economy.” CES regional teams meet face-to-face in

Tips from the Trenches:

Managing Virtual Teams

Maximize face time. If possible, launch the team with a face-to-face meeting. Get together as frequently as resources permit.

Be considerate. Team members should know what times are appropriate to call one another (think time zones here) and what days (considering cultural, family, or work schedules) are off limits.

Handle serious conflicts face-to-face whenever possible. Remember that overt conflicts often conceal underlying issues that hinge on matters of trust and respect.

Make sure that nearly all communications are kept in a shared database, so that a historical document of the group's work is available for new team members to study.

Carefully document procedures including uses of email, subject headings, file types, urgency markers, and use of the corporate intranet or portal.

Consider moving teleconferences out of the conference room and into individual workspaces.

Utilize appropriate technologies, including collaborative software (such as PlaceWare, WebEx, Lotus Notes, and NetMeeting) and video conferencing if available at a reasonable price in your locations.

Communicate, communicate, communicate.

More reading:

"Conflict and Virtual Teams," by Terri L. Griffith, Elizabeth A. Mannix, and Margaret A. Neale, In *Virtual Teams That Work* edited by Cristina B. Gibson and Susan G. Cohen, Jossey Bass, 2003.

Distributed Work, edited by Pamela J. Hinds and Sara Kiesler, eds. MIT Press, 2002.

locations every year or two for three to five days, he says. Alexander and his Tel Aviv-based boss meet face-to-face at least once a quarter, teleconference weekly, and speak on the phone and email each other frequently. "You can't over communicate," he says.

Measuring Success

Neale and her colleagues partnered with a large Silicon Valley software firm that asked to remain anonymous. They called it SoftCo. They administered a Web-based survey to 35 teams ranging in size from 2 to 28 members, representing employees from the company's three U.S. locations and a variety of European sites. The teams ranged from those whose members all worked at the same site to a team that had eight members in seven locations.

Here are some of the findings:

- The distribution of team members does not have an observable effect on performance. At SoftCo, teams with members who all work at the same site do not receive significantly higher performance ratings from their managers than do teams with members in multiple locations.
- Virtual teams and traditional teams have the same levels of task and relationship conflict.
- Process conflict is greater on virtual teams. As virtual teams have to manage greater complexity, attention to process can become a key to success. A similar focus in more traditional teams may get in the way of efficient operating procedures.

Not all benefits or downsides of virtual teams can be quantified. By and large, making them work is a case of finding virtue in necessity. If the results from the SoftCo study are projectable, virtual teams focused on noticing conflict may have an advantage over traditional teams in managing it.

The dynamics of working in a team are more complex than working alone, and virtual team dynamics are more complicated still, Neale, Griffith, and Mannix concluded in "Conflict and Virtual Teams," a chapter in the 2003 book *Virtual Teams That Work*. While it is the case that team members, whether virtual or not, need to pay attention to how the team functions, members of virtual teams need to be especially vigilant, they write. Problems resulting from miscommunications that may be easily corrected through face-to-face interaction can take on a life of their own in the virtual environment. As such, communication among team members may be the key to success when team members are physically, temporally, and culturally separate. "Given appropriate resources, by being aware of their situation, they can construct their environments to avoid process conflict, and perhaps find ways to outperform their colocated counterparts."

Says Neale: "Virtual teams don't limit us to physical proximity in choosing members. It opens up a set of players that I may not have access to if I insisted we all have to be here all the time for meetings."

And that's a significant win for business. ■



Tom Day briefs the press at a Post Office distribution center undergoing anthrax decontamination in December 2002.

ON OCT. 15, 2001, the day Sen. Tom Daschle's office received a letter contaminated with anthrax spores, Tom Day's duties with the U.S. Postal Service began traveling an unexpected route. A month earlier Day, Sloan '96 and a member of the Sloan Alumni Advisory Board, had been promoted to vice president of engineering for the USPS, managing an annual acquisition budget of \$1 billion and maintenance of postal technologies. Day had taken a biological weapons course while in the military, so he had some understanding of the challenges posed by the letter. He told his staff, "We're not going to find technology just to deal with anthrax; we need to be prepared for a broader range of biologic threat."

The first response was testing postal facilities for contamination. Twenty-three had some level of anthrax exposure; 19 were decontaminated within a few days. (Two sites remain closed at press time pending final clearance.) The Washington, D.C., Processing and Distribution Center, at 17.5 million cubic feet, is the largest biological

Tom Day, SLOAN '96

decontamination ever undertaken.

The next few months were spent testing technology solutions, leading to a plan to modify mail distribution equipment with a combination of a near real-time detection system and a built-in vacuum and filtration system, using \$587 million in funds appropriated by Congress. Fifteen sites are scheduled to be activated by the end of May. Deployment in all 282 of the nation's automated processing centers should begin this summer and take 12 to 15 months.

Day's vice presidency is normally a low-

profile job, but he often found himself thrust in front of a bank of media cameras or communicating extensively with members of the House and Senate. He has a comfortable demeanor and is able to translate complex technology into reassuring sound bites. "One of the things I learned at both West Point and Stanford was how to think through a problem on my feet," he said.

For months, the workdays were long, and even rare time off with his family was full of the unexpected. Like the time his son Billy picked up the phone, got a funny look on his face, and said, "Dad, it's the White House."

—LISA EUNSON

Mike Smith, MBA '86

MIKE SMITH NEVER THOUGHT he'd be working in a skid-row office filled with donated furniture as well as a swarm of flies. "Not a chance," says Smith, the first paid executive director of the San Francisco-based AIDS Emergency Fund.

The flies are visiting because it's warm, and open windows provide the only air conditioning. But Smith, MBA '86, would never trade his office in the Tenderloin for a corporate suite. "I'm doing the work I love," he says. "I'm running a small agency that does really, really good work."

Each year the AIDS Emergency Fund issues checks of \$600 or less to more than 3,000 indigent Bay Area residents disabled by HIV and



AIDS. Smith oversees a paid staff of three plus countless volunteers and raises funds for the organization. He has his work cut out for him: Government contributions have fallen while the number of clients has risen—partly because people are living longer with HIV and AIDS.

Smith wants to increase the \$600 limit. "That won't even cover a month's rent," he notes. He also hopes to collect donations from corporations and foundations. Historically, the fund has received most of its donations from gay men, but Smith says, "I need to diversify the Rolodex."

When he entered the MBA Program in 1984, Smith anticipated a career in international marketing. A life-changing experience propelled him into nonprofit work: Jeff Phillips, another MBA student, dropped out of school soon after classes

began and died of AIDS-related causes during Smith's second year in the program. The two had become best friends after meeting at orientation.

"I didn't interview for any corporate jobs," Smith says, his voice softening as he recalls nursing Phillips through multiple bouts of meningitis and pneumonia. "I was really a wreck after Jeff died." After graduation, Smith traveled, then cofounded the NAMES Project Foundation. The organization displays the AIDS Memorial Quilt, a collection of quilt panels honoring those who have died in the epidemic. More recently, Smith ran the Gay, Lesbian, Bisexual & Transgender Community Center of Colorado in Denver.

With his current salary at \$90,000 a year, Smith says many new MBA grads are earning more than he is. "But I'm doing work that's meaningful to me," he says. Besides, this is San Francisco; there aren't so many warm days when he has to share his office space with flies.

—MANDY ERICKSON

Aaker Honored with First Spence Fellowship

IN 2001, the Nobel committee honored **A. Michael Spence**, dean emeritus of the Business School, with the Nobel Memorial Prize in Economic Sciences for his work on signaling theory. Much of the research that led to the prize was done during his early years in academia when he was a graduate student and an untenured junior faculty member exploring a new avenue of research.

To celebrate Spence's accomplishment, a small group of friends has created a special fund that now stands at \$7 million to support and underwrite the recruitment, research, case development, and teaching done by young faculty members at the Business School. The fund will build the School's efforts to attract the best young scholars in their fields and also support the work of junior faculty already at the Business School as they pursue the kind of research that will lead to future academic recognition.

Jennifer Aaker, associate professor of marketing, whose research includes understanding the role of culture and its impact on attitudes as well as the use of brands, has been named the first A. Michael Spence Faculty Scholar. Each year a rising academic star who is on the tenure track or recently tenured but not yet a full professor will be recognized as a Spence Scholar.

"Promising young scholars are the cornerstone upon which the future of the Business School rests," said Dean **Robert Joss**. "The competition to attract and retain these promising junior faculty has never been more intense." The donors who have supported the fund honor Spence's achievements and at the same time "make an important investment in the next generation of Business School faculty," he said.

Recruiting outstanding young faculty has been among the dean's top priorities in recent years along with retaining eminent



Marketing professor Jennifer Aaker has been named the first A. Michael Spence Faculty Scholar.

scholars already on the faculty. The Spence Faculty Scholar award recognizes excellence in scholarship and teaching as well as potential for future faculty leadership.

The founding gifts for the fund came from Anne and Robert M. Bass, MBA '74, president of Keystone Inc.; Philip H. Knight, MBA '62, chairman and CEO of Nike Inc.; Charles W. Robinson, MBA '47, president of DynaYacht Inc.; and Cemex SA of Mexico plus anonymous gifts. Information on the fund is available from David Kennedy, associate dean for development, 650.723.3355.

A RESEARCH PAPER SUMMING UP lessons learned from the Stanford Project on Emerging Companies has been awarded the Accenture Award by *California Management Review* (CMR) for having made the most important contribution during the past year to improving the practice of management.

Written by **James Baron** and **Michael Hannan**, the paper "Organizational Blueprints for Success in High-Tech Start-Ups: Lessons from the Stanford Project on Emerging Companies" appeared in the spring 2002

issue of the publication. The award recognizes the paper's intellectual contribution, originality, relevance, and clarity and style. Baron is the Walter Kilpatrick Professor of Organizational Behavior and Human Resources, and Hannan is the StrataCom Professor of Management.

CMR is available online at www.haas.berkeley.edu/News/cmr

LEADERS AND THEIR ORGANIZATIONS are constrained by environmental factors beyond their control, and organizational actions such as mergers, joint ventures, or the structuring of corporate boards are attempts to manage those constraints. Widely accepted today, these ideas were novel before the 1970s, when Business School Professor **Jeffrey Pfeffer** was working on a theory explaining the relationship between organizations and their environments.

Along with the late Gerald R. Salancik of Carnegie Mellon University, he published a book in 1978 outlining how the decisions of organizations were shaped by their dependence on resources from others. The book, *The External Control of Organizations: A Resource Dependence Perspective*, has been cited more than 2,300 times since, making it one of the classics of organizational science, yet it has been out of print for many years.

Worried that young scholars have become too accepting of the ideas in the book without reading it, Pfeffer was pleased recently that Stanford University Press decided to republish the original this spring as a paperback with an updated introduction. "There is actually very little research that has explored the operation of external constraints on organizational decisions," he writes. He is prodding researchers to devise new studies that compare the book's ideas with two other theories—population ecology and institutional theory—each offering different explanations for the environmental constraints on organizations. Another prod will come in August when the Academy of Management hosts a symposium on the 25th anniversary of the book's initial publication at its annual meeting in Seattle.

While other researchers have argued that managers can do little to change an organi-

VANESSA GAVALY/TAYLOR PHAM

zation's fate, Pfeffer and Salancik postulated that under some circumstances, managers can adopt strategies to overcome, for example, a competitor's market power or a government's regulation. The constraints are rooted in their need for resources, and one way companies gain resources is to make deals with other companies, Pfeffer says.

The two also argued that the idea of power, not just rationality or efficiency, helped explain the actions of people within organizations and industries. In 1992, Pfeffer wrote that "power evolved inside electric utilities from engineers to lawyers and business specialists as the critical issues shifted from more technical concerns of building and operating power plants to dealing with an increasingly complex and contentious regulatory environment and managing highly leveraged capital structures in ever more dynamic financial markets."

Population ecology, a related but different theory, emphasizes that organizations are shaped especially by their density within their industry, writes Pfeffer, who is now the Thomas D. Dee II Professor of Organizational Behavior. Population ecologists study the births and deaths of organizations to get a better understanding of how industries evolve over time. Institutional theorists emphasize the pressure put on organizations by social rules and expectations. A good way to gain a deeper understanding, Pfeffer says, would be to test the theories' main differences in more studies of organizations.

A NEW BOOK BY PROFESSORS **Darrell Duffie** and **Kenneth Singleton**, *Credit Risk*, provides the first integrated treatment of the conceptual, practical, and empirical foundations for credit-risk pricing and risk measurement.

The book models credit risk for the purpose of measuring portfolio risk and pricing defaultable bonds, credit derivatives, and other securities exposed to default. In recent years, trade volumes in the credit derivatives market have almost doubled annually. Average default rates on U.S. rated bonds are at their highest levels since the Depression years of the 1930s. General interest in credit markets and credit modeling has been extremely high.

Duffie, the James Irvin Miller Professor of Finance, and Singleton, the c.o.g. Miller Distinguished Professor of Finance, offer critical assessments of alternative approaches to credit-risk modeling, while highlighting the strengths and weaknesses of current practice. The book is published by Princeton University Press. ■

faculty publications

ACCOUNTING

Discussion of "Compensation Policy and Discretionary Disclosure"

Mary E. Barth

Journal of Accounting and Economics (Vol. 34, No. 1/3) JANUARY 2003

Accounting Choices and Risk Management: SFAS No. 115 U.S. Bank Holding Companies

Leslie Hodder, Mark Kohlbeck, and Mary Lea McAnally

Contemporary Accounting Research (Vol. 19, No. 2) SUMMER 2002

Discussion of "Information Distribution Within Firms: Evidence from Stock Option Exercises"

Ron Kasznik

Journal of Accounting and Economics (Vol. 34, No. 1/3) JANUARY 2003

ECONOMICS

Review of Grossman and Helpman's Special Interest Politics

David P. Baron

Journal of Economic Literature (Vol. 40, No. 4), DECEMBER 2002

First World Governments and Third World Debt

Jeremy Bulow

Brookings Papers on Economic Activity 1: 2002

Profiting from Smokers

Jeremy Bulow

Southern Economic Journal (Vol. 69, No. 3), JANUARY 2003

Review of Shleifer's Inefficient Markets

Jeffrey Zwiebel

Journal of Economic Literature (Vol. 40, No. 4), DECEMBER 2002

ELECTRONIC COMMERCE

Moving Procurement Systems to the Internet: The Adoption and Use of E-Procurement Technology Models

Antonio Davila, Mahendra Gupta, and Richard Palmer

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Charles O'Reilly

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Innovators Navigate Around Cliques

Strong social ties do not provide significant new information.

WHAT'S GOOD ADVICE FOR enhancing your creativity in business? Cut the umbilical cord to the folks around the office water cooler. Mix it up. Take a class with strangers, seek out ideas from people you don't ordinarily talk to, do anything to get out and mingle more with folks from other professions. Broaden your social horizons, and you just might come up with the next crazy idea that sparks an industry.

Traditional studies on business innovation do not predict whether an entrepreneur will be innovative, says Martin Ruef, assistant professor of strategic management. They predict instead whether an established firm or industry is likely to produce innovations. "I wanted to examine how people become innovative rather than why they reject conventional routines and adopt someone else's innovations," says Ruef. "What leads people to establish organizations that employ radically new routines?"

In 1999, Ruef surveyed Stanford Business School alumni who had started businesses to find out what lights their fire. He based his study on data from 766 entrepreneurs from a target group of 1,786, including some foreign entrepreneurs. The metrics for innovation included the introduction of new products or services; trademark or patenting activity; exploitation of a new market niche; new methods of production, distribution, or marketing; and industry restructuring.

Looking at entrepreneurs' social networks and their career histories to see what the connection is to innovation, Ruef concludes that the most creative entrepreneurs spend less time than average networking with business colleagues who are friends, and more time networking with a diverse group of people that includes acquaintances and strangers. "Contrary to common assumptions," says Ruef, "the evidence suggests that in many cases strong social ties do not provide significant new information, so it helps not to be as embedded in them."

Ruef has found that disparate information and its transmission are keys to innovation. "Weak ties—of acquaintanceship, of colleagues who are not friends—provide nonredundant information and contribute to innovation because they tend to serve as bridges between disconnected social groups," he says. "Weak ties allow for more experimentation in combining ideas from disparate sources and impose fewer demands for social conformity than do strong ties."

Entrepreneurs who spend more time with a diverse network of strong and weak ties—of family, friends, business colleagues, advisors, acquaintances, and complete strangers—are three times more likely to innovate than entrepreneurs stuck within a uniform network. "Diverse networks and sources of information encourage the diffusion of nonredundant information and thus stimulate creativity," says Ruef. In terms of the entrepreneurial team itself, "the more entrepreneurs you have, the more likely you are to have innovation because people come in with different backgrounds and perspectives." Ruef cautions, though, that even if complete strangers spend a lot of time together, the ties among them soon will be the equivalent of strong ties and drown out the benefits of nonredundant information.

Ruef also has found that people tend to be more creative and innovative when they are new to an industry. Career tenure is not a bad thing necessarily, he points out, because extensive experience can contribute to more profitable business in other ways. "Veterans just don't come up with wacky or creative ideas that can really spark a new industry.

"The relevance of this study to entrepreneurs," says Ruef, "is that it helps them identify how they can be creative and innovative, which in my mind is a goal for a lot of entrepreneurs who often seek creativity for its own sake, independently of material gain. The value of the

study to society is that it identifies patterns of socialization that may contribute to innovation and wealth creation.”

—MARY PETRUSEWICZ

“Strong Ties, Weak Ties, and Islands: Structural and Cultural Predictors of Organizational Innovation,” Martin Ruef, Industrial and Corporate Change, Vol 11, 2002.

National Security

Anthrax Threat Needs Aggressive Action Plan

DESPITE THE FATAL DELIVERY OF anthrax through the U.S. mail in 2001, no government plan exists for responding to an airborne attack with the pathogen. To study the possible effects of an attack, a research team headed by the School’s Lawrence Wein predicts that two pounds of anthrax spores dropped over a city the size of New York could be expected to kill roughly 123,000 people. The death toll can be reduced to about 1,000 by planning a far more aggressive response than anything currently being discussed, the researchers say in an article published in March in the *Proceedings of the National Academy of Sciences*.

Wein’s coauthors in the anthrax study are David L. Craft, a doctoral student at the MIT Operations Research Center, and Edward H. Kaplan, professor of management sciences at Yale School of Management. The three earlier created another mathematical model of an attack with smallpox that led the federal government last year to revise its response plan for smallpox.

In their work on anthrax, the researchers proposed a scenario in which weapons-grade anthrax is dropped from a height of 300 feet just upwind of a large U.S. metropolitan area containing 11.5 million people. About 1.5 million people become infected, with some of those infected showing symptoms within two days.

Assuming that the first patients to exhibit symptoms are correctly diagnosed, intervention begins 48 hours after the attack, which means that as soon as one person in any 10,000-person neighborhood exhibits symptoms of inhalation anthrax, the other 9,999 are placed into a waiting line to get prophylactic antibiotics. Under current response planning, the researchers estimate that antibiotics can be delivered to the entire population within four days, a timeframe that the model estimates would result in 123,000 deaths.

The reason: not enough people receive antibiotics quickly enough to prevent symptoms from developing, and those who develop symptoms overwhelm the medical facilities.

“My colleagues and I then asked ourselves: What would it take to reduce the death toll from 123,000 to 1,000?” Wein explained. He listed four key elements to a successful response: “The person in charge needs

to put the intervention process in motion as soon as the first case is diagnosed; prophylactic antibiotics need to be distributed as rapidly as possible to everyone in the affected region; the affected population requires aggressive education about the importance of adhering to the full course of treatment; and we need to quickly create a surge in our capacity to aggressively treat the symptomatic patients.”

The appropriate antibiotics could be distributed before the attack or within six to eight hours after the first diagnosis, the researchers say. “The best option may vary from city to city, depending upon the risk of an attack and the city’s ability to distribute antibiotics quickly,” Wein said. “Pre-distribution of antibiotics can save 10,000 lives for every day that it takes to hand them out post-attack, and may also significantly reduce the panic that could ensue.”

The third element of a successful response is education about drug adherence. In the 2001 postal attack, only 40 percent of postal workers who were told to take a 60-day course of the antibiotic Cipro actually adhered to the full regimen. “Our model optimistically assumes that 90 percent of people will adhere,” Wein said, which means the government needs to educate people before an attack and afterward.

The team suggested three steps to creating surge capacity for aggressive medical care. First, local doctors and nurses who are not specialists in pulmonary care or emergency care should be trained in the basics of inhalation anthrax treatment. “We can offer basic training for respiratory therapists and emergency medical technicians with advanced life support training,” Wein said.

Second, national organizations should be tapped. “We need to take full advantage of the National Guard, the Red Cross, the Veterans Administration hospitals, and to scale up the Disaster Management Assistance Teams program that has been developed by the government,” he said. “However, our calculations suggest that even if we get antibiotics out rapidly, to reduce the death toll from 123,000 to 1,000 would require one anthrax medical care provider for every 700 people in the affected region. This is a very difficult ratio to achieve.”

To reach that level, the team proposes that the government start a national volunteer system of pulmonary specialists that would behave in much the same way as volunteer fire departments in rural areas. “If there was an anthrax attack in New York, doctors from Los Angeles, Chicago, Miami, and San Francisco would jump on the next airplane, take some Cipro and bring some ventilators along, and would arrive six hours later ready to save some lives,” Wein said. “I believe that there are many brave and selfless medical workers in this country who would volunteer. This is the only way I can see that we could avoid a catastrophic number of fatalities.”

— KATHLEEN O’TOOLE

“Emergency Response to an Anthrax Attack,” Lawrence Wein, David Craft, and Edward Kaplan, Proceedings of the National Academy of Sciences, March 2003.

The death toll can be reduced by planning a far more aggressive response than anything currently being discussed.

Making a Profit from Unrealistic Consumers



Firms use automatic contract renewal just to take advantage of people's procrastination.

A QUICK SCAN OF THE GOODS and services you use every day will reveal that you're probably locked into scads of contract agreements. There's your cell phone, your zero interest introductory credit card, and your health club, to name a few. All of these things probably looked pretty good when you signed up for them.

But look again. How often have you exceeded your talking minutes? Do you know when the teaser rate will expire on your credit card? And how many times have you gone to the health club in the past few months?

"Some of us may have a lot of self-control when it comes to using goods and services with either delayed benefits or delayed costs, but most of us overestimate our abilities in this regard," says Ulrike Malmendier, an assistant professor of finance at the Business School. A recent study she conducted with Stefano Della Vigna, assistant professor of economics at the University of California–Berkeley, explores whether people are aware of their "time-inconsistent" behavior—and the financial repercussions of that behavior for individuals and companies.

Economics literature has long posited that people's self-control problems do not have an important impact on their economic decisions. Malmendier's first significant finding, however, is that self-control issues do in fact influence economic decision making and, importantly, that most people are not fully conscious of their tendencies in this regard. "And that's crucial," Malmendier says. "That's where firms can make money.

They exploit the biased expectations people have about their own behavior."

Looking at 67 health clubs in the Boston area, for example, Malmendier found that 85 percent of users who chose a monthly contract were paying significantly more per visit than if they had just paid on a per-visit basis. In fact, they were paying a full 70 percent more and were losing \$700 compared to the per-visit contract. "People take the monthly contract because they think they will be going to the club at least two times per week—or they're at least hoping the contract will motivate them to go that frequently," Malmendier says. "But they end up being totally unrealistic about how much they will actually use the club."

In addition, she found that most people stayed enrolled for at least two months after they stopped using the club before they canceled the contract. "Members are making two mistakes," Malmendier explains. "Either they keep thinking, 'OK, next month I'm going to start going again.' Or, even if they've decided to cancel, they simply drag their heels about terminating their membership. Meanwhile, they end up losing in the neighborhood of \$185 in monthly fees. Firms specifically use automatic contract renewal just to take advantage of people's procrastination."

Malmendier's study is one of the first to demonstrate that systematic biases in consumer behavior are not mere blips on the world market screen. Far from it: People's quirks significantly influence market dynamics. "The health-club industry relies heavily on consumers' naivete about their time-sensitive behavior to make their profits," says Malmendier. "And it's a \$12 billion industry in the United States, so we're really talking about a significant market force here."

The study also analyzes how consumer self-control issues are exploited in the credit card, cellular phone, and vacation timesharing industries. "Credit card teaser rates of zero percent for balance transfers, for example, similarly lead to huge profits," she says. "That's because people are basically lazy about tracking when the teaser rate ends and transferring the debt somewhere else."

Cell phone contracts also take advantage of people's inability to restrain their behavior. "When you first get your cell phone, you think you're only going to use it for special situations," Malmendier says. "Before you know it, you're using it all the time. And once you have talked beyond your contracted minutes, you pay a super high price per minute. If you had been able to accurately assess how tempted you would be to talk at the beginning, you would have chosen the contract that offered a lot more minutes for just \$5 more a month. Firms make a lot of profit off high marginal costs."

Malmendier's study is not a plea for companies to

BRIAN CAIRNS

stop exploiting consumer naivete. Rather, its implications are more subtle. Firms, she says, might want to consider using her findings to try another clever marketing strategy: namely, educating consumers about their penchant for time inconsistency and then offering hand-holding contracts specially designed to help them overcome such behavior. “There’s certainly a lot of opportunity for profit in that,” she says.

— MARGUERITE RIGOGLIOSO

“Overestimating Self-Control: Evidence from the Health Club Industry,” October 2002 manuscript, and “Contract Design and Self-Control: Theory and Evidence,” December 2001 manuscript, both by Stefano Della Vigna and Ulrike Malmendier. (Links to manuscripts at faculty-gsb.stanford.edu/malmendier/default.htm)

Social Innovation

Blending Profit and Nonprofit Values

WHAT WOULD HAPPEN TO OUR WORLD economy if for-profit businesses measured social, environmental, and cultural returns on investment, and nonprofit businesses were actually financially viable? Jed Emerson, GSB lecturer in business and a senior fellow with both the William and Flora Hewlett Foundation and the David and Lucile Packard Foundation, claims that the traditional separation between the profit and not-for-profit business models is shifting, providing a new blend of values.

In fact, the “blended value” proposition is at the core of Emerson’s work. He proposes that in the past we have limited our perception of business profitability because we focus on quarterly economic gain and have elaborate financial systems to track that. He says, “We’ve lost sight of the reason we create companies and make investments: to make our lives better—the manifestation of the human drive toward value.”

He is calling on academics and business leaders to generate a hard-headed business approach to measure the social return on investment, or SROI, as a way to tell the wider story of the success of a business enterprise.

“I reject that you can’t quantify a social return. If people are going to claim a value and not actually track it, they have no right to make that claim. An investor needs more than a picture of a smiling face from a program for inner city youth; you need to be able to track how your intervention is going to keep a kid from moving into the juvenile justice system,” he says.

Emerson began his career as a social worker in New York and San Francisco, where, he says, he was perceived as highly successful because of good media coverage and political connections. This perception still frustrates him, as it was not based on a real measure of the success of his programs in the lives of the people he

was serving. From 1989 to 2000, he worked in philanthropy with the Roberts Enterprise Development Fund. REDF invests in nonprofits that hire the formerly homeless, including at-risk youth, and has demonstrated the viability of measuring the social return on their investments. He noticed interesting financial trends there. “With REDF, although the primary value was social and not financial return, the organizations were financially viable,” Emerson says.

Outside the nonprofit model, it’s also possible to mix financial and social values to the benefit of the whole organization. He gives as an example ServiceMaster, the international corporation with billions in annual revenues, which hires mostly undereducated employees and then invests heavily in training and development. “This is not a classic profit choice, but it gives employees a sense of power, which increases the overall success of the company, all built on an alternative sense of value and mission. Many companies are missing the opportunity to capture greater value by ignoring the social capital component.”

Emerson advises a wide range of institutions, from large nongovernmental organizations to for-profit multinationals subject to the effects of social and environmental impact regulations. He says: “The fundamental issue for all investors and business leaders is *what do you value?* How do you understand the value proposition of your company or investment plan? All the rest of your decisions grow out of that understanding.”

Emerson also is in conversation with foundations, a perfect arena for the blended value proposition and its primary application, the use of “total assets” to support the stated values of an organization. He rejects the classic foundation model, which assigns only 5 percent of assets for charitable giving and manages the remaining 95 percent of the corpus for economic profit only. “Of all institutions, foundations are established to pursue wider social considerations; that only 5 percent of their assets are used that way is offensive. What does it really mean for foundations to create value?” he asks.

Emerson is not seeking to develop a definitive business value system from a mountaintop, but rather to engage people from all arenas to grapple with the question of value as it makes sense in their work. “The Center for Social Innovation at Stanford is the perfect place for me to be affiliated,” he says. “It cuts across academic disciplines and provides a platform to be engaged in broader areas of inquiry. It’s a great way to step outside of our main track and still be supported by the institution, to pursue cross-discipline inquiry and be in dialogue across boundaries.” — LISA EUNSON ■

“A Capital Idea: Total Foundation Asset Management and the Unified Investment Strategy,” GSB Research Paper 1786 (<http://gobi.stanford.edu/ResearchPapers/>)

Enterprising Nonprofits: A Toolkit for Social Entrepreneurs, 2001, and Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit, 2002, both by J. Gregory Dees, Jed Emerson, and Peter Economy, John Wiley & Sons.

We’ve lost sight of the reason we create companies and make investments: to make our lives better—the manifestation of the human drive toward value.

News-makers

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

Getting Comfortable with Philanthropy

WOMEN CURRENTLY control the majority of wealth in the United States, but many of them are not very visible because they are uncomfortable with questions about how they got their money, says **Donna Hall**, MBA '79, in an interview with the *Chronicle of Philanthropy*. Enter nine years ago the somewhat secretive Women Donors Network, an organization created in Palo Alto to edu-



Donna Hall, through the Women Donors Network, advises women in charitable gift giving.

cate wealthy women on how to give effectively. The national organization has 90 members who give away at least \$250 million a year, in the same ballpark as the total grants from the Rockefeller Foundation, says Hall, who is the organization's new executive director.

"We want to go from being a somewhat mysterious, unknown club to a professional organization," she said, because more visibility will help the

members achieve their social goals. "The onus will be on me to maintain the intimacy of the organization while it grows."

A Good Deed Is a Good Deal

A "MIDAS LIST" OF VENTURE capital dealmakers launched two years ago by *Forbes* magazine named **Vinod Khosla**, MBA '80, to the top spot. That was for his deal exiting Cerent, an optical networking company he had backed, for \$7 billion in Cisco stock.

Since then, the deals have gotten considerably smaller and fewer. A mere 22 venture capital-backed companies went public in 2002, the magazine reported, and the median sale price for 214 other venture-backed firms was \$19 million, about \$3 million more than the median that investors paid to start those companies. Khosla still tops this year's list for taking Synaptics public. A younger venture capitalist singled out for *Forbes'* attention this year is **David Chao**, MBA '93. The cofounder of Doll Capital Management, he invested \$1 million four years ago in Recourse, a security software firm cofounded by Business School classmate **Frank Huerta**. "When Recourse needed more funds at the end of 2000 and outside investors wanted to cut its valuation, Chao called on his limited partners to pitch in another \$10 million without chopping the valuation," the magazine said. "This was done in January 2002 and six months later Recourse was sold for \$135 million in cash to Symantec." Huerta was named a vice president of the larger company.

A Nation of Cheaters?

MANY AMERICANS BELIEVE cheating is rampant and therefore they must cheat too, **Kirk Hanson**, MBA '71, notes in an essay titled "A Nation of Cheaters" in the *Boston Globe*. Hanson, who directs the Markkula Center for Applied Ethics at Santa Clara University, suggests ways people can curb cheating. Institutions need tough rules against it, he writes, and individuals can help by turning down the pressure they apply to their own spouse and children. "It is OK if your husband does not get the big promotion; it's OK if your son does not get into the 'best' school," he writes. "Life is about doing your best, not just about winning."

North Dakota Honors Sloan Alum

NORTH DAKOTA GOV. John Hoeven recently presented the state's highest honor, the Theodore Roosevelt Rough Rider Award, to **Tom Clifford**, Sloan '57. Clifford headed the University of North Dakota for 21 years beginning in 1971, presiding over growth that is exceptional in a Great Plains region that has been steadily losing population for a half century. Under his leadership, university enrollment increased by 3,500 students and 50 buildings were added. Clifford also developed the state's only four-year degree-granting medical school and expanded the law and business schools, the latter of which he presided over as dean when he was only 29, according to the *Grand Forks Herald*.



British Airway's Rod Eddington steered the carrier through rough skies to an operating profit.

Midair Turnabout

UNDER THE LEADERSHIP OF CEO **Rod Eddington**, SEP '91, British Airways in February posted a £13 million (\$21 million) profit for the third quarter of 2002, quite a turnaround for the airline that posted a net loss of £144 million a year earlier. The company reduced costs by cutting jobs and abandoning money-losing routes, according to the *New York Times*. Eddington warned that 2003 would be tougher than 2002 because of worries about war.

Program Places Kids on College Track

AFTER VOLUNTEERING AS a tutor to high school students, **Laurene Powell Jobs**, MBA '91, created a different sort of startup in 1997. The former operator of a natural foods company cofounded College Track, an organization that tutors and mentors economically disadvantaged high school students from East Palo Alto and Oakland. The \$800,000

BILAL MALIK

RUSS CURTIS

program is planning an expansion this year to San Francisco, according to the *San Jose Mercury News*.

"We are not cream-skimming. We are choosing average students who want a different future," Powell Jobs told the newspaper. The program "convinces kids they can succeed," observed Norman Colb of Menlo School. Vans pick up 130 youngsters for after-school tutoring and study at renovated warehouses outfitted with computers, books, mentors, tutors, and counselors. The students must commit to earning good grades and participating in extracurricular and volunteer activities. It's a tough program and a few drop out, but others have gone from failing basic courses to succeeding in advanced placement programs.

Buy and Hold

THE STOCK MARKET BUBBLE of the late 1990s punched a few holes in the arguments of the efficient market theorists of the seventies, according to *Fortune*. The theorists argued that the best indicator of a stock's real worth was its price, because buyers and sellers took into account all publicly known information. *Fortune* credits Business School Professor Emeritus **Bill Sharpe**, the 1990

Nobel Laureate Bill Sharpe still believes in portfolio diversification and long-term holding.



AMY DAVIS, THE BALTIMORE SUN

BARBEL SCHMIDT

Nobel Prize winner, with being the messenger who persuaded Wall Street that instead of trying to outsmart the market, investors should diversify to eliminate systematic risk.

Now, however, it seems obvious that investors were irrational enough to get the prices wrong in the late nineties, which raises the prestige of newer theorists in a field labeled "behavioral finance." *Fortune* tracked down Sharpe and other theorists to see what investment advice they would offer today. Both camps advised: "Buy and hold." Said Sharpe: "As a practical matter, I still think it's prudent to assume that the market is pretty close to efficient in terms of pricing and risk and return. On the other hand, we've certainly learned from cognitive psychology that ordinary human beings need to have alternatives framed in ways that can help them make right decisions rather than wrong decisions."

Aussies Cut Down 'Tall Poppies'

AUSTRALIANS REALLY DON'T like "tall poppies," **Mike Zimmerman**, MBA '94, told the magazine *MBA Jungle*. When the veteran of Goldman Sachs and Bain & Co. was asked to evaluate a business plan during a job interview with a venture capital firm in Sydney, he did so with a fervor that his interviewers interpreted as arrogance, the magazine reported. Australians have a strong egalitarian streak, Zimmerman said, and take pleasure in cutting down to size those they perceive to be self-promoting strivers, whom they call "tall poppies."

They also don't believe in wrapping criticism in euphemism. "It's not unusual for colleagues to interrupt each other, state that they completely disagree with a view that's been presented, or tell someone they're not spending their time well," said Zimmerman, who added that he loves the shorter work hours and recreational lifestyle Down Under.

Delayed Justice

IN THE BUSINESS WORLD, **Laura Neuman**, SEP '00, was known for her aggressiveness and tenacity. When she went home at night, however, she timidly went from room to room checking closets and corners—often carrying a butcher knife. She insisted her brother live with her, refused to go camping, and knew she could never marry.

Neuman's life took an abrupt turn on Oct. 14, 1983, when at the age of 18 she was raped in her bed by a stranger who climbed through a window. It wasn't just the rape that changed her, reported the *Baltimore Sun*. "Everyone around me acted like it didn't happen," she told the newspaper. "There was no comfort, no acknowledgement that it wasn't my fault. No one understood."

Immersing herself in work, she switched jobs to move up in the world of strategic planning and raising venture capital, and became quite successful financially. "She pulled herself up by her bootstraps. It was her triumph and self-defense," Neuman's therapist told the newspaper.

In January 2002, Neuman saw a TV newsmagazine feature about new DNA testing to check evidence from old rapes in Baltimore. She pursued police contacts and finally found someone determined to help her. Though the only evidence preserved in her case was a fingerprint, new technology in that area led to a man who confessed to the rape.

The arrest and following conviction "made the world right for Laura," her therapist reported, but Neuman said there is still work to do. "I can't forgive him until I sit down and look at him eyeball to eyeball," she said, a meeting neither has been ready for yet.

In the meantime, Neuman has been talking to the media, she said, because other rape vic-



Laura Neuman waited 19 years before discovering the identity of her attacker.

tims "need to know that if they are proactive, something can be done about their cases, too."

Long-Term Belt Tightening?

"WE ARE ALL FEELING SO downwardly mobile," **Gretchen Carey**, MBA '76, told *Fortune* recently in an article on how the bear stock market, layoffs, and pay cuts are wreaking havoc with the retirement plans of many baby boomers. A financial advisor for Morgan Stanley, Dean Witter in Philadelphia, Carey said some of her clients and classmates are "wealthy and retired and living the American dream because they invested in eBay or followed Warren Buffett." Others pursued dreams that failed financially, she said. "They don't have time to rebuild the wealth, and in fact, they are slipping backward. A lot of people are frightened." The divorced mother to two teenagers added that she used to love to dress in designer suits, but now, "every penny I have goes to the kids." ■

Correction: A Newsmaker item in the February issue mistakenly attributed a quotation about teaching business ethics to Professor James Baron. The quotation was actually by Professor David Baron. The editors regret the error.

LOOK BACK,



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alumni_admin@gsb.stanford.edu



STANFORD BUSINESS SCHOOL
ALUMNI ASSOCIATION

calendar

MAY

MAY 6: Alumni Networking Lunch at the GSB 650.725.3252

MAY 8: CSI Panel: "Maximizing Value Through Philanthropy," 5:30 p.m., Bishop Auditorium

MAY 13: Entrepreneurial Company of the Year (ENCORE) Dinner, Menlo Circus Club 650.725.3252

MAY 14: Alumni Networking Lunch in San Francisco 650.725.3252

MAY 15: Philanthropy Series: Steve Kirsch, Kirsch Foundation, noon, GSB. 5150

MAY 20: Gala Alumni Award Dinner, Union League Club, New York 650.723.2694

MAY 21: ACT Barbeque 650.736.1956

MAY 22: CSI/PMP/ACT Workshop Series: "Effective Non-profit Governance Panel," 6 p.m., Bishop Auditorium

MAY 27: Executive Forum on Supply Chain Management with Professor Hau Lee, Tokyo 650.725.3767

MAY 27: Philanthropy Series: Molly White, Nike Foundation, noon, Haas Center

MAY 28-31: Executive Education: "Corporate Governance: Effective Oversight for Today's Board Members"

MAY 29: Executive Forum on Supply Chain Management

with Professor Hau Lee, Beijing 650.725.3767

JUNE

JUNE 2: Executive Forum on Supply Chain Management with Professor Seungjin Whang, Shanghai 650.725.3767

JUNE 3: Alumni Networking Lunch at the GSB 650.725.3252

JUNE 11: Alumni Networking Lunch in San Francisco 650.725.3252

JUNE 14-15: GSB Diploma Ceremony; Stanford Commencement

JUNE 19-22: MBA Class of 1978 25th Reunion 650.724.4101

JUNE 22-AUGUST 5: Executive Education: "Stanford Executive Program"

JULY

JULY 6-18: Executive Education: "Financial Management"

JULY 13-18: Executive Education: "Leadership: The Effective Use of Power"

JULY 20-AUGUST 1: Executive Education: "Executive Program for Growing Companies"

JULY 23: Bay Area Alumni Chapter Event: San Francisco Giants at Pac Bell Park 650.725.2471

AUGUST

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

AUGUST 3-15: Executive Education: "Strategy and Organization"

AUGUST 10-22: Executive Education: "American Electronics Association/Stanford Executive Institute"

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

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

* FUTURE EVENTS

SEPTEMBER 14-19: Executive Education: "Leveraging Human Resources for Competitive Advantage"

SEPTEMBER 14-20: Executive Education: "Executive Management Program: Gaining New Perspectives"

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

OCTOBER 17-18: Fall Alumni Weekend and MBA Reunions

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

For details on Executive Education programs, see the advertisement on page 65 or visit www.gsb.stanford.edu/exed

For updates, see the alumni online calendar at www.gsb.stanford.edu/alumni/events/calendar.html and the GSB public events calendar at www.gsb.stanford.edu/events



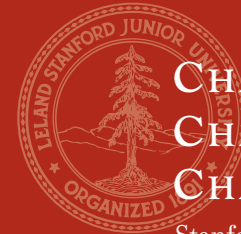
STANFORD
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STANFORD

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Executive Education



CHANGE LIVES, CHANGE ORGANIZATIONS, CHANGE THE WORLD

Stanford's dynamic, highly interactive executive programs give you powerful ideas to promote change, practical tools to foster innovation, and concrete methods to enhance the way your organization competes in today's complex business environment. By working with the world's foremost business faculty and exploring ideas with a global network of senior executives, you'll gain unparalleled insights for creating sustainable competitive advantage and powerful inspiration for initiating and managing change.

General Management

Stanford Executive Program
June 22 - August 5, 2003

Executive Program for Growing Companies
July 20 - August 1, 2003, and February 15 - 27, 2004

Stanford - N.U.S. Executive Program in International Management (in Singapore)
July 27 - August 15, 2003

Executive Management Program: Gaining New Perspectives (formerly Advanced Management College)
(at Stanford Sierra Conference Center)
September 14 - 20, 2003

Financial Management

Finance and Accounting for the Non-Financial Executive
May 4 - 9, 2003, and November 9 - 14, 2003

Financial Management Program
July 6 - 18, 2003

Credit Risk Modeling for Financial Institutions
October 12 - 17, 2003

Leadership and Strategy

Corporate Governance Program **NEW!**
May 28 - 31, 2003

Executive Program in Leadership: The Effective Use of Power
July 13 - 18, 2003

Executive Program in Strategy and Organization
August 3 - 15, 2003

Mergers and Acquisitions
August 17 - 22, 2003

Human Resource Executive Program: Leveraging Human Resources for Competitive Advantage
September 14 - 19, 2003

Information Strategy for Competitive Advantage **NEW!**
October 5 - 10, 2003

Leading Change and Organizational Renewal
November 2 - 7, 2003

Managing Teams for Innovation and Success
June 6 - 11, 2004

Marketing

Strategic Marketing Management
August 3 - 13, 2003

Negotiation

Negotiation and Influence Strategies
October 19 - 24, 2003, and Spring 2004

Advanced Negotiation Program
2004 Dates TBD

Technology and Operations

AeA/Stanford Executive Institute
August 10 - 22, 2003

Managing Your Supply Chain for Global Competitiveness
August 24 - 29, 2003

Strategic Uses of Information Technology
2004 Dates TBD

For information or applications, please contact: ANGEL DODSON

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Subject to change. For the latest information, go to our Web site at
www.gsb.stanford.edu/exed