

Save the Date!

Join us at the Stanford Graduate School of Business Fall Alumni Weekend and reunions. Rediscover the GSB. **Reconnect** with old friends. Make some new friends. **Rejuvenate** your spirit. It's sure to be an event you won't want to miss! https://alumni.gsb.stanford.edu

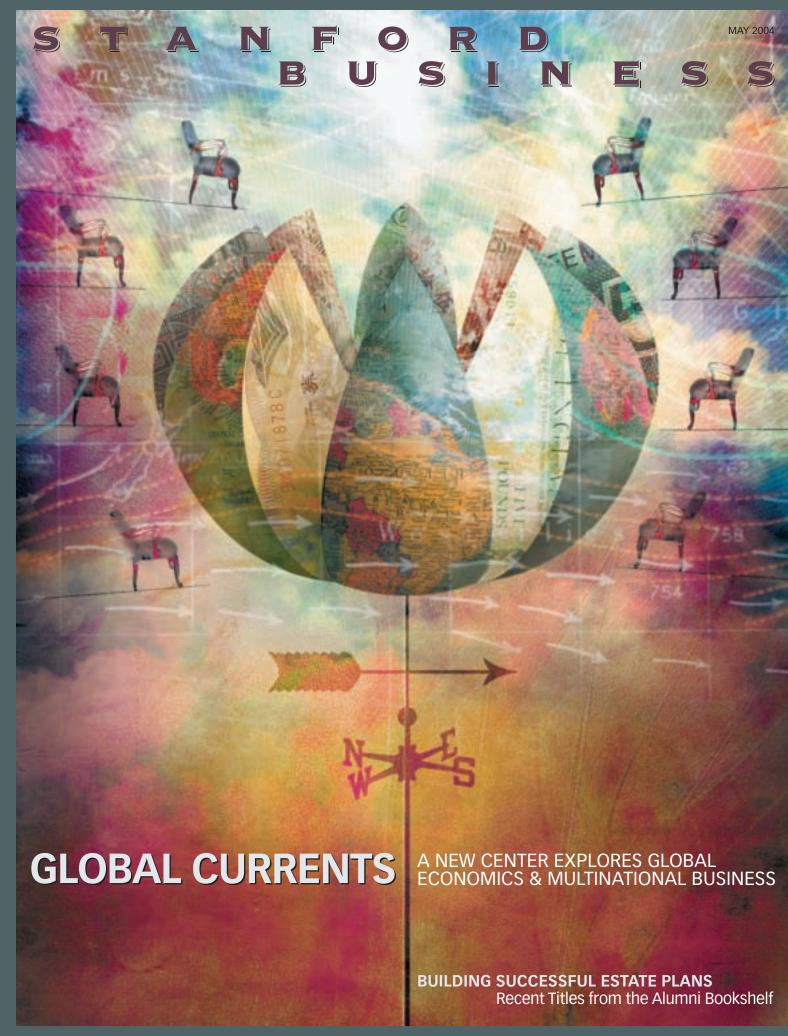
ALUMNI WEEKEND and REUNIONS **OCTOBER 22 - 23**





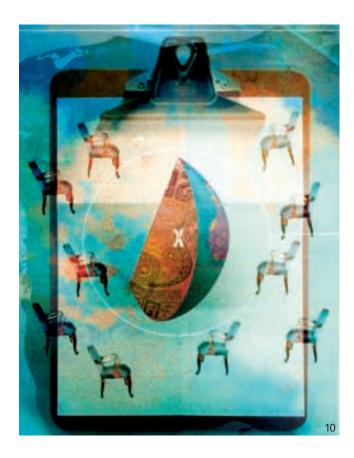






STANFORD BUSINESS

MAY 2004 • VOLUME 72, NUMBER 3



features

10 Global View

The School's new Center for Global Business and the Economy tackles economics and multinational business on a worldwide scale through research, teaching, and community outreach.

BY FREDERICK ROSE

16 Alums Take to The Pen

Authoring everything from fiction and history to advice on estate planning, GSB alumni demonstrate they can write more than memos and business plans.

COVER: Illustration by Stuart Bradford

departments

- 2 About This Issue
- 3 Dean's Column

4 Spreadsheet

What's Up: News about the GSB and its graduates.

7 People

Sandra Uyterhoeven, SLOAN '84 Gary Pechota, MBA '74

8 Work Teams

Differing views in a group decision-making setting often result in a more thorough, open-minded team, research shows. BY BILL SNYDER

- 22 Faculty News
- 23 Faculty Publications

24 Leadership

Arbuckle Award winner calls for restoring action to ladder of upward mobility for Americans.

25 Counterpoint

Pfizer chief and alumnus Hank McKinnell examines the cost of medicine, which was the topic of a faculty research article in a previous issue of *Stanford Business*.



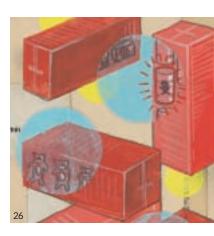
26 Faculty Research

Terrorist threats prompt better supply chain security > Take the guesswork out of pricing leases > MBA grads seek ethical, caring employers > We need to study failures too.

30 Newsmakers

Who's in the news: A roundup of media mentions.

33 Class Notes





1

A QUARTERLY PUBLICATION FOR ALUMNI/AE OF THE STANFORD UNIVERSITY GRADUATE SCHOOL OF BUSINESS

PUBLISHER Cathy Castillo

EDITOR Kathleen O'Toole

ASSOCIATE EDITOR, CLASSNOTES EDITOR Gale Sperry

PRODUCTION MANAGER Arthur Patterson

ART DIRECTION & DESIGN Steven Powell

CONTRIBUTING WRITERS Isabel Awad; Monica Brand, MBA '97;

Mary Krakovsky; Alice LaPlante; Hank McKinnell, мва '67/РНО '69; Harrison "Buzz" Price, MBA '51; Marguerite Rigoglioso; Frederick Rose; Bill Snyder; and Janet Zich

COPYEDITING Heidi Beck, Lila Havens, Kate Kimelman

Prepress Assembly, San Francisco

Graphic Center, Sacramento

STANFORD BUSINESS Published quarterly (February, May, August, November) by the Stanford University Graduate School of Business (ISSN 1094-5423). © 2004 by the Board of Trustees of Leland Stanford Junior University. All rights reserved. Printed in the United States. Periodicals postage paid at Palo Alto, ca.

POSTMASTER Send address changes to editorial office: Stanford Business. News and Publications, Graduate School of Business, Stanford University, Stanford, CA 94305-5015 (phone: 650.723.3157; fax: 650.725.6750; email: gsb newsline@gsb.stanford.edu).

SUBSCRIPTIONS For nonalumni — \$10/year in the u.s. and u.s. possessions and Canada; elsewhere \$12/year. For faster delivery outside the u.s., add \$14 per year to subscription payment.

CHANGE OF ADDRESS Phone: 650.723.4046: fax: 650.723.5151; email: alumni_admin@ gsb.stanford.edu

CONTACTS For subscription information, permissions, and letters to the editor, contact our editorial office: Stanford Business, Graduate School of Business, Stanford University, Stanford, CA 94305-5015; email: gsb_newsline@gsb.stanford.edu

MAGAZINE WEB SITE

www.gsb.stanford.edu/news/bmag

about this issue

Healthy Disagreements

MAGAZINES ARE SUPPOSED TO OFFER POINTS OF VIEW, something to squeeze under your thinking cap or even occasionally steam up your collar. At Stanford Business, we don't claim to offer multiple sides to every question. You will find an unavoidable bias, for example, toward Stanford and higher education, in these pages. You will also find many articles that spotlight one faculty member's research or one alum's point of view derived from experience. Some will make you say "hogwash," as Hank McKinnell did when he read Professor Jeremy Bulow's analysis of u.s. pharmaceutical company regulation in our November 2003 issue.

McKinnell, MBA '67/PHD '69, is the chairman and CEO of Pfizer, one of the world's largest pharmaceutical companies. He fired off a rebuttal to Bulow, which you will find on page 25. As a courtesy, I called Bulow to inform him a critique would be published. His response was what I would



hope to get from any faculty member here. "If there is a little honest debate about something that reasonable people can disagree about," he said, "I think it spices things up and gets more attention."

Professors Margaret Neale and Deborah Gruenfeld make related points about the value of debate on page 8. Their separate research projects indicate we are better decision makers when our working environment includes a critical mass of people who

disagree with us. A token dissenter can be too easily written off or co-opted, but a sizable minority forces those in the majority to think harder.

In a recent interview for the story on page 22, David Kreps, senior associate dean, discussed the debate that must go on in our students' heads because they take courses at the School that sometimes offer conflicting guidance. The microeconomist's view of a management problem might not agree with the organizational behaviorist's or with the operations researcher's. A major reason Stanford MBAs earn good salaries, he says, is that they know how to "exercise honest skepticism, bringing [multiple] inputs to bear" when making business judgments.

We hope this magazine provides a few useful inputs as well, and we invite you to provide us with more reasoned views to pass on through these pages.

If there's one thing we can agree on, it's our delight in sharing the news that one of our recently published feature articles has been selected by the N.Y. Society of Publication Design for inclusion in its annual exhibit and publication. "Face-Off" appeared in the August 2003 issue and was chosen for the SPD's Merit/Illustration category. Our thanks to contributing illustrator Daniel Adel for his wonderfully astute and clever visual solutions.

Kathlen O Toole



Cornerstones of Management Education

NE OF THE GREAT JOYS OF BEING DEAN is meeting our alumni. The challenges they are tackling are enormously complex, and they are making lasting differences in people's lives. One of them is Lorenzo Zambrano, whom I first met in Monterrey, Mexico, not long after I became dean. Lorenzo, now 59, graduated from the MBA Program in 1968 and joined Cemex, the Mexican cement maker.

When he became CEO in 1985, revenues were about \$1.7 billion. Lorenzo then led the company on a global path starting with the acquisition of Spain's two largest cement companies in 1992. Over the next decade, the company expanded in Latin America, the United States, Asia, and Africa. It is now a \$7.2 billion company, Mexico's largest multinational, with 26,000 employees operating in 30 countries. He innovated by moving Cemex into information technology, which allowed the company to monitor its business electronically, improving quality, efficiency, and service. But it isn't all about the numbers. In addition to skills-specific training, Cemex launched a program to get employees the equivalent of high school and college diplomas. It helped create wilderness preserves in Mexico and participated in environmental sustainability programs such as quarry reclamation and waste management. In the developing world, it has worked with local municipalities to replace more than 190,000 dirt floors in people's homes with antibacterial concrete.

"Cement may not strike most people as a product of great humanitarian importance, but in Caracas, Manila, and the squatter cities of Peru, it means roads and hospitals, sewers, power plants, and water systems," Lorenzo has said. "For so many of our customers, cement is the stuff of dreams. The tools you acquire at the Business School can improve, enrich, and fulfill the lives of millions of people who will never set foot on this campus." Lorenzo, who is also chairman of Tecnológico de Monterrey, Mexico's largest private university, has said that he strives to build an institution that will provide all of Latin America with a new generation of business leaders. "Like Stanford, we are fostering entrepreneurship among our best and brightest students."

Lorenzo made those remarks in 1998, when he was awarded the Ernest C. Arbuckle Award of the Stanford Business School Alumni Association. But the words are as apt today. Observing challenges and achievements like his has deepened my conviction that management is a noble calling and that the direction in which we are now taking the Business School is the right one.

His experience illustrates the four cornerstones that I believe are essential to a complete general management education—whether our graduates go into conglomerates, small companies, or nonprofits. These cornerstones are leadership, entrepreneurship, global awareness, and social accountability.

Why these four? And how do I envision their further infusion into our program? First, leadership means taking full responsibility for playing a role in changing an organization for the better. To do this, business leaders

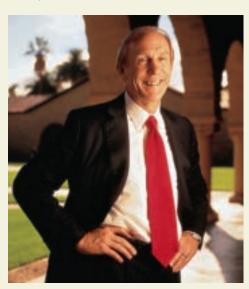
must know themselves very well, understand both their strengths and weaknesses, always act with integrity, and know how to motivate and inspire others. Sixty students are experiencing a pilot program in leadership development this academic year. Next fall, we plan to include more students. Our new Center for Leadership Development and Research will be a focal point for research, programming, and coaching to support students' personal leadership growth.

Second, entrepreneurship sometimes means starting a

business; but it always means innovating and acting with the perspective of an owner of a business, whether you are managing it, advising it, or investing in it. Innovation must happen within large organizations too. Studying entrepreneurship gives our students a way to understand how the functions of a company work together in a fast-changing environment. Since 1996, when we established the Center for Entrepreneurial Studies, we have developed a critical mass of 17 courses, forums, and path-breaking research in this area.

Third, global awareness means knowing what it takes to be a world-class organization, and how to build one organization that spans multiple countries, cultures, and economic or political systems. This month, I am looking forward to the kickoff of our new Center for Global Business and the Economy with a conference involving students, global practitioners, and alumni.

Fourth, a sense of social accountability means understanding that businesses are not only economic institutions but also social institutions with responsibilities to many stakeholders and the community. To ensure profitability in the long term, business leaders must earn the trust and confidence of their staff and society and integrate important concepts like environmental sustainability into their business planning. I know that, like Lorenzo, our students will go on to impact positively the world around them. I want to ensure that the Business School builds the best foundation for their doing so.



"Lorenzo's experience illustrates the four cornerstones that I believe are essential to a complete general management education."

STANFORD BUSINESS MAY 2004

Spreadsheet



This Revolution **Remains Unfinished**

IN THE '70s and '80s, women battled for equality. They wanted to enter the workplace, work as hard as men, and be rewarded the same way. Unfortunately, says Myra Strober, Stanford professor of education, many of them got most of what they wanted. Now their daughters realize that their mothers didn't ask for enough.

Strober drew a primarily alumnae audience in January for her talk "Work and Families, the Unfinished Revolution," sponsored by the Lifelong Learning program of the Business School's alumni association. Many professional women are finding that they cannot work 50- or 60-hour weeks, travel at the drop of a hat, and still care for their children.

Many men whose wives are employed also cannot adequately balance work responsibilities and their desire to help raise their children. Society, she said, needs to reconstruct the workplace; rethink responsibilities for raising children; and learn to talk about a work-life balance, not simply work and family.

At the heart of many of her calls for change is the need to overhaul our attitudes toward



Euro Career Aspirations

WHAT'S UP News About the GSB and Its Graduates

aime Gutierrez, Aisa Aiyer, Maiko Sasakawa, and J. Michal Petrzela (from left) were among 40 MBA students from Stanford who spent their Thanksgiving holiday in London attending the EuroTrek career fair for those intent on working in Europe. Students from seven American schools met with recruiters and alumni, visited corporate sites, and attended industry panels. Last year 12 percent of the GSB graduating class took their first jobs outside the United States. In addition, the same schools partnered to host the online Global Career Forum in April, inviting non-U.S. companies to offer summer or full-time positions.

child rearing. "Children are a public good that we all have to support," she said. If we don't change services available and attitudes toward raising children, Strober warned, "people will opt out entirely and choose not to have children."

To see how lives have changed, Strober cited statistics showing that in 1977 the average combined workweek for a couple was 81 hours. In 2002 that had risen to 91 hours. The time parents spent with children increased from 5.2 to 6.2 hours per day in the same period. Not surprisingly, the time men and women spent on themselves also changed. In 1977 fathers spent an average of 126 minutes on themselves, compared to 78 minutes today, while mothers dropped from 96 minutes to 54 minutes per day spent on themselves.

Strober's most recent book is The Road Winds Uphill All the Way: Gender, Work, and Family in the United States and Japan, which surveyed men and women 1981 graduates of Stanford and Tokyo universities.

Iraq Triggers New Debt Debate

EXTERNAL DEBT is one of the biggest structural issues that the world will face in the next couple of years, World Bank President James Wolfensohn told Business School students during a March visit, adding: "The beginning of the new debt debate is now."

Iraq is the trigger for the debate. That troubled nation owes \$120 billion, seven to eight times its gross domestic product. "Subject to a decent government coming in," said Wolfensohn, there's a "fair chance" that creditors may forgive \$80 to \$90 billion of that debt. The challenge then will be to face the question that many other countries are already asking: "Do you need an invasion to deal with the question of debt?"

Since he became president of the World Bank in 1996, Wolfensohn has defined debt relief as a key strategy toward sustainable development in the poorest countries. To be effective, however, the strategy needs to be complemented by financial aid and commercial opportunities. The problem, Wolfensohn said, is that rich countries are not delivering the promise they made on aid and free trade to the developing world after the Millennial Summit in 2000. While they spend \$900 billion on defense, only \$50 billion

Risk in China Pays Off for GM

his year General Motors will roll out 29 new products—the largest number of introductions ever—as the world's largest manufacturing company works to retain its leading position, CEO Richard Wagoner told a standing-room-only Business School audience.

GM has made product development more global and less regional, said Wagoner, who three years ago became the youngest CEO in the firm's history.

Seven years ago, GM had only



is allocated to development assistance.

Favoring domestic concerns, developing nations are neglecting "the inevitable mid-term and long-term questions of poverty and development, which, in my judgment, will have an even greater effect than short-term economics," he said.

Wolfensohn's development paradigm has been comprehensive in terms of both its focus and the range of social factors involved. On the one hand, it assumes that individual projects are interdependent (schools are useless if there are no roads and water, for example) and on the other, it relies on governmental efforts as much as on the private sector and on civil society.

The "c-word," corruption, was forbidden in the World Bank when Wolfensohn took over. "It's political, it's beyond our mandate," he was told. By redefining corruption as a social and economic concept, however, he managed to place it at the core of his antipoverty strategy. Now, he says, there is at least a dialogue about corruption in the more than 100 countries in which the bank is present.



PSYCHOLOGISTS TELL US WE become conservative when uncertain. Claude Rosenberg, MBA '52, knows most affluent Americans are uncertain about how much they can afford to give to charities without endangering their lifestyle or running out of money before they die. The result is that



many procrastinate on giving what they could afford and often don't get to see the good their money could bring.

Having made his fortune as a money manager, Rosenberg now hopes to reduce such procrastination with a new Internet calculator called PrudentPal, available on the website Newtithing.org. Based on research by his nonprofit NewTithing Group, PrudentPal was three years in the making and resides on a secure server, so no one but individual users can see their personal financial picture.

A person who types in his or her income, investment status, and tax filing status will receive a calculation of the after-tax cost of current giving. By providing a little more information, a user can get an estimate of what his or her maximum gift could be-based on personal tax or investment preservation goals. "Go ahead and use it, because it won't cost you anything, and we believe it will be helpful," Rosenberg advises those who have sizable assets above and beyond their homes.

Entrepreneurs Look Back, Think Ahead

WHERE SHOULD entrepreneurs look for the next big idea? Panelists at the annual Entrepreneurship Conference recommended wireless and biotech, health and fitness, home information technologies, and the migration of products to services. It may be time, as well, to look back at ideas that failed in the '8os, paying attention to how conditions have changed, recommended Dave Whorton, MBA '97, a partner in TPG Ventures.

The founder of the North Face, Hap Klopp, MBA '66, also sees good outcomes from the revolution in communication technologies. The bubble of the late '90s "was nothing compared to the one coming in the next 5 to 10 years," he predicted.

Klopp also urged paying attention to customers' needs. "It's the customer who's going to decide how big your business is going to be." Pursuing his interest in sports to found the outdoor equipment and clothing firm in 1966, Klopp identified the needs of a new generation more active and interested in outdoor activities than in the past. Enthusiasm builds success,

he said. "Lack of passion, not competition, is what may kill your company."

"Break some rules," advised Matt Glickman, MBA '93, former CEO of BabyCenter Inc. He challenged the conventional wisdom of online retailing in the '90s by combining editorial content and commerce. An important part of BabyCenter's success, according to Glickman, was that the editorial content gave credibility to retailing.



First-year students Dave Lu, Jennie Tung, Jeff Kuo, and Ivy Cheung at the Lunar New Year banquet.

Bachelor Exec Gives Dating, Career Advice

"WHAT DOES IT TAKE to 'unsingle' yourself?" the student newspaper, *The Reporter*, asked Andrea Wong, MBA '93, when the network executive responsible for ABC's *The Bachelor* came to campus shortly before Valentine's Day. Wong was the keynote speaker at the studentorganized Lunar New Year banquet, where the theme this year was Asian Americans in the entertainment business.

As senior vice president of ABC's alternative series and specials division, Wong said she knows more about how to break into the industry than she does about love, but "I have been told to treat dating like your second job. So when I was in New York, I went to many blind dates and parties.... You just have to put yourself out there and meet as many people as you can."

MBAS who want to break into entertainment, she added, need to start at the bottom with low

Spreadsheet



At 85, Bill Johnston, MBA '47, is still winning swim awards and relying on Esmeralda Sue, his companion some might call a dummy, to display them.

salaries but realize they can "move up faster than others because you understand what truly drives the business."

Senior Swimmer In the Fast Lane

BILL JOHNSTON HAS NO PITY for the competition. Over the course of the last u.s. Masters Swimming season, the 1947 graduate of the Business School competed in 17 different national swimming events and placed first to seventh in his age group, which is 85-89. Johnston also finished first in the 2003 National Postal Championship 3,000-meter competition, but he seems proudest of setting a record in the 50-meter freestyle against the "kids" in the 80-84 age group a fortnight before his 85th birthday last June.

A longtime member of the Walnut Creek Masters Swim Club, Johnston, now retired in Aptos, hopes to swim a relay this summer with two younger generations of his family.

Marines Use Frisbees As Icebreakers

IN THE FIRST TWO WEEKS OF January, Jim Hake of Pacific Palisades, Calif., bought two tons of Frisbees with the word "friendship" emblazoned on them in English and Arabic. He is the founder of Spirit of America, an Internet-based nonprofit that provides U.S. military and civilian personnel with items they can give to aid peace and friendship in hot spots abroad.

Hake, MBA '83, was inspired by an Army Special Forces unit that befriended villagers in a remote area of Afghanistan after giving baseball gloves and bats to local children. When Hake met with Marines at Camp Pendleton last year, they suggested Frisbees were an ideal gift to use on their tours of duty in Iraq. "When you first throw a Frisbee, it can go anywhere, which also generates a few



smiles and enables the Marines to have the kind of interaction that builds trust," said Hake, who also has raised funds for dental supplies, soccer jerseys, and musical instruments for Kurdish villages in northern Iraq, where music had been outlawed.

Spirit of America's infrastruc-

ture is financed by funds from Hake's sale of Global Information Infrastructure, a business that produced Internet content for businesses in the Internet's early days. Using the Internet now, Hake matches requests that come mostly from military personnel with Americans willing to donate cash or supplies.

GSB alums should have no trouble believing Hake can build a lasting organization: He is a founder of Friends of Arjay Miller (FOAM for short and possibly also for beer), one of the longest-lived student clubs at the School.

You Heard What?

URBAN LEGENDS TAKE all forms, from alligators in the sewers to the myth that Stanford Business School only accepts applicants with four or more years of work experience.

Last fall the MBA admissions team took to the road, visiting some 40 colleges and universities, including four in Europe. They talked to undergrad academic and career counselors to clear up some myths about the GSB. "We had to do a lot of educating about the School," says Wendy Hansen, associate director of MBA admissions. "The counselors told us they learned a lot about MBA programs in general and about Stanford specifically—like the fact that we offered financial aid, that we were interested in students without an undergraduate business major, that you could apply with less than two to four years of business experience, and that Stanford offers a general management education."

The admissions team may also have mentioned that Professor Chip Heath does research about the staying power of urban legends.

Have you made your annual gift?

Our fiscal year ends August 31, 2004.

GSB FY03 OPERATING REVENUES

Tuition and Fees 49%

Endowment Income and Annual Gifts

46%

5%

Other Income

Ellen Otto

Director of Annual and Reunion Giving 650.725.4283

otto_ellen@gsb.stanford.edu

www.gsb.stanford.edu/ giving/make_a_gift.html

STANFORD

GRADUATE SCHOOL OF BUSINESS



6





Mainstream Yoga

SANDRA UYTERHOEVEN, SLOAN '84

LIKE TO THINK OF MYSELF AS a mainstream person," says Sandra Uyterhoeven, who in 1996 founded Yoga for Mainstream People, a small yoga school in Cambridge, Mass.

Besides giving private lessons, Uyterhoeven teaches voga at such mainstream institutions as the Harvard Divinity School and Boston's Berklee College of Music, where she is also trustee emerita and cochair of the school's gender equity and diversity committee. At Newton-Wellesley Hospital, Uyterhoeven works with a team of health professionals to help postsurgery cardiac patients modify their lifestyles. And one morning a week she teaches a group of elderly people at an assisted-living facility. "I find that really satisfying," she says. "They love it, and I think it's just wonderful keeping these people moving. I think it makes a real difference in their lives."

Uyterhoeven wasn't always a yoga teacher. An employee of the Massachusetts Environmental Affairs Department, she returned from the Sloan Program in 1984 just as the state was creating a new water resources authority to clean up Boston Harbor. Uyterhoeven was assigned to the 16-person start up team. It was an exciting time, she says. They did everything: set water and sewer budgets, planned insurance, inventoried property, created a human resources department to handle an influx of 750 people the first year, and arranged "everything you do for revenue bonds the first time."

A debilitating threeyear bout with ulcerative colitis led Uyterhoeven to retire in 1995. She is well now. A subsequent ninemonth treatment with herbs, acupuncture, and yoga cured, where traditional medicine had failed. Much as she misses her colleagues and the challenges of her work,

she likes the direction her life has taken. "It's good for me at this time," she says.

Certified as a teacher of Viniyoga, a style she describes as gentle and therapeutic, Uyterhoeven has begun an extensive course in yoga therapy. "I'm taking a very serious anatomy and physiology class now, and I am already using yoga with people who have back pain, shoulder pain, any stress-related illness.

"I don't think yoga can cure everything," she says, "but it can certainly change your life."

Gaming Referee

GARY PECHOTA, MBA '74

NDIAN GAMING IS BIG BUSINESS. It brought in \$14.5 billion in 2002, the last year for which figures are available—more than commercial gambling in Las Vegas and New Jersey combined.

To oversee this business and protect it from outside interests, Congress in 1988 established the National Indian Gaming Commission (NIGC), an independent regulatory agency with the power to audit gaming operations, enforce regulations, and close down casinos if necessary. Last September, Gary Pechota was named chief of staff of the commission.

Pechota serves directly under three appointed commissioners and is responsible for the areas of audits, contracts, enforcement, congressional and public affairs, and administration. He brings two decades as a chief executive to his new

public sector position. After taking his Stanford MBA to Minneapolis, where he was a certified public accountant for Ernst & Whinney, Pechota ran Dakota Cement for 10 years and then Giant Cement Holding, a Pennsylvania company, for another decade. He stayed with Giant Cement for two years after it was sold to Cementos Portland of Spain, then consulted in the waste management and cement industries.

"I was happy consulting, but in the back of my mind I thought I should be contributing more," Pechota says. "I wanted something that was business related, but I was also looking for something to do with Native American issues. I'm an enrolled member of the Rosebud Sioux tribe. I benefited from a lot of scholarship programs, and I wanted to give something back."

Gaming has helped some 200 tribes in 28 states, Pechota says. "When you look at the tribal history of economic development, it has been just phenomenal for the Indian people." And he points out that even where Indian gaming is not all that financially successful, it provides sorely needed jobs.

His work at NIGC is a temporary commitment; one day he hopes to return to his native South Dakota. If he had to define his goal now, he says, "We are severely understaffed and underfunded. When they write my obituary, if we can say we did things smarter and a lot better and made the most of the resources we have to make some kind of an impact on Indian gaming, then that's really what I'm after."



Differing Views Cultivate Better Decisions

A study of the U.S. Supreme Court suggests that differences of opinion pressure groups to improve their analyses, resulting in more complex, fleshed out decisions.



OOD MANAGERS KNOW that the proverbial "yes man" isn't much of an asset. But when it comes time to build work teams, many business managers, either by design or through inattention, staff them with people who are prone to think alike. In effect, they've built "yes teams."

As a result, those teams fail to make the best decisions possible—and the organization suffers.

Research done independently by two Business School faculty members concludes that teams with divergent points of view work harder and are more open minded. Deborah Gruenfeld analyzed decisions made by the u.s. Supreme Court to gather some of her evidence in a study that found teams encompassing at least two separate points of view on one question make better decisions because the pressure of the minority forces the majority to think more complexly and consider diverse evidence.

In a different study, Margaret Neale, researching behavior of college students, concluded that when newcomers with a different point of view join a group, they may actually improve the group's performance. (See story next page.)

Gruenfeld, associate professor of organizational behavior, also found that narrow majorities tend to be more open minded in their reasoning than majorities holding a larger balance of power.

Her work examines the very complex relationship between political beliefs and the balance of power within groups. Gruenfeld also attempts to correlate the nature of decisions—for example, whether they uphold the status quo or overturn it-with the other factors.

One of her studies was based on data garnered from decisions of the U.S. Supreme Court. Why the high court? "A lot of research tends to focus on the specific personalities of leaders. I was interested in showing that the dynamics of relationships among people who work together in groups are a stronger determinant of their behavior than personality. The court is small; you can get a sense of the alliances and allegiances and factions in the group," Gruenfeld said in an interview with Stanford Business.

She has found similar results in studies of student behavior. However, she cautions that the court is by nature a very conservative institution with a built-in bias toward upholding the status quo.

Gruenfeld believes her work contradicts a notion popular in some political circles (and supported by research done by Philip Tetlock, currently at the Haas School of Business at the University of California, Berkeley, among others) that those who support parties and politics on the right are more rigid in their thinking and more intolerant of ambiguity than those on the left.

When groups in a democracy make decisions, the complexity in their thinking depends more on group dynamics than on personal ideological preferences, she says. When groups gain power (either political or organizational), they not only act differently than when they were a minority or smaller majority, they reason differently.

"Tetlock's finding that liberal opinions were more

complex than conservative opinions was replicated only when the data were drawn from an era when liberal justices held a majority on the court. When data were drawn from the more recent, conservatively dominated era, conservative opinions were more complex than liberal opinions," Gruenfeld wrote.

In collecting data, Gruenfeld used the verbatim records of more than 1,000 opinions written by high court justices between 1953 and 1993. Using a variety of filters, she and Jared Preston, then a doctoral student at Northwestern's Kellogg School, eventually selected 32 cases for which a majority and minority opinion was written—all dealing with either civil liberties or economic activity. Perhaps the best known is the landmark *Miranda v. Arizona* of 1967, which by a vote of 5 to 4 redefined the rights of suspects in police custody.

They then evaluated and scored each opinion, looking for evidence of both openmindedness and complexity in the text.

Higher levels of differentiation indicate

When groups in a democracy make decisions, the complexity in their thinking depends more on group dynamics than on personal ideological preferences. When groups gain power, they not only act differently, they reason differently.

awareness that there are reasonable arguments on at least two sides of a controversy. "High integrative complexity corresponds to the acceptance of multiple worldviews and the experience of value conflict that comes with understanding the tradeoffs among them (e.g., 'Liberal policies protect our right to equality; conservative policies protect our right to freedom')," she explained.

In addition to seeing that majorities reasoned more complexly when confronted with a minority, Gruenfeld also found that Supreme Court justices in the majority reasoned with even greater complexity when

defending the status quo than when upending it. When voting to overturn precedent, the decisions were more dogmatic.

One explanation: Majorities making major changes are, in a sense, more accountable than majorities defending the status quo. And because they feel more accountable, they may tend to bolster their own positions defensively, rather than engaging in more complex reasoning.

Summing up, Gruenfeld said, "Our work on the psychology of power ... not only gives credence to the old adage that power corrupts, but it explains why this occurs. Whereas the classic perspective provided by Machiavelli suggests that power's effects are mostly premeditated and strategic, our research suggests that when power corrupts, it can be without conscious awareness."

"Upending the Status Quo: Cognitive Complexity in U.S. Supreme Court Justices Who Overturn Legal Precedent," Deborah Gruenfeld and Jared Preston, Personality and Social Psychology Bulletin, August 2000.

Gains Worth Pains of Diversity

The addition of outsiders may heighten a group's performance.

EWCOMERS WHO BRING a divergent point of view to the workplace may significantly enhance group performance, according to research by Margaret Neale.

There is, however, a tradeoff. Old-timers who ally with dissenting outsiders do so at their social peril. "Allies of newcomers may experience [social] distress, but when it comes to mastering the task, the pain is worth the gain," says Neale, the John G. McCoy-Banc One Corporation Professor of Organizations and Dispute Resolution and director of three executive education programs in negotiation and teamwork. Because of the stress, allies who side with the outsiders tend to focus more clearly on the task, back up their arguments more carefully, and generally work a little harder. As a result, they perform more successfully and are more likely to reach the correct

In a sense, the work by Neale and colleagues Katie Liljenquist and Katherine W. Phillips of the Kellogg School of Management at Northwestern University is an argument for diversity of opinion in the workplace.

Adding new people or shifting different staffers to an existing workplace team poses difficult choices for managers. Who will fit in the best? Who will improve the chemistry that makes a team excel? A good deal of research has explored these problems. Reactions to newcomers often depend on the way they differ from existing group members. Old-timers look to see if newcomers agree or disagree with their opinions, and whether they share social similarities. Neale and her colleagues set out to study the impact of outsiders on performance by studying 242 active members of four sororities and fraternities at Northwestern.

Banners emblazoned with the name of the sorority or fraternity hung in the test rooms where participants, wearing name tags that included the name of their sorority or fraternity, sat with their "brothers" or "sisters."

Working alone, each participant had 20 minutes to decide who was the killer in a fictional murder mystery. After telling the researchers "who done it," participants were divided into three-person groups composed of members from a single fraternity or sorority and told they would be given

another 20 minutes to compare notes and agree on a suspect.

After five minutes, a fourth person joined the "old-timers." The newcomers were placed in groups containing one or more "opinion allies" who agreed with them.

Here's what the researchers learned:

Old-timers who tended to ally with newcomers from their fraternity or sorority became more entrenched in their views and overconfident in the correctness of their opinions about the murder. They even inflated the importance of their contribution to the group's ultimate decision.

Old-timers who allied with out-group newcomers felt insecure; the alliance threatened their social ties. Because they felt threatened, they were motivated to reconcile the differing opinions on the team. Simply put, they were more focused and more accurate than old-timers who allied with ingroup newcomers.

"Although agreeing with an out-group newcomer may be socially painful, the task focus induced by the alliance ultimately yields greater accuracy, not just for the allies, but for all group members," the researchers concluded.

"The Pain Is Worth the Gain: The Advantages and Liabilities of Agreeing with Socially Distinct Newcomers," Katie Liljenquist, Katherine W. Phillips, and Margaret Neale, 2003, under review.



Illustrations by Stuart Bradford

Capturing the Contours

of a Global Economy

The School's new Center for Global Business and the Economy aims to foster research, teaching, and community engagement on worldwide growth and multinational business management.

by Frederick Rose

nswered prayers, perhaps?

The walls of tariffs are falling. Communism has collapsed, and capitalism is flourishing. Technology and transportation are shrinking the world faster than ever. The result? It's as if a million new vectors have tumbled into the hopper of business and economic decisions.

Globalization and its intricacies are challenging more aspects of commerce than ever before. Trade is growing by leaps and bounds. Goods and services bought and sold between countries today account for almost a quarter of their combined gross domestic product, double the proportion just 30 years ago in the developed world. Yet this global efflorescence also has brought waves of unemployment in certain industries. Cultures are clashing as a new worldwide workforce emerges. Systems of international capital struggle to support wider flows. And quandaries persist with the failure of many nations to develop economically.

Like the weather, globalization is everywhere. Yet understanding its forces, predicting its sometimes-damaging storms, and seizing its enormous energies in many cases is beyond our current capacities.

Business education and research are changing too. "That's where

Firms such as BP are showing increasing concern for the countries where they operate. They build schools and hospitals, for instance, and sometimes help build improved governance. Thinking about the ways in which firms can have a beneficial impact will be one of the center's roles."

management is going—you've got to have a global mindset," notes Robert Joss, dean of the Graduate School of Business. Stanford, like other business schools, has greatly internationalized its approach to the classic disciplines. But now "we're driving out into a much larger arena," the dean says. "We're in territory we're not nearly as skilled at: geography, demography, anthropology, culture. [We are seeing] whole different economic systems that are not very efficient. Issues of legality. Issues of corruption and of the rule of law over multilateral institutions."

A new Center for Global Business and the Economycalled the Global Center, for short—will open at the Business School to work on these issues. Its role will be to foster research, teaching, and community engagement related to worldwide growth and the management of multinational business. The center will focus the Business School's research efforts and augment its Global Management Program, with its rapidly widening selection of course offerings. It will also connect the School's joint programs with other Stanford schools and institutes. It will stitch corporate experience with lessons from developing nations to add depth to research and teaching. And the new center complements the Business School's existing Center for Entrepreneurial Studies, the Center for Leadership Development and Research, and the Center for Social Innovation. The Global Center, like the others, is a center of ideas, not a physical building.

Nearly \$7 million has been raised. The founding support came from John Gunn, MBA '72, and his wife, Cynthia, and corporate donors BP and Cemex SA. Other sizable contributions are expected. Center codirectors, faculty members John Roberts and John McMillan, plan initially to use about \$3 million a year to enhance course offerings, research, and communication on global subjects.

Roberts, who is the John H. Scully Professor of Economics, Strategic Management, and International Business, and McMillan, the Jonathan B. Lovelace Professor of Economics, bring different interests and expertise to the center. Roberts researches international business and the economics of corporate strategy and organization. He is the author of *The Modern Firm*, which considers the management of organizations in the context of globalization. McMillan works on development economics and international business. He is the author of *Reinventing the Bazaar*, a study of market mechanisms around the world.

The center's operations are under way. An inaugural conference on May 19 will bring international luminaries to Stanford, including John Browne, Sloan '81, chief executive

officer of BP; Roger Deromedi, MBA '77, chief executive officer of Kraft Foods; and Trevor Manuel, South Africa's minister of finance. [See box, page 12, for full speakers' list.]

New business cases examine nuances of international trade and investment, issues of developing economies, and management structure across cultural boundaries, among other topics. These will be prime teaching tools for internationally oriented courses. In many instances they will allow globalization angles to be considered in some courses that don't now include such aspects.

All of this is timely, says founding donor Gunn, who will address the inaugural conference. He anticipates world business trends soaring to a new, higher plane of activity. "We're going through an enormous transition—something without historical precedent," the president and chief investment officer at Dodge & Cox mused in a lengthy interview with Stanford Business. Flows of trade and investment capital have reached a tipping point, triggering vigorous growth in parts of the developing world. "My guess is that 2003 will be proved a watershed year," Gunn says. The promise of the 1990s in the realignment of Eastern Europe has come to pass later than expected, but with great effect, he says, adding that open markets are the driving force behind these changes. In a sense, "all of this will occur without us, since the blueprints for building the free market economy are well known." But, he added, efforts at advancing globalization can be improved by a better understanding of the principles at work.

Yet, the emergence of open markets is complicated by one's perspective, Browne added in a separate interview. The BP chief executive, more formally the Lord Browne of Madingley, says these benefits "clearly are evident to a few countries—the U.S., the U.K., maybe a few others. In certain sectors they are of interest to other

GLOBAL MANAGEMENT COURSES

Accounting

Global Financial Reporting Performance Measurements

Financ

Private Equity Investing Fixed Income Securities:

Instruments and Management Investment Management International Finance Options and Futures Investment Seminar

General

Startup Globalization Strategies Investing in Highly Regulated Industries

Managing on the Pacific Rim

Management Economics
Growth and Stabilization
in the World Economy
International Development
European Economics
U.S. Economy in the 21st Century
Market Design

Marketing

Global and International
Marketing

Understanding Consumers, Understanding Cultures Channels Management

Organizational Behavior Working with Diversity Strategy and Management in Supply Networks Supply Chain Management

Political Economy
Ethics and Global Business
International Corporate
Governance

Strategic Management
Strategy in Entrepreneurial
Ventures

Creating and Sustaining Growth Global Businesses Culture and Management

in Pacific Asia Ecotourism and Social Entrepreneurship International Business

STANFORD BUSINESS MAY 2004

We are particularly interested in economic development and the role that business plays not just contributing to the gross domestic product but to social development and to the economic development through the spread of management technology."

governments—such as India in certain [information technology] areas such as outsourcing. But to a large number of people there are questions of what benefits globalization brings." Indeed, Browne adds, these benefits "are not clear, not clear indeed."

"Corruption, maladministration, and governance" are problems, Browne says. Foreign investors and developing nations themselves must work more effectively to assure that "money that is generated—very often from foreign direct investment but also from foreign trade—better circulates in the economy to the benefit of the economy as a whole—not actually to a small subset of people." Intellectual development is a deep concern of Browne's. Properly trained and with education widely available, people of many developed nations in the long run should choose to govern themselves and conduct business in a noncorrupt way, he says.

Knowledge- and skills-transfer between the developed and the developing nations will be an important research interest of the new center. "A major focus is going to be on ties between business and economic development," says codirector Roberts. "We are particularly interested in economic development and the role that business plays—in a lot of different ways: I mean not just contributing to the gross domestic product but to social development and to the economic development through the spread of management technology." This and other research interests will move the center to new ground, where classic business interests in management and investment will give a different optic to development economics and political science.

Codirector McMillan notes that firms such as BP are showing increasing concern for the countries where they operate. They build schools and hospitals, for instance, and sometimes help build improved governance. "Thinking about the ways in which firms can have a beneficial impact will be one of the center's roles," he says.

The first glimmers of the center emerged at a small dinner at the Stanford Park Hotel in spring 2002 held to consider international issues and the School. Among those attending were Gunn; investor Robert Bass, MBA '74; John Scully, MBA '68; Dean Joss, MBA '67/PHD '69; and Professor McMillan. It was very different from most GSB planning sessions. "We were at the point of trying to get ideas flowing in the School, and we wanted some very thoughtful people to know that we were pushing this direction," says David Kennedy, associate dean for development, who helped put the dinner group together. Conversation was lively around the table, with faculty describing their current international research projects and alumni chiming in. It was soon apparent, says Kennedy,

that there was a strong core of interest. The Global Center soon emerged as a way of focusing international interests that are already a strong part of the School's culture. Today, roughly 30 percent of the student body comes from outside the United States, as does a similar proportion of alumni, and the nationalities and research interests of the faculty are indeed global. "We couldn't create a center unless there was already enough momentum," says Kennedy.

There was a time when international interests were much more subdued at the School. "When I came here in 1980, there were just five courses listed as having an international focus," recalls Roberts. This year (2003–04), the MBA Program not only requires study of global strategy and economics but offers 28 "global elective" courses. [See list, page 11.] As a student, Leo Linbeck 111, MBA '94, recalls pushing for creation of the Global Management Program, which today offers students international speakers, career resources, internships, and support for study trips to experience business environments around the world, as well as the opportunity to earn a certificate in global management. Now, Linbeck welcomes the addition of an overarching Center for Global Business and the Economy, not only as a powerful tool for teaching and research but as "very good marketing that clearly communicates the reality of the product."

Joss, who as dean has overseen the latest advances, remembers how different things were when he was a student in the 1960s. "I didn't even get my passport until I was in the middle of the MBA program here and had a chance to go to Europe," he recalls. These days, "we could probably count on the fingers of one hand the number of incoming students who would be in that category."

Frederick Rose is a Palo Alto-based business writer.

CONFERENCE TO FEATURE INTERNATIONAL LEADERS

THE DAY-LONG CONFERENCE on Global Business and Global Poverty will launch the Business School's new Center for Global Business and the Economy on Wednesday, May 19, in the Frances C. Arrillaga Alumni Center. Alumni interested in attending the 8:30 A.M. to 5 P.M. conference should contact



Andrea Robicheau at 650.724. 6767. Speakers will include:

Mukesh Ambani, chairman and managing director of Reliance Industries, India, MBA Class of '81

John Browne (Lord Browne of Madingley), CEO of BP, Sloan '81

Roger Deromedi, CEO of Kraft Foods, MBA $^{\circ}77$

John Gunn, president and chief investment officer of Dodge & Cox, MBA '72

Daniel Litvin, principal consultant and founder of Percept Risk and Strategy, a consultancy to multinational firms on political and ethical issues

Trevor Manuel, South Africa's minister of finance

12



The Business of Fighting Poverty

A new investment model seeds very small businesses at the expense of loan sharks.

by Monica Brand, MBA'97

IN 1997, on the cusp of the dot-com mania and a lesser known revolution called social enterprise, I came across the story of Sara Hernandez on the website of a nonprofit institution called ACCION International (www.accion.org). Hernandez had married at 16. She learned to bake bread from her husband's mother and grandmother and began selling it to help feed her family in Oaxaca, Mexico. After 30 years of going to work daily at 5 a.m., you might think she was making a good profit. But with rental fees for her wood-burning oven and the high cost of purchasing ingredients in small quantities, she saw little profit, if any.

As my Business School classmates would recognize readily, Hernandez needed working capital, but she said, "There was no opportunity that made sense. The *prestamistas* [moneylenders] wanted 20 percent each month! I was barely making ends meet as it was."

Then in 1995 she heard about Compartamos, a Mexico City-based bank that had begun providing financial services to small entrepreneurs. One of the microfinance institutions in which ACCION has invested, Compartamos, has demonstrated that lending to the poor makes good economic—as well as social—sense. Within days of Hernandez's first loan application, Compartamos lent her \$50, which she used to lower her costs by purchasing eggs and flour in bulk. Punctually making her weekly payments over four months, she was then eligible for a larger loan.

Since then, she has borrowed as much as \$500 at a time, Compartamos is reaching over 200,000 clients, and I have graduated from the Business School and gone to work for ACCION. Its mission is to provide the poor with financial service tools to work their way out of poverty. Enticed not just by ACCION'S mission but also by its goal of achieving massive scale and sustainable clientfriendly financial services, I launched and now manage its marketing and product development unit. We are a social enterprise using market mechanisms to advance social goals.

Microfinance involves providing financial services—primarily credit and savings—to millions of selfemployed poor. Many microentre-

preneurs' businesses generate high returns on scarce capital. Despite good cash flows and business success, they cannot get conventional bank loans because they lack formal credit histories and creditworthy cosigners. Moneylenders, more disparagingly known as loan sharks, have for centuries capitalized on these conditions. Present in developing economies globally, they charge in the range of 10 percent per day to 50 percent per month for credit.

Microfinance institutions, pioneered in the mid-1970s by ACCION in Brazil and by Grameen Bank in Bangladesh, provide alternatives by using an innovative business model based on sociology and financial acumen. MFIS, as we call them, mitigate risk and control costs like all financial service providers, but the challenges are greater in the informal economy. Customers are geographically dispersed, often illiterate, and lacking records such as sales receipts, accounting ledgers, and inventory, critical in determining repayment capacity. MFIs have learned to use streamlined documentation, standardized product terms, simplified procedures, and even technological innovations like personal digital assistants to maximize efficiency. (ACCION introduced PDAs for loan officers in the field to reduce the cost of credit analysis.) They also use community-bank lending, delegating loan decisions to a group of borrowers who agree to take collective responsibility for loan repayments. In the case of Compartamos, the community bank is 20 to 30 women who can vote out members with recurring repayment problems.

Microfinance has revolutionized economic development because it is one of few strategies that can demonstrate tangible, consistent impact at the client level while paying for itself. MFIS charge much less than informal lenders but more than conventional banks in order to become financially self-sufficient and expand. Since it costs a financial institution roughly the same to make a \$300 loan or a \$3,000 one, MFIS typically charge 3 to 6 percent a month. Since 1985, ACCION'S affiliates have loaned over \$5 billion to nearly 4 million microentrepreneurs in Latin America, the Caribbean, Africa, and the United States, with an average repayment rate of 97 percent.

As of last October Compartamos, the largest Latin American MFI in client volume, had over 200,000 clients and an active portfolio of \$63 million. More astonishingly, based on June 2003 financial statements, it had a return on assets of 18.5 percent and a return on equity of 56.5 percent. To put this performance in perspective, Citibank and Bank of America each had an ROA of 1.4 percent and

STANFORD BUSINESS MAY 2004 13

Microentrepreneurs invest their growing profits in a better family diet, home improvements, and education for their children. Others can see the possibility of raising their own standard of living."

an ROE of 18 percent in 2003, according to published reports. Standard & Poor's gave Compartamos an MXA+ rating on a Mexican bond issue of \$10 million in 2002 that was backed solely by the institution's financial strength, not its loan portfolio. This vote of confidence from one of the most rigorous corporate rating agencies is remarkable when you consider that the majority of Compartamos' assets are unsecured loans averaging \$315 per borrower.

Since her first loan for her bakery, Hernandez has borrowed to purchase large mixers. She also has made improvements to her house with the money she has saved. "We started with the concrete floor, then walls and a ceiling, and now we have the two rooms," she said recently. There is still no bathroom or running water, but her pride in the improvements is clear from her smile and continued aspirations. Next she would like an electric industrial oven. "There is criticism of the pollution, and firewood is expensive—nearly \$3,000 each year," she said, adding, "We are thinking about opening a little store. With our experience with the bakery and a little more help from Compartamos, I know we can do it."

Hernandez's story illustrates the spillover effects to families and communities. Microentrepreneurs invest their growing profits in a better family diet, home improvements, and education for their children. Others can see the possibility of raising their own standard of living.

Compartamos has invested its profits in expanding to reach more poor—an additional 60,000 new customers in one year alone! Although impressive, the company's board of directors is aware that the interest rates charged invite competition and that lowering them also would benefit clients. ACCION has a seat on the board through its equity investment, and as a social enterprise it is the most vocal proponent of lowering interest rates over time. Its long-term goal is harnessing the power of capital markets to stimulate informal economies and integrate them into the formal financial system.

I spent the second quarter of last year in Mexico City as Compartamos gears up for new competition. In 2002, Citibank acquired a consumer lender in Mexico to move down market, and Elektra, the largest retailer in Latin America, purchased a banking license to leverage its database of credit histories of the low- and mid-income market of Mexicans. Though both target a market niche slightly above that of Compartamos, they are a potential competitive threat. We designed a national study to evaluate customer satisfaction and determine what kinds of products and services clients prioritize. We also mined the company's management information system, which contains client profiles and borrowing patterns that helped us target new products, including a cus-

tomer loyalty (fidelización) program. Second-year student Rachel Payne, an intern from the Business School's Stanford Management Internship Fund (SMIF), helped create our new customer service strategy, streamlining credit delivery and setting up a call center for promotion and complaint management.

I am a rarity among my '97 classmates: Commanding salaries more attractive than nonprofits can offer, most of them have rotated in and out of both startups and Fortune 500 companies. In spite of attractive opportunities, I remain at ACCION because its mission still compels me. ACCION is in the business of fighting poverty. Its commercial approach to institution building takes advantage of best corporate practice and the fact that the world's poor are vibrant, resilient people who require quality service products. Whether reengineering a bank to reach down market or designing new financial products, I get a thrill from figuring out how to reach still more of the millions of microentrepreneurs yet to be served.

Monica Brand is vice president of marketing and product development for Accion International.

Latin American Firms Set Sail

Successful companies no longer operate strictly within the confines of their national markets.

by Isabel Awad

LOCAL AND GLOBAL FORCES are pushing Latin American companies to expand both regionally and worldwide. Some of the strategies for success include acquiring firms to move into new markets; focusing on large corporations or on a narrower set of products or services; and bringing in new management when necessary.

The advice came from panelists at the 2004 Latin American business conference, "Global Opportunities for a Growing

Region," organized at the Business School in January by the MBA student Latin American Club. Top executives from some of the biggest Latin American companies headlined the event along with investment experts for the region and young entrepreneurs from Venezuela, Puerto Rico, and Chile. Their discussion of the challenges and opportunities of Latin America's expanding markets captured the attention of attendees eager to apply these lessons to their own enterprises. Indeed, when one of the speakers asked who in the audience was planning to start a business of their own, the vast majority raised their hands. When the question was how many of those businesses would be founded in Latin America, at least half of the hands stayed up.

Successful Latin American companies no longer operate strictly within the confines of their national markets. Expansion tends to be regional at first, where a common language and culture make "copy/paste" strategies possible, and then moves to the United States in its second stage.



One example came from Juan Muldoon, president of Bimbo Bakeries USA, a name well known in Latin America but not recognized when it came to the United States. "Our first idea was to sell the same products with a different name. It was a big failure," said Muldoon. In the mid and late '90s, Bimbo tried again, this time merging with various tortilla manufacturers and acquiring well-known U.S. brands such as Oroweat, Mrs. Baird's, Entenmann's, and Thomas'. Today, the company is the fourth largest bakery in the United States.

Bimbo's u.s. commercial success validates the company's preference for mergers. The dilemma "to build or to buy," explained Muldoon, is one of the key decisions involved in expansion processes. Panelists agreed that acquisitions present a significant advantage. They accelerate the expanding company's capacity to achieve a critical mass of production and, therefore, to gain access to key customers.

When a new company is acquired, the first step is to change its management, said Jose Domene, MBA '79, chief operating officer of glass manufacturing giant Vitro and former president of the international division of Cemex, one of the world's largest cement firms.

"If you want to change a company, change the CEO," said Domene. "He's the first that has to go." Replacing local managers with Mexican executives in countries such as the United States and Spain has been particularly challenging. "In the United States, they always look down upon Latinos," he said. In Europe, he added, "It's worse." Of course, having an MBA degree from a prestigious American university such as Stanford helps, he said.

Expansion tends to be regional at first, where a common language and culture make 'copy/paste' strategies possible, and then moves to the United States in its second stage."

Domene and Juan Castro, Sloan '98, Cemex's vice president of planning and marketing, described Vitro and Cemex strategies that led them to become the largest glass and cement manufacturers in Latin America. The two Mexican companies are now among the two or three biggest in their domain worldwide. In both cases, geographical diversification has been as important as product specialization and brand positioning, the executives said.

Domene's experience at Cemex helped him pull Vitro out of the critical situation in which he found the company in 2000. "It was exactly the same case Cemex faced in the '80s," he said. The

formula to grow, he explained, was based on two things: focusing on glass and, therefore, selling more than 60 companies not related to the industry; and expanding out of Mexico into Latin America, the United States, Canada, and Europe.

Another barrier to acquisition, said Domene, is the high proportion of family-owned businesses in the region. Families, he said, tend to overestimate the value of their companies.

Others saw family ownership as supporting growth and expansion. "Family-owned businesses can go global and outperform their markets," said panelist Violy McCausland-Seve, a pioneer in restructuring, mergers, and acquisitions in Latin America and current CEO of VMS Associates. Because families focus on building a long-term patrimony, theirs is a more "patient capital." "They are more likely to reinvest and defer payouts" and are less vulnerable to the pressures of short-term profits, she explained. In the United States today, one-third of the S&P 500 companies are family-owned.

Alfredo Carvajal, CEO of the Carvajal Group—a company born with his grandfather's purchase of a printing press 100 years ago—further illustrated this phenomenon: There are 28 Carvajales working in the company, which has a presence in 15 Latin American countries, the United States, and Spain.

Carvajal, Vitro, Bimbo, and Cemex became multinationals only after establishing themselves as leaders in their home countries. Newer companies in Latin America, however, are being created specifically with international markets in mind. According to young entrepreneurs Rafael Somoza, MBA '96 (CEO of Viu Media); Ariel Poler, MBA '94 (chairman and cofounder of Topica); and Pablo Gimenez (head of Intel Capital for southern Latin America), there is enough money in the region to start such ventures. What is needed is the professionalism to take advantage of these opportunities. The entrepreneurs advised those willing to take on the challenge to focus on unique local needs and industries still lagging in professionalism and efficiency. In addition, they recommended starting in the region's biggest markets, relying on local networks and employees, and building a strong reputation by avoiding unethical practices. •

Isabel Awad, who is from Chile, is a doctoral student in the Stanford Communication Department.

STANFORD BUSINESS MAY 2004 15

ALUMNI BOOKSHELF

Buzz Price, MBA '51, was the backstage numbers man present at the birth of Disneyland and its entertainment offspring on five continents.

Victor Preisser, MBA '64, coaches families (like that of Becky Morgan, MBA '78) on how to preserve family wealth and values into successor generations.

THESE ARE TWO OF THE AUTHORS WE SPOTLIGHT IN A LOOK AT RECENT ALUMNI/AE BOOKS.



Walt's Revolution! By the Numbers

BEFORE THEY BUILD THEME PARKS, DEVELOPERS STILL TURN TO CONSULTANT BUZZ PRICE TO RUN THE NUMBERS.

ON A HOT DAY IN JULY 1955, I was mired in sticky asphalt with a throng of people on a bridge to a castle. A short man jammed up against me was cursing under his breath. "Hello, Mr. Sinatra," I said weakly.

Opening day at Disneyland did not feel like the beginning of a revolution in the entertainment industry. But the next day Walt Disney began fixing his mistakes, and the rest is history.

I was then a mechanical engineer with a Stanford business degree. I wound up riding shotgun on Walt's train because I liked numbers. Walt hired SRI, where I worked, in 1953 to write the location and feasibility studies for Disneyland. He was about to create an amuse-

ment park that would eventually be called a "theme" park. His ideas, which spread widely and created the basis for my 50-year consulting career, included custom stage-set design, clean and safe landscaped park environments, seven- to eight-hour stays, the concept of a visitor as a guest, the 50-25-25 formula for revenues: half from povel attractions with a story-telling theme, and a organization of the story-telling theme.

from novel attractions with a story-telling theme, and a quarter each from food service and retail sales.

For me, this entrepreneurial adventure was exposure to what I came to call "yes if" consulting. Walt liked "yes if" better than "no because." Yes if is the language of an enabler. If necessary to make a project work, yes if can consider a partial or complete change in direction. Since my first study for Walt, I have been involved mostly in yes if consulting on some 5,000 attraction projects on five continents.

So far, I count seven waves to Walt's revolution. After his huge success with Disneyland, other developers also became involved in building regional theme attractions. World fairs became labs for trying out new themes. Then the revolution moved abroad, first to Europe. It also caught on with nonprofit, educationally oriented attractions such as aquariums and museums. Next, it moved indoors with projects like Camp Snoopy in the Mall of America. Finally, we have seen

attractions as a catalyst for the explosion of the gaming industry, now an accepted part of the social fabric of the country.

Some of what Disney did, admittedly, did not work abroad in the beginning. The French preferred line cutting to polite waiting, picnics to expensive park food, and long lunches with wine, all at the same hour rather than American-style fast food spread out over the whole day. Mutual accommodation came slowly but surely.



BUZZ PRICE, MBA '51

In Asia, the flow of the wave was tidal and steady. Tokyo Disneyland instantly shattered all records for market penetration and per capita expenditures. Asians in general love to visit theme parks. For example, Seoul, Korea, with a regional population of about 20 million and little recreational tourism, generates per capita expenditures of U.S.\$17 or more at three theme parks. Somewhere between 60 and 80 percent of the population of mainland China does not have sufficient income to visit a modern theme park with any regularity, but the potential for growth is large: 17 of 22 provinces have a population exceeding that of California, the most populous u.s. state. It is probably prudent for all but the movie studio companies to start with a small and relatively inexpensive park and grow it quickly in both attendance and per capita spending. Ticket pricing is extremely important. The all-inclusive, single-price ticket is not a good idea in Asia, although it should be an option. Asian parks must have good access by public transportation also. Our work in each country involved blending new ideas with local sensitivities. The principles of economic and physical master planning that emerged from Walt's revolution had to be honored.

The latest wave in this industry is one of the most profitable: the marriage of theme park attractions with gambling. Casinos have become the dominant R&D frontier for themed entertain-

Walt Disney liked "yes if" better than "no because." Yes if is the language of an enabler.

ment. With gross revenues 7 or 8 times those of attraction parks, gaming has the resources to develop concepts and devices that add to the product mix offered to the customer. Who else would build a hotel as a giant visual icon in the less economic shape of a pyramid, the New York skyline, or the Eiffel Tower? Freestanding, these attraction ventures might have been uneconomic, but on the Las Vegas strip, they functioned as marketing ploys that draw people into casino and hotel doors.

It is a forgiving environment: If you build a \$150 million outdoor park in a blazing sun and it doesn't work, you can tear it down and try again. The attraction business is a fueling element of the gaming industry's growth, along with the destination resort concept. Another driver is the massive deployment of riverboat and Indian-owned facilities. From 1982 to 2000, U.S. gross gaming revenues expanded at a compounded rate of 10.5 percent per year, reaching \$62.5 billion in 2000. That includes lotteries, horse and dog racing, charitable games, and bingo, which generally don't drive associated recreation. As greater size was achieved, the rate tailed off to 6.8 percent during the last five years of that period, but it remains one of our nation's fastest growing large industries. Casino operations, the portion that drives attraction development, took in 57.3 percent of the industry's revenues by 2001.

The casino-attraction trend began in earnest early in the '80s with the Circus Circus Midway in Las Vegas. It showed that a 50,000-square-foot hyperactive games area could generate \$20 million annual revenue and make a high profit. As everybody

STANFORD BUSINESS MAY 2004 17

joined the fray, a critical mass of entertainment broadened the city's appeal. By 2000, the average Las Vegas visitor stay was 4.6 days, up from 3.2 days in 1990.

We worked with this industry's early protagonists, then its regulatory agencies, the casinos, the riverboats, and finally Native American tribes. Our study for the state of New Jersey supported the legalization of gaming there, and our study for Nevada measured the industry impact as a guide to public policy. Even the combined effects of the 2001 recession and the 9/11 disaster slowed Las Vegas only slightly. As to saturation, it is pertinent that in 1993, working in Australia, I computed Australian per capita gaming at \$251—almost twice the U.S. per capita figure.

The gaming industry's success suggests taking a chance is an important part of human nature. The tense of the gaming environment is written in the conditional, yes if, not in the indicative, no because.

Adapted from Walt's Revolution! By the Numbers, a book by Harrison "Buzz" Price, published by one of his repeat customers, Ripley Entertainment Inc. (www.ripleys.com).

Preparing Heirs

SUCCESSFUL ESTATE PLANS FOR WEALTHY FAMILIES REQUIRE OPEN COMMUNICATION, PARTICIPATION ACROSS GENERATIONS.

IN 1964, America's wealthiest scions were sending their children to graduate school, and Victor Preisser discovered several of his Business School classmates were their offspring. The students with the recognizable names seemed extraordinarily lucky to the kid of modest means from Iowa—until he got to know them. One by one, he recalls, "they told me, 'I'm scared to death.' Their families' expectations for them were enormous, and they did not feel prepared. What I saw as their huge opportunities for a clear path to the top of a business, they saw as their immense obligations."

Now, having handed off one of his own businesses to a son, Preisser is coaching wealthy families on how to prepare their younger generations to hang onto family businesses or manage assets for purposes they can agree upon. His book, *Preparing Heirs* (Robert D. Reed Publishers, 2003), written with business partner Roy Williams of the Williams Group of Stockton, Calif., estimates that about a third of families maintain control of their wealth through the second generation—whether in a family-owned company, more diverse investments, or philanthropy. Perhaps only a third of those maintain control through the third generation.

Carefully conducted studies are few and far between because data on family involvement is scarce, but those studies that do exist seem to suggest that well over half of family business assets do not stay under family control through a second generation. *Continued on page 20*

Alumni Books

Business School alumni/ae write about everything from business to romance, soccer, and murder. Here are some of their recently published books. For more alumni authors, click on alumni from the School's website at www.gsb.stanford.edu



Active Investment Management: Finding and Harnessing Investment Skill

Charles Jackson, MBA '78

John Wiley & Sons, 2003

Jackson describes active investment management and why investors find it desirable.

He analyzes investment and business strategies that he says will shape future fund management.

The Board: Behind Closed Doors with the Directors of DFP, Inc.

James R. Ukropina, MBA '61 1stBooks Library, 2003
Drawing on his legal and corporate background, Ukropina writes about what goes on inside the boardroom in a fictionalized account of corporate life at a global food conglomerate.

Business Euphoria: Powering Relational Organizations with Gangs, Gall, and Gossip

Duncan Robins, MBA '93 Xlibris, 2003

Robins describes relational management as a way to make organizations entrepreneurial, flexible, and creative and advises on tapping social energy to build economic and social value.

Cuckoo

Avner Mandelman, MBA '76 Oberon Press, 2003

The cuckoo is a bird that lays its eggs in other birds' nests. Most of the stories in this collection take place in Israel, where for generations occupants have disputed who is the rightful owner and who is the cuckoo.

Do No Evil: Ethics with Applications to Economic Theory and Business

Michael E. Berumen, SEP '91 *iUniverse*, 2003
Berumen addresses business issues through a discussion of moral philosophy. Topics include moral relativism, social contract theory, capitalism,



Don't Come Back!

Reiko and Robert Elliott, SEP '84
National Pacific Press, 2003
The true story of a Japanese
woman who takes the unusual
step in the 1970s of leaving her
famous family to start a new life
and a career as an artist with a
foreign husband in New Zealand.

The Double-Goal Coach: Positive Coaching Tools for Honoring the Game and Developing Winners in Sports and Life

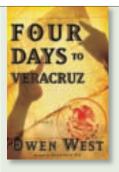
Jim Thompson, MBA '86

HarperResource, 2003

Teaching tools and strategies for youth sports that reflect the best practices of elite coaches and the latest research in sports psychology. Framework for parents and coaches to teach young athletes life lessons while they enjoy sports.

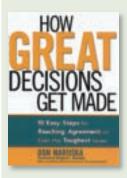
Engineering Your Start Up: A Guide for the High-Tech Entrepreneur

James A. Swanson, JD/MBA '74, and Michael L. Baird *Professional Publications*, 2003 Founders of Los Altos Incubator offer insider advice on launching a startup in this completely revised second edition.



Four Days to Veracruz

Owen West, MBA '98
Simon & Schuster, 2003
West's second novel featuring
Marine Darren Phillips, who this
time runs afoul of a drug lord
while honeymooning in Mexico.



How Great Decisions Get Made: 10 Easy Steps for Reaching Agreement on Even the Toughest Issues

Don Maruska, MBA '80 Amacom, 2003

Ten-step process and six strategies show how to bring out the best in people, so that the process of decision making cements groups together rather than pulling them apart.

How Ronald Reagan Changed My Life

Peter Robinson, MBA '90 Regan Books, 2003

Drawing on journal entries from his days as a speechwriter in the Reagan White House, Robinson offers 10 life lessons he learned from the 40th president.

Kepler's Conjecture: How Some of the Greatest Minds in History Helped Solve One of the Oldest Math Problems in the World

George G. Szpiro, MBA '75 John Wiley & Sons, 2003

According to famed astronomer Johannes Kepler, the most efficient way to pack spheres is to follow the example of grocers stacking melons—but where's the proof? A popular account of the solution to one of the great problems of mathematics.

My Dog Ate My Retirement Plan: How to Find an Extra \$1,000 a Month When You Retire

Geofrey J. Greenleaf, MBA '68, and Robert G. Allen *Greenleaf Book Group*, 2003 Founder and principal of an investment management firm, Greenleaf suggests ways to invest that do not rely on the stock market's ups and downs.



The New Business Road Test: What Entrepreneurs and Executives Should Do Before Writing a Business Plan

John W. Mullins, MBA '69 FT Prentice Hall. 2003

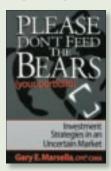
Building on lessons learned by studying entrepreneurs, Mullins describes seven domains for the assessment of new business ideas.

No Margin, No Mission: Health Care Organizations and the Quest for Ethical Excellence

Steven D. Pearson; James E. Sabin, SEP '83; and Ezekiel J. Emanuel Oxford University Press, 2003
Physician-ethicist authors analyze the ethical challenges facing health care organizations as they compete for marketplace survival. They include real-world examples of practices they consider exemplary.

Please Don't Feed the Bears (Your Portfolio): Investment Strategies in an Uncertain Market

Gary E. Marsella, MBA '57 Poppy Lane Publishing, 2003 Introduction to the complex world of investing, with a chapter on special situations.



The Publishing Industry in China

Robert E. Baensch, SEP '80 Transaction Publishers, 2003 Critical analysis of present conditions and future trends in China's book, magazine, and online publishing industry.

The Pureed Gourmet

Henry, MBA '91, and Jane Evans Scott Publishing, 2003

Forced to eat all his meals pureed after a massive brain-stem stroke left him with an eating disorder and quadriplegic paralysis, Henry Evans coauthored this cookbook by typing through an eye-tracking device. With a joke on every facing page, the book is for anyone who likes to eat—most recipes are also good when not pureed—and laugh.



Purple Cow: Transform Your Business by Being Remarkable

Seth Godin, MBA '84 *Portfolio*, 2003

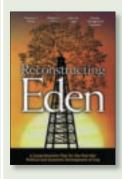
Godin describes how to win consumers by drawing attention away from the brown cow "business as usual" with attention-getting products or services that are as remarkable as a purple cow in a herd of Guernseys.

Reconstructing Eden: A Comprehensive Plan for the Post-War Political and Economic Development of Iraq

Thomas E. White; Robert C. Kelly; John M. Cape, MBA '91; and Denise Youngblood-Coleman

Youngblood-Coleman Country Watch, 2003

Former Secretary of the Army Thomas White and three others offer a detailed review of the events leading up to Operation Iraqi Freedom and the objectives associated with successful nation building in Iraq. Cape writes about Iraq's natural oil and gas resources.



Setting Limits Fairly: Can We Learn to Share Medical Resources?

Norman Daniels and James E. Sabin, SEP '83 Oxford University Press, 2002 Discussion of the lack of consensus on how to allocate health care resources. Proposes a set of principles to create fair decision-making processes for setting limits on health care.

Upward Bound: Nine Original Accounts of How Business Leaders Reached Their Summits

Jerry Useem; Paul Ansel, MBA '91; and Michael Useem

Crown Business, 2003

Collection of essays that discuss business lessons learned from mountain climbing. Contributors include Jim Collins, MBA '83.



Us v. Them: Journeys to the World's Greatest Football Derbies

Giles Goodhead, MBA '87
Penguin Books, 2003

Soccer fanatic travels around the world to experience the sport's famous grudge matches. Less an analysis of the games than a commentary on tribalism around the globe.

STANFORD BUSINESS MAY 2004

A study of 200 Illinois manufacturing businesses by John L. Ward, MBA '69/PHD '73, a professor at the Kellogg School of Management and at IMD in Lausanne, Switzerland, found that only 13 percent of firms were still owned by the same family in 1984 that owned the firm in 1924. Ward is the author of *Perpetuating the Family Business* (Palgrave Macmillan Publishers, 2004). A *Business Week* study last year found a third of current S&P 500 companies had members of founding families still on the scene. The vast majority, however, were young companies still in the hands of the founding generation.

Clearly, some founders or their heirs choose to cash out. Preisser and Williams prepare heirs to manage wealth and avoid involuntary loss of control of inherited assets. Based on Williams' interviews with 3,250 wealthy individuals over four decades, the authors say that estate planners generally provide reliable guidance on tax, wealth

The Morgans' openness with their children contrasts with the experience of many of the heirs interviewed by Williams, who told him they learned of their roles when a parent's lawyer read the will.

preservation, and governance. The most common reason for failure is poor family communication, including misinformed gossip and anger, and loss of trust. Take, for example, the case of the Pritzker family of the Hyatt hotel chain. A teenage daughter is suing her father and other relatives for more than \$1 billion. "Large power differentials in wealthy families make open communication less likely to happen," Preisser says, and "trust can only be built through demonstrated sincerity, reliability, and competency."

"Almost inevitably, when we start working with a family, we ask the adult children if they know how much their parents earn, and they answer no," Preisser says. "You ask the parent when he or she plans to disclose the inheritance plan to the heirs, and the reply will be 'when they're ready.' That is too indefinite. The kids embark on their own plans."

Preisser and Williams say they have discovered that children need to invest sweat equity to be competent to manage



BECKY MORGAN, MBA '78

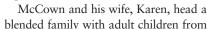
all or part of the family business, charitable foundation, or large amounts of capital. Some families develop a mission for the family wealth, along with a strategy, structure, and roles to accomplish it. They develop standards, such as successful work experience outside the family, as preparation for specific roles. "We came to an agreement that our children would have to work, and until they got their careers established, we just gave them birthday and Christmas presents," says Becky Morgan, MBA '78. Morgan, a former California state senator, is currently president of the Morgan Family Foundation. Her husband, Jim, is chairman of Applied Materials. During the 1990s, the Morgans established trusts for their children and began including them in foundation decisions. With their two children, the children's spouses, and coaches from the Williams Group, they met for nine weekends over three years. They worked out a mission for the family wealth and for the foundation and even how long each wanted to be kept alive if comatose.

"Not everybody includes children's spouses, but I really believe it provided us with ways to understand each other more deeply," Morgan says. "Our children's personalities, their spouses, and careers are so different that I think it also strengthened their understanding and love for each other." Morgan's daughter, Mary, is a medical doctor, and her son, Jeff, Sloan '98, is a former software marketer who started the Global Heritage Fund, a nonprofit to preserve and protect humankind's most important archaeological and cultural heritage sites.

The six adults and five grandchildren now share fun times like ski trips, but the adults also meet as the board of the Morgan Family Foundation to make grants focused on youth, education, and the environment and programs that strengthen community through collaboration and/or development of nonprofit leadership. The Morgans' openness with their children contrasts with the experience of

many of the heirs interviewed by Williams, who said they learned of their roles when a parent's lawyer read the will.

Nepotism is an uncomfortable issue within some families. George McCown, a 1957 Stanford engineering graduate who cofounded the investment company McCown De Leeuw & Co. 20 years ago, said he and his partner began with the agreement that they would not involve family members in any permanent positions at the firm. Their children could work temporary jobs at the company as they were growing up, but not permanently. "I've seen the hiring of family really hurt companies because the nonfamily members don't know where they stand," says McCown. "It makes it harder to hire top talent from the outside."



VICTOR PREISSER, MBA '64

their first marriages. They chose the Williams Group to facilitate family meetings with six adult children, and their spouses, on objectives for the family's money. Says Karen McCown: "If you can talk about money and your values for using it, you can talk about the most important and highly charged concerns. For example, there were issues of equality versus fairness that we had to deal with. If someone is handicapped in a certain way, that person might require more. It isn't always comfortable, but the issues are there whether you talk about them or not." George McCown agrees and adds that the sessions forced them both to think more deeply about goals for their wealth and their children, and helped those children in turn begin thinking at an earlier age about their own goals for their families.

Building trust in wealthy families can be more difficult than building trust on executive teams, says Peter Yaholkovsky. A graduate of Stanford and the University of California, Davis, he gave up a medical practice to consult with the Williams Group and with the Layne Group of Larkspur, Calif., on communication skills. In families, he says, "children change as they mature, but the older generation may tend to treat them as though they were still the same. If a parent is too much of a jerk in this way, in most families the kids will simply leave at some point. But when hundreds of millions of dollars are in the game, the parent has so much relative power that the children are stuck and afraid to speak up."

In their book, Williams and Preisser tell of a 30-year-old heir who showed up late for family meetings and appeared not to have bathed

20

for some time. He had not held a steady job since college, and family members referred to him as "the loser." The heir had no interest in the family business but blossomed when given a role in the family foundation. He cleaned himself up, became foundation president, and ran 5K races, to the others' great surprise.

Some children want to start their own companies. "The pace of change and competitiveness is accelerating, so families may be more likely to convert a business to more liquid assets to allow the next generation to take advantage of emerging opportunities," says Preisser, whose son has taken their water desalination company in a different direction than he had taken it.

David Joslin understands the fear of failing to live up to the past generation's heroics. His father was a cable entrepreneur in the '60s who made a lot of money and then made more as an executive in cable programming. "It is generally assumed that each generation picks up where their parents left off and advances the puck in terms of upward social and economic mobility," says the younger Joslin. But in instances where parents have been enormously successful, "the equation changes from defining success in terms of wealth accumulation to one centered on culture and exposure."

The transition is difficult, he adds, partly because "so much of the focus is on wealth preservation and not the maturity that must accompany its management." A Duke University graduate, he has lived in several countries, learned languages, and worked on Wall Street because those were things his father had no opportunity to do.

In coaching sessions with the Williams Group, Joslin's parents decided to give a substantial sum to each of their three 20-something children. "I don't know what the formula was, but we were given an amount large enough to do something positive with or to screw up with, so that when we get the lion's share later, we are not making the same dumb decisions with more zeros on the end," he says. "We also set it up so that the inheritance is far enough in the future that we have to work today."

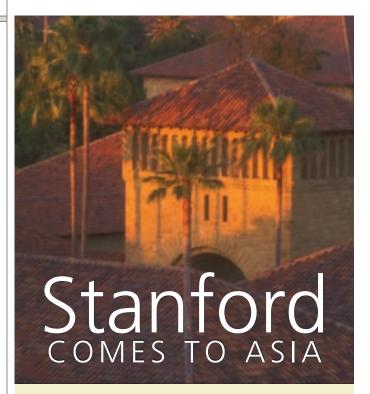
At 33, Joslin is happily working long hours on three medical technology–related startups, two of them in Puerto Rico and one in the United States. He drives a used car, pays himself a five-figure salary, which is what he feels those companies can bear for now, and says he has very little in common with young inheritors who don't work for a living. The family coaching, he adds, helps him communicate better in business across roles and cultures.

"If these companies work, I will have made a lot of my own money not as much as my father perhaps, but I've done things he wasn't able to do. These experiences were made possible by his hard work and I believe are at the core of his true legacy to us as children."

When families work on a transition plan with coaches, they often commit more resources to philanthropy or at least think harder about their community goals, Preisser says. Philanthropy becomes natural to the discussion, Yaholkovsky adds, because "in the end you still have to come to terms with the temporal nature of life."

None of Preisser's name-brand GSB classmates were the failures they feared they would be, he says. "For the most part, they have matured marvelously but at a high price." Today's wealthy offspring might have an easier transition, he says. "Their families seem a little more aware of the need for balance in their relationships."

Based on the book Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values, by Victor Preisser, MBA '64, and Roy Williams [thewilliamsgroup.org], published by Robert D. Reed Publishers. Also mentioned is the book, Perpetuating the Family Business, by John L. Ward, MBA '69/PHD '73, published by Palgrave McMillan Publishers.



Beijing, May 25, 2004 Shanghai, May 28, 2004 Singapore, May 31, 2004

EXECUTIVE FORUMS:BEIJING AND SINGAPORE

Achieving AAA Supply Chain Performance: Agility, Adaptability, and Alignment Featuring Hau L. Lee, Thoma Professor Graduate School of Business

STANFORD INTERNATIONAL CONFERENCE: SHANGHAI

President John Hennessy, Stanford University Professor Hau L. Lee and two additional world-renowned Stanford faculty presenters

https://alumni.gsb.stanford.edu/events/execforums

STANFORD UNIVERSITY



faculty news

Kreps Authors Microeconomics for Managers

O MANY FORMER students of microeconomics, the subject is mostly about "supply equals demand," the model of a large and impersonal market in which many anonymous buyers and sellers interact, trading some commodity item. While substantial portions of the economic world approximate that ideal, even more of it consists of cases "like Microsoft dealing with Intel or like Boeing dealing with Airbus and at the same time dealing with the people who

A new textbook by David Kreps illustrates frameworks and theories with real-world business examples.

make airplane engines," says **David Kreps**, the author of the new textbook *Microeconomics for Managers*, published by W. W. Norton & Co.

Written for MBA students, this text covers the traditional topics but is equally about "economics where people have identities and where identities and relationships matter," says Kreps, the Theodore J. Kreps Professor of Economics and a senior associate dean at the Business School.

Microeconomics expanded beyond "supply equals demand" about 30 years ago in response to two intellectual developments, he says. "In the early 1970s, [GSB professor, and later dean] **Mike Spence** and other people started studying information economics. Simultaneously, [GSB professor] **Bob Wilson** and others began applying noncooperative

game theory to economic issues," recalls Kreps. "It was a match made in heaven: Game theory gave us the right language to discuss issues like cooperation, reputation, proprietary information—about anything that had to do with identity."

Stanford Business School alumni from 1980 to 1990 probably remember topics such as incentives and signaling entering into the old B261 decision trees course. About 1990, these topics were moved to the introductory micro course and then reappeared

in courses in strategic and human resource management and many others. Today, these ideas are woven into much of the MBA curriculum, and the new textbook gives them the prominence they have earned.

Kreps credits his Stanford MBA students with pushing him to apply recent Nobel Prize—winning theories to the practical world of real businesses in both class discussions and the book. In the required economics course for first-year students, he writes in the book's preface, the typical student is highly skilled analytically, but "the group ethic is that ideas that do not pay back in the first five months on the job are suspect, and those that mightn't pay back in the first five years are a complete waste of time."

MBA students learn by analogy and example, he says, rather than by absorbing abstract theory. "Ask MBAS what they know about implicit collusion with noisy observables, and the response is likely to be, 'Huh?' But when asked what they learned about any given industry from the GE-Westinghouse case, they will give a sophisticated and nuanced answer."

The book, therefore, tries to motivate and illustrate the frameworks and theories it presents with real-world examples: from General Motors trying to settle a class-action lawsuit with coupons to Porsche trying to reorganize how its cars are retailed in the United States to an explanation for how and why Toyota increases the power of its suppliers.

Kreps may be the perfect economist to write such a book. He won the School's Dis-

tinguished Teaching Award in 1991, the first year he taught microeconomics and imported these ideas into the core course. He is among the economists who, in the early '80s, helped marry game theory to information economics, but at the same time he has been critical of how these ideas have sometimes been used. "These theories can be very useful," he says, "but managers need to exercise honest skepticism, bringing other inputs to bear. Managers have to see where the question really lies, whether it is mostly a matter of economics or if noneconomic forces play an important role, and they have to integrate what economics tells them with what other frameworks say. That's where judgment comes in. People pay Stanford MBAs good money not to just be rote appliers of tools but to have the ability to sort through and judge the usefulness of various types of theories."

David Brady, the Bowen H. and Janice Arthur McCoy Professor of Political Science and Leadership Values, has become deputy director of Stanford's Hoover Institution. A faculty member since 1987, Brady joined the Hoover Institution as a senior fellow in 1989 and was appointed associate director in 2002. He is also a professor in the department of political science.

Brady, 63, has served in numerous administrative roles on campus, including four years as associate dean for academic affairs in the Business School, where he was director of executive education. Brady also has codirected the Social Science History Institute and served as associate vice provost for communication in the Provost's Office. He directs the Stanford Public Policy Program.

Jack McDonald, the IBJ Professor of Finance, is known internationally for his work on investment in the context of global equity markets, but he is known at the Business School also for having taught the longest running course—*Investment*—for 36 years. One of his former students is Dean Robert loss

Knowing McDonald's long history and loyal following among alums, a student writer for the *Reporter* newspaper thought it would be interesting to test the professor's

faculty publications

ACCOUNTING

Leading Indicator Variables, Performance Measurement, and Long-Term Versus Short-Term Contracts

Sunil Dutta and Stefan Reichelstein Journal of Accounting Research (Vol. 41, No. 5), DECEMBER 2003

ECONOMICS

Recall Bias Among Displaced Workers

Paul Oyer

Economics Letters (Vol. 82, No. 3)
MARCH 2004

Tacit Collusion in Repeated Auctions
Andrzej Skrzypacz and
Hugo Hopenhayn

Journal of Economic Theory (Vol. 114, No. 1), JANUARY 2004

Computing Nash Equilibria by Iterated Polymatrix Approximation

Srihari Govindan and Robert Wilson Journal of Economic Dynamics and Control (Vol. 28, No. 7) APRIL 2004

ECONOMICS OF EDUCATION

Federal Contributions to High-Income School Districts: The Use of Tax Deductions for Funding K–12 Education

Susanna Loeb and Miguel Socias Economics of Education Review (Vol. 23, No. 1), FEBRUARY 2004

ECONOMICS OF HEALTH CARE

The Rise and Fall of a Kaiser Permanente Expansion Region Daniel P. Gitterman, Bryan J. Weiner, Marisa Elena Domino, Aaron N. McKethan, and Alain C. Enthoven Milbank Quarterly (Vol. 81, No. 4) DECEMBER 2003

Advance Directives and Medical Treatment at the End of Life

Daniel Kessler and Mark McClellan Journal of Health Economics (Vol. 23, No. 1), JANUARY 2004

Insurer-Hospital Bargaining: Negotiated Discounts in Post-Deregulation Connecticut

Alan Sorensen

Journal of Industrial Economics (Vol. 51, No. 4), DECEMBER 2003

FINANCE

Large Portfolio Losses
Amir Dembo, Jean-Dominique
Deuschel, and Darrell Duffie
Finance and Stochastics (Vol. 8, No. 1)

The Value of Trading Consolidation: Evidence from the Exercise of Warrants

Yakov Amihud, Beni Lauterbach, and Haim Mendelson

Journal of Financial and Quantitative Analysis (Vol. 38, No. 4) DECEMBER 2003 Who Cares About Shareholders? Arbitrage-Proofing Mutual Funds Eric Zitzewitz

Journal of Law, Economics, and Organization (Vol. 19, No. 2) OCTOBER 2003

MARKETING

The Idiosyncratic Fit Heuristic: Effort Advantage as a Determinant of Consumer Response to Loyalty Programs

Ran Kivetz and Itamar Simonson Journal of Marketing Research (Vol. 40, No. 4), NOVEMBER 2003

Scripts and Reference Points as Determinants of Transaction Outcome Evaluations

S. Christian Wheeler Advances in Consumer Resear

Advances in Consumer Research (Vol. 30), 2003

OPERATIONS MANAGEMENT

Diffusion of Innovations
Under Supply Constraints
Sunil Kumar and
Jayashankar M. Swaminathan
Operations Research (Vol. 51, No. 6)
NOVEMBER/DECEMBER 2003

Optimal Policies and Approximations for a Serial Multiechelon Inventory System with Time-Correlated Demand Dong Lingxiu and Hau L. Lee

Operations Research (Vol. 51, No. 6)
NOVEMBER/DECEMBER 2003

An Inverse-Optimization-Based Auction Mechanism to Support a Multiattribute RFQ Process Damian Beil and Lawrence M. Wein Management Science (Vol. 49, No. 11) NOVEMBER 2003

ORGANIZATIONAL BEHAVIOR

Good Reasons Sell: Reason-Based Choice Among Group and Individual Investors in the Stock Market

Brad M. Barber, Chip Heath, and Terrance Odean

Management Science (Vol. 49, No. 12)
DECEMBER 2003

More Trouble Than They're Worth Robert I. Sutton
Harvard Business Review (Vol. 82,

No. 2), FEBRUARY 2004

Assimilation for Affiliation and Contrast for Control:
Complementary Self-Construals

Larissa Tiedens and Maria Jimenez Journal of Personality and Social Psychology (Vol. 85, No. 6) DECEMBER 2003

POLITICAL ECONOMY

Legacies of American Slavery: Status Attainment Among Southern Blacks After Emancipation

Martin Ruef and B. Fletcher Social Forces (Vol. 82, No. 2) DECEMBER 2003

memory and favoritism by asking him to reveal which year of his teaching was most memorable. Never at a loss for words, McDonald turned the question into an opportunity to give his investment philosophy: "There are always up markets and down markets. The most important year is always the current year—it is important to be 'in the moment."

THE LURE OF A QUALITY EDUCATION at a prestigious American or European university holds the same attraction for students from the developing world as the bright lights of the city did for an earlier generation of farm boys and girls—and is just as hard to curb, **Robert L. Joss,** dean of the Stanford Graduate School of Business, said during a session at the World Economic Forum held in Switzerland in January.

Rather than lose the talents of their best and brightest, Joss said, countries can attract graduates who matriculate overseas back to their homelands if job opportunities exist. This can be true even in countries suffering from severe economic mismanagement, if companies doing business there are offering attractive packages.

Joss and Dean Emeritus Michael Spence were among the business, education, and political leaders from 94 countries who took part in the annual meeting in Davos, Switzerland.

Joss made the comments during a panel discussion titled "Are Universities Responsible for the Brain Drain?" Also on the panel was **Howard Davies**, Sloan, '80, director of the London School of Economics. Joss also participated in a panel discussing "Investing in Innovation."

Spence was part of a panel discussing what many see as a turning point in employment patterns: the transfer of jobs offshore not simply to reduce costs but also to gain a foothold in markets of other countries. He also moderated a discussion of overhauling supply chains to reduce costs.

In addition, Joss hosted an alumni reception for those involved in the five-day conference.

Toward a 21st Century Health System is a collection of analyses that explore a key element of the health care delivery systemphysician group practices. Edited by Business School professor emeritus Alain Enthoven and Laura Tollen, essays are written by a blue ribbon panel of health policy scholars and leaders including Stephen Shortell, Hal Luft, Donald Berwick, James Robinson, and Helen Darling. The book is published in 2004 by Jossey-Bass.

Topics include organized delivery systems; quality of care in prepaid group practice vs. other types of managed care; the role of physician leadership and culture in group practice; prepaid group practice and the formation of national health policy; pharmacy benefits management; technology assessment; health services research; and employer purchasing of benefits.

Enthoven is the Marriner S. Eccles Professor of Public and Private Management, Emeritus, and a senior fellow of the Center for Health Policy at Stanford. He was an architect of the managed competition model of health reform.

Tollen is senior policy consultant for the Kaiser Permanente Institute for Health Policy and works on issues related to insurance market structure and function.

STANFORD BUSINESS MAY 2004

Grove Offers Sobering View of American Dream

The chairman of Intel challenges the School to help put rungs back in the ladder of upward mobility for American workers.



NDY GROVE HAS CHALLENGED the Business School to take a leading role in putting some missing rungs back in the ladder leading to the American Dream.

The chairman of Intel recalled a chance meeting recently with a woman named Polly who had been a technician at Intel in its early days. "She said, 'I want you to meet my daughter. She's a school counselor and has a PHD in psychology. Intel put her through school,'" Grove recalled. Then she added, "Intel also put her son through school. He's an engineer."

Later, Grove said, "I had this image of the American Dream being a ladder, a ladder where Polly starts as a technician at Intel and two generations of accomplished professional people are the result of her work and her opportunity to do a fairly significant job for a start up company. The problem is that a rung or two are being taken out of that ladder, and the generational climb is going to be interrupted."

When Grove, a Business School lecturer, and management professor Robert Burgelman teach the MBA elective Strategy and Action in the Information Processing Industry, they describe the strategic inflection point, a critical period of huge changes in one or more forces guiding an industry. These periods create tremendous opportunities but also threats to companies that cannot change or are too slow in recognizing the need for change.

Today, businesses are faced with "the mother of all strategic inflection points," Grove told the audience at the Business School's February dinner honoring him with the Andy Grove (right) chairman of Intel Corp., was honored with the 2004 Arbuckle Award. He and Professor Robert Burgelman, the Edmund W. Littlefield Professor of Management, developed and teach an MBA elective.

2004 Arbuckle Award. The inflection, he said, is being caused by the advent of global networks allowing demand for intellectual work to flow out of the United States to countries like India with well-educated workforces. This comes at a time when industry is struggling with self-created internal threats, such as the recent wave of corporate criminal conduct and of governance issues, that hamper its ability to survive. "The key task of governance is to apportion the responsibility for and management of the company, distinguishing the corporation from the personal fiefdom or piggy bank of its managers," said Grove.

However, he said the most serious problem facing American business is its value system. Strong corporate cultures develop strong control mechanisms with less need to supervise and develop policies for every situation.

"There is an assumption that our business culture and values got worse because of the bubble," said Grove, who with Burgelman has taught his Business School course through two business cycles, the Internet boom and the following bust. "But I really wonder if that's true."

Society's expectations of business have gotten tougher and more discriminating, he said, but the nation is not responding well to these demands. "We all know that in the absence of strong corporate cultures, companies turn bureaucratic; our business mechanisms, roles, infrastructures become ossified and less competent. Today, this is happening at the very time we as a business society face the strongest competition yet from a lean, hungry, well-educated workforce well served by a modern infrastructure.

"I can only describe this as the perfect storm. Coping with the storm requires doing what is necessary for the rungs to be there and for the American Dream to continue.

"At Intel, we see five stages for dealing with a new problem: First, you ignore its existence; second is denial; third, you blame others for it; fourth, you assume responsibility for it; and fifth—a solution is coming. I think it is safe to say we are past the ignore stage and are straddling the deny and blame others stages. It is mandatory for us to figure out ways to assume responsibility and look for solutions.

"What could be a better mission for the Stanford Business School, in association with Stanford Law School, Engineering School, the Hoover Institution, etc., than a unifying mission to move us to stage five and lead the way to an intellectual prescription for putting rungs back in the ladder of the American Dream?"

24

The Value of Health vs. The Cost of Medicine

Congress struck the proper balance in regulating competition between developers of new treatments and manufacturers of older medicines, argues Pfizer CEO.

ECENTLY, Stanford Business published an article summarizing a paper, "The Gaming of Pharmaceutical Patents," by Professor Jeremy Bulow [November 2003]. I have great respect for Professor Bulow's work, but I regret the emphasis of this article on "patent gaming" and the near-singular focus, here and in the public debate generally, on the cost of medicines. The far more critical societal concerns would be the cost of disease and the value of health. Economists at the University of Chicago estimate that Americans could gain \$10 trillion in economic benefits from a 10 percent reduction in death rates from cancer and cardiovascular disease. Research-focused pharmaceutical companies are our best hope for providing the new treatments that will reduce death rates from these and other diseases.

A Federal Trade Commission (FTC) study of the results of the Hatch-Waxman Act of 1984 serves as the basis for Professor Bulow's analysis. The law was intended to regulate pharmaceutical companies to maximize consumer welfare. While Bulow points to a few examples of what he sees as manipulation of the legal details, the overall conclusion of the study indicates that the law has been one of the most successful commercial regulations ever. The study finds that of the more than 8,000 applications to sell generic medicines that came before the Food and Drug Administration from 1984 to 2001, 94 percent were not subject to challenge by patent holders. Of those that were challenged, only a small fraction raised concerns with the FTC. Furthermore, when the act was passed in 1984, only 19 percent of all prescriptions in this country were filled with generic medicines. Today, generics account for 60 percent.

Hatch-Waxman has transformed the medicines marketplace. Virtually every innovative pharmaceutical company can expect to face vigorous generic competition upon the expiration of its patent. This was not the case before passage of the act. In the United States today, unlike in many developed countries, when generic entry follows patent expiration, sales of the branded product experience deep erosion almost immediately, and competition among generics drives prices down aggressively.

But the price of medicines isn't the only value that matters in fighting illness. The role that new medicines play in increasing good health is critical, too. Consumers benefit from lower product prices, but they also benefit from the existence of those products in the first place. Ignoring the gains in consumer well-being from the discovery of new medicines and focusing solely on cost is to fight the battle on price and lose the war on disease and continued innovation. Clearly, this is the wrong policy prescription.

While innovator companies often spend a large fraction

of a new product's patent life conducting safety and efficacy research prior to gaining marketing approval, generic companies are required to do no such research. The act grants a 180-day period of market exclusivity to the first generic manufacturer to successfully challenge the patent on a medicine, a powerful financial incentive. Increasingly, generic companies are filing drug approval applications well before patent expiration in a quest to achieve the exclusivity. Today, virtually every one of Pfizer's basic composition-of-matter patents that cover our innovative products is under challenge by a generic company seeking to gain the exclusivity. Litigation is a central business strategy for many generic companies, with such companies hoping to hit the jackpot with a court ruling invalidating a patent fairly earned.

To be sure, there is a need for a healthy generics industry. By the same token, there is also a need for a healthy research-based industry. From where else will we derive most new medicines? This is not an us-versus-them situation. Generics are by definition older drugs, and in those situations where an older therapy is appropriate, they fill an important role. However, there is no such thing as a "generic breakthrough" medicine. Only innovator companies will provide the new cures and treatments that will address the staggering cost of untreated disease here and abroad.

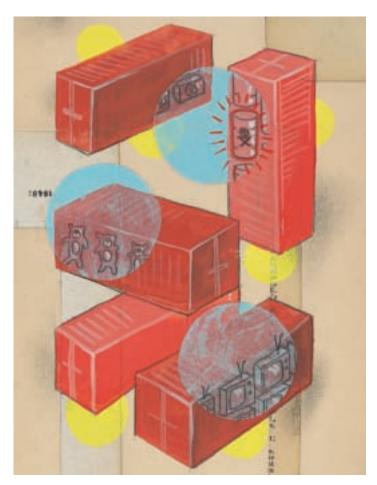
Interestingly, Professor Bulow makes the point that, "with the possible exception of computers, the pharmaceutical industry has contributed more to human welfare in the past 50 years than any other." That's a great point. It is even more accurate if we drop the first six words.

Hank McKinnell is chairman and CEO of Pfizer Inc. and is a member of the School's Advisory Council.



LEIGH WELLS

New Improvements for Supply Chain Safety



VERY BUSINESS DAY, 17,000 truck-sized containers, each loaded with as much as 30 tons of cargo, flood into American ports. Carrying everything from rebuilt automobile transmissions to electronic components and perfume, they are at the very heart of global commerce.

Since Sept. 11, 2001, national security officials and shipping industry leaders have been wrestling with the enormous threat to security those containers pose. "Every container destined to enter or pass through the United States should be treated as a weapon of mass destruction," Rob Quartel, CEO of FreightDesk Technologies, said last year to the Senate Subcommittee on Technology, Terrorism, and Government Information.

The Brookings Institution estimated recently that U.S. customs officials inspect only 2 percent of arriving containers, and there have been calls to double or even triple that number. But researchers at the Business School say that simply ratcheting up traditional security measures at American ports would be expensive, harmful to the economy, and, worst of all, not very effective.

What makes increased container-by-container inspec-

tions so expensive?

Not only would the additional labor add cost to the final product, but also increased inspections likely would cause delays, thus lengthening the time it takes goods to get to market. Since the length of the delays would be hard to estimate, companies dependent upon just-in-time manufacturing practices would have to carry more inventory (itself an expense) to be certain that products or materials are on hand when needed.

Professors Hau L. Lee and Seungjin Whang suggest a radically different model, patterned after the Six Sigma quality-improvement program pioneered by Motorola and later adopted by thousands of corporations around the world. Six Sigma programs changed the quality-control process that had focused on finding defective goods via inspection after they were manufactured. The new process concentrated on modifying product design and adopting new procedures to catch sub-quality goods sooner and reduce the overall number of defects.

Rather than attempting to find dangerous cargo at the point of entry into a country, Lee and Whang would shift the emphasis to the ports where containers are loaded onto ships, and to factories and distribution centers where containers are filled with goods. The result, they say, is greater security and a more efficient supply chain.

"In manufacturing, the way to eliminate inspections is to design and build in quality from the start. For supply security, the analogy is to design and apply processes that prevent tampering with a container before and during the transportation process," the researchers wrote in a research paper. They presented a mathematical model that demonstrates the value of proactive port security and compares the costs to a major Silicon Valley electronics manufacturer if the government decides to inspect twice as many of the company's containers to the cost of proactive inspection. The company, which asked not to be identified, could save approximately \$1,000 on each of the 4,300 containers it ships each year (a total of \$4.3 million) while making its supply chain significantly more secure.

The government is already experimenting with methods to reduce what the researchers call "brute force" inspections. They include:

- A "customs-trade partnership against terrorism" that rewards shippers and carriers that certify the use of best security practices with expedited processing at U.S. ports.
- A "container security initiative" that involves negotiating agreements with other countries for exchange of customs officers and more screening of shipments, workers, and the process of sealing containers at outbound ports.
- The "smart and secure tradelane initiative" that has three seaport operators collaborating to develop auto-

mated tracking, detection, and security technology for containers entering u.s. ports. Eventually, containers leaving the participating ports will be equipped with seals that allow you to detect tampering during transit.

People in the industry are talking about "smart containers" fitted with electronic gear capable of detecting changes in temperature or air pressure that would indicate a hole has been drilled in a container. That's important because sophisticated smugglers, and perhaps terrorists, sometimes carefully cut open a container to avoid the seal while removing (or adding) contents. Other gear would detect the presence of certain chemicals, biological elements, or radioactivity.

Existing containers can't be refitted with enough gear to make them "smart," but seals can be added to pass on security information when scanned by electronic readers, much like tolls are collected from commuters whose vehicles are equipped with electronic tags.

Lee, a member of the Council on Strategic Security, whose members are drawn from the military and private industry, says he believes the current initiatives are moving in the right direction, but he cautions that the effort will be difficult. One hurdle: Evaluating the oceans of data that better monitoring produces will require the use of sophisticated data mining technologies.

And because the research collected by Lee and Whang is based on a limited sample, Lee is now working on a much broader study at the Port of Seattle. As he learns more, Lee, who is now on sabbatical, expects to make security a larger part of the curriculum in his MBA classes at Stanford. "The links between security and the supply chain are becoming increasingly important. The subject deserves much more attention."

-BILL SNYDER

"Higher Supply Chain Security with Lower Cost: Lessons from Total Quality Management," Hau L. Lee and Seungjin Whang, GSB Research Paper #1824, October 2003. [See online magazine at http://www.gsb.stanford.edu/bmag for Web link to this paper.]

Commercial Real Estate

Take the Guesswork Out of Pricing Leases

to be worth \$5 trillion—more than the bond market—yet for most commercial landlords and tenants, figuring out the optimal terms and rates of leasing contracts is a matter of pure guesswork, says a Business School finance professor. The problem has become a critical one, particularly in markets such as San Francisco and Silicon Valley, where commercial rents have dropped 50 percent or more in recent years.

Professor Steven Grenadier has created the first model for pricing leases that takes into account real-life factors such as competition among builders and the uncertainty of demand for rental space. His model is a step toward helping any smart developer know what he or she should be charging on leases with a host of complex terms—and what any savvy tenant should be willing to pay. It also can serve to predict future rental prices in a specific market.

"Rent is often the second largest expense for companies after payroll," Grenadier says. "Yet, typically, when I ask renters whether they'd be willing to pay less for signing, say, a three-year lease instead of a five-year lease, they can't figure out what the ideal rent would be. Or, when I ask building owners how much higher a rent should be when they negotiate a lease with the right to renew, they say they're not sure. My model theoretically allows corporate tenants and landlords to figure out such things."

Real estate renting—which involves contractual arrangements such as leasing with an option to buy, preleasing, cancellation clauses, and concessions—can be broken down into the fundamental building blocks of finance, Grenadier says. "For example, pre-leasing—leasing to rent at a future time—is analogous in finance to a forward contract in which you, say, set a price today for oil that you will buy a year from now," he explains. "Or, I show that a 10-year lease with an option to cancel after 5 years is like combining a put option with a stock purchase enabling you to sell the stock at a fixed price in the future, should the stock price fall."

Describing leases in such terms allows Grenadier to apply financial options analysis. He throws game theoretical analysis into the equation, which allows him to take into account factors such as the impact of competitive real estate development and the demand for rental space. The result is a quantitative model that can spit out optimal rental figures and lease terms under a variety of realistic leasing scenarios. "The model can show, for example, that renting at \$20 a square foot along with an option to purchase the building at the end of the lease might be the equivalent of, say, renting at \$17.50 a square foot with no such option," Grenadier says.

Ideally, the model can also be used to predict the future of a given commercial rental market. If an analysis showed the majority of current leases are longer term and priced above short-term rents, it would indicate an expectation that rents will be even higher in the future.

For all its strengths, the model is difficult to implement as currently conceived. "It's hard for companies to get the necessary data on current lease values and trends, and most of the people who handle the contracts are lawyers who may not be terribly comfortable with mathematics," he says.

Creating a more user-friendly tool for managers may be a promising avenue for future research. "Lease negotiations can break down on the issue of rent, but if you can vary the terms, give more concessions, or provide an option to buy the building, you have extra leverage for working out a deal. The side that knows what the optimal terms should be will have a decided advantage."

— MARGUERITE RIGOGLIOSO

Steven R. Grenadier, "An Equilibrium Analysis of Real Estate Leases," Journal of Business, forthcoming, 2005.

Leasing to rent at a future time is analogous in finance to a forward contract in which you, say, set a price today for oil that you will buy a year from now.

STANFORD BUSINESS MAY 2004 27

LEIGH WEL

MBAs Seek Caring, Ethical Employers

HE DOWNFALL OF WORLDCOM, ENRON, and Arthur Andersen, and the public humiliation of Kenneth Lay, Dennis Kozlowski, and Richard Grasso started it. These ethical lapses caused Congress to pass the Sarbanes-Oxley Act, the New York Stock Exchange to create new corporate governance standards, and spurred major firms like the Walt Disney Company to adopt new, stringent guidelines for corporate ethics.

These events also dramatically changed the way that MBAS view their job choices.



A survey of more than 800 MBAs from II leading North American and European schools found a substantial number were willing to forgo some financial benefits to work for an organization with a better reputation for corporate social responsibility and ethics. The research was by the School's David Montgomery and Catherine Ramus of UC–Santa Barbara. "We were quite surprised by these results," said Montgomery, the GSB's Sebastian S. Kresge Professor of Marketing Strategy, Emeritus, and also dean of the School of Business at Singapore Management University.

Attempting to figure out what influences MBA job choices is not new. Researchers in the '70s and '80s used

conjoint analysis to examine the relative importance on job choice of such things as financial compensation, the geographical location of the work, the volume and extent of business travel, and opportunities for advancement. There was evidence of substantial predictive validity from these studies, indicating that conjoint analysis is an excellent tool for determining which attributes are most important in job choice decisions.

But missing from the earlier conjoint studies were attributes that the professors believed might affect MBA job choices in the 21st century. Montgomery and Ramus' most recent study explored whether a reputation for high ethical standards or caring about employees, environmental sustainability, and community stakeholders makes an organization more attractive. They also examined whether the intellectual challenge of the job is an important selection attribute.

The results were stunning: Intellectual challenge topped the list as the most important attribute for MBAs in their job choice decision. The financial package was only 80 percent as important.

A reputation for ethics and for caring about employees both rose to the top third of the list of 14 attributes, proving to be approximately 77 percent as important as the top criterion of intellectual challenge. Moreover, more than 97 percent of the MBAS in the sample said they were willing to forgo financial benefits to work for an organization with a better reputation for social responsibility and ethics.

How much were they willing to give up? On average, MBAS were willing to forgo 14 percent of their expected income.

Just as the public's expectations of corporate social responsibility have changed dramatically in the past several years—as a direct result of the Enron and World-Com debacles, among others—so, too, did MBAS' expectations. A preliminary, pre-Enron study found that 94 percent of the MBAS were willing to forgo an average of only 12 percent of their income to work for ethically and socially responsible companies—a number that grew nearly 20 percent in the 2003 final report.

What does this portend? There is a strong argument for firms to become more ethically and socially responsible in order to attract MBA candidates. MBAS want jobs where they can be intellectually challenged, but they prefer positions in organizations that demonstrate a set of socially responsible values in the way they do business.

Human resources and career experts already have been advising corporations that ethics is important to the best and brightest job hunters. Indeed, a poll of career transition and career management professionals in 26 countries found that 82 percent cite corporate leadership ethics as being of critical importance to job seekers. Ethics is fast becoming a major factor in the battle for top talent, according to a recent global survey by New York–based consulting firm DBM.

"The big surprise was that no one thought that corporate ethics was all that important" to job seekers, said Montgomery. Conventional wisdom dictated that the major incentives to join a company were financial, financial, and financial. The implications? "Everyone thinks they know that MBAs are avaricious and greedy. And while no one is claiming that they are perfect, it turns out that MBAs are willing to forgo a significant percent of their income to be more moral across a number of dimensions."

— ALICE LAPLANTE

"Corporate Social Responsibility Reputation Effects on MBA Job Choice," David Montgomery and Catherine Ramus, GSB Research Paper #1805, May, 2003.

Organizational Learning

Study Failures Too

F YOU WANT TO LEARN THE SECRETS of success, it seems perfectly reasonable to study successful people and organizations. But the research of Jerker Denrell, an assistant professor of organizational behavior, suggests that studying successes without also looking at failures tends to create a misleading—if not entirely wrong—picture of what it takes to succeed.

To illustrate this point, Denrell relates a particularly absurd example. All successful executives have at least one thing in common, he tells his Business School students: They all brush their teeth. "Obviously, that's stupid," says Denrell, and nobody would call toothbrushing a determinant of success. Yet when we seek the common denominator of successful organizations, we tend to reach similarly useless conclusions—unless we compare successes with failures.

Case in point: The well-known advice to focus on a single core business. Authors of popular business books identify many successful companies that have focused on one key product and argue that this focus caused their success. But look at Kodak and Xerox, says Denrell. Some companies that are focused on one product tend to have very poor performance over time. In focusing excessively on successes, we overlook the important fact that failing companies do many of the same things as companies that succeed.

This idea hit Denrell during a seminar on serial entrepreneurs—those who had started several companies. "The presenter argued that these entrepreneurs were unusually persistent, did not give up when facing initial failures, and were able to generate support for their projects even when most people were initially skeptical," recalls Denrell. "Hearing this, I thought that these were characteristics that were also necessary in order to fail spectacularly." After all, if a project is not a good idea, yet you stick with it and persuade others to con-

tribute resources and money, the costs of the failure will be quite large.

It's very likely, Denrell says, that firms pursuing risky strategies tend to achieve either a very high or a very low performance, while firms that pursue conservative strategies achieve an average performance. But while risk-taking can lead to either spectacular success or disastrous failure, looking only at successes will show a positive correlation between success and risk-taking.

At least half the problem, he says, is that data for failures tends to disappear. After all, companies that pursue unsuccessful strategies either go out of business or change their approach. Either way, information about the unsuccessful strategies becomes scarce, especially in comparison to the wealth of data from successful organizations. The same systematic "undersampling of failure" occurs among individuals, since organizations tend to promote high-performing managers while ousting low-performing ones. Aspiring managers trying to emulate those at the top might take the same kind of illadvised risks taken by those who never got promoted.

But if a shortage of data on unsuccessful people and organizations were the only problem, we could correct for it through statistical techniques. We don't do that, Denrell says, because of a more insidious problem: psychological biases. For example, even when we know as much about an organization that failed as we do about another that succeeded, we delude ourselves by using different language to describe essentially the same behavior. "We tend to argue that a decision with a good outcome is an indication of visionary management, while a decision with a bad outcome indicates reckless behavior," says Denrell, adding that people want explanations to be deterministic. "But the performance of any given firm is influenced by many random events beyond the control of managers."

He concedes that accepting his ideas is not enough to help us understand the true determinants of success. Among the many problems that plague this search is noisy data—too many variables to determine clear causes. And, of course, there's the randomness factor. But understanding the effect of undersampling of failure has value nonetheless, if for no other reason than to tell us what doesn't work.

These ideas are not always an easy sell. The practice of studying successes is so deeply ingrained and appeals so much to our intuition that some people at first don't see Denrell's point. He says that when he asked some "best practices" experts whether they've looked at both successes and failures, they told him, "Well, you know, we haven't looked at failures, but that's because we're interested in success!"

At least one group of people probably won't make that error in reasoning: Denrell's students. When he teaches the MBA elective *Organizational Learning*, his ideas on undersampling of failure are a major theme.

-MARINA KRAKOVSKY

"Vicarious Learning, Undersampling of Failure, and the Myths of Management," Jerker Denrell, Organizational Science, 2003, v. 14 (3).

We tend to argue that a decision with a good outcome is an indication of visionary management, while a decision with a bad outcome indicates reckless behavior.

ewsmakers

WHO'S IN THE NEWS A Roundup of Media Mentions



Careful cuts by NexTag's Purnendu Ojha, MBA '96, led to profit.

Contract to Expand

DOWN TO A FEW MONTHS cash in November 2000, the 1996 classmates who founded NexTag Inc. bit the bullet. Purnendu Ojha and Rafael Ortiz cut their staff of 55 to 16, abandoned their idea of creating an online marketplace where buyers and sellers could negotiate the price of virtually anything, and turned their attention to the part of their business that was workinga comparison shopping engine for technology products. Since then, continuous expansion of product offerings has fueled the company's growth, which allowed it to reach the top of the San Francisco Business Times' list of fastest growing privately held com-panies in 2003. Asked about the keys to their survival, Ojha attributed some of it to luck but also funding from Morgenthaler Ventures. "Having one investor gave us flexibility. It would have been much more difficult for us to change our business if we had more investors or more people on our board."

Corner Office Parity Not Likely Soon

AMERICANS WORK MORE hours than people in other industrialized countries, and American men work longer hours than women in every industry, according to the Bureau of Labor Statistics. That may be why women who have a solid education and plenty of business experience are far less likely than men to occupy the corner office suite, according to Fast Company. The magazine sought expertise from organizational behavior professors Charles O'Reilly and Edward Lazear as well as GSB alumnae Diane Brandt, MBA '78; Ann Livermore, MBA '82; and Beth Johnston, MBA '88.

Brandt and Johnston are ambitious but reached a point in their careers where wanting a family life required them to scale back career goals.

"I have not pursued promotions in the same way I might have had I not been trying to balance other things in my life," said Brandt, who left Comdisco to launch a small company, Captio Corp.

Johnston, a Chicago banker, recalled that when her son was a baby she calculated the percentage of waking hours she would spend with him. "I doubt that his father was doing the same." She later took time out to be with her son but said her brief attempt to be a "golf lady" didn't pan out.

On the other hand, Livermore, who is an executive vice president of Hewlett-Packard, said, "I don't seek balance. I want to work, work, work."

O'Reilly's studies of UC-Berkeley MBAS led him to conclude

that hard work and long hours are rewarded with promotions, and that men compete harder with longer hours. Lazear predicted 20 percent of CEOs at top companies will be women in 15 to 20 years because labor shortages will force the redesign of jobs for talented workers. As for parity with men, he said, "I don't expect it ever to be equal-ever."

Wells Fargo Nixes Frequent Trades

AS SOME MUTUAL FUNDS made headlines late last year for allowing favored investors to violate share-trading rules, Wells Fargo & Co. launched an internal investigation of its money management fund back to its start in 2001. Chairman Richard Kovacevich, MBA '67, reported to Bloomberg News that the review found 1,600 attempts by customers to frequently trade mutual fund shares in violation of the fund rules.

"We wrote 1,600 letters to people saying, 'We don't do these things, and don't ask us again," he said. According to the bank, when clients' attempts to trade frequently were detected, the bank blocked new money from going into the accounts.

Making the Grade

Jeffrey Scott, MBA '98, was named to the latest "best and brightest under 40" list of Black Enterprise magazine. Scott, 33, is managing director of Black Enterprise/Greenwich Street Corporate Growth Partners, a private equity firm with \$91 million in assets invested in minority-owned or managed companies. The former vice president of private equity at

Citigroup and analyst at Goldman Sachs is responsible for the origination, structuring, execution, and monitoring of investments in companies.

Product Born of Nonprofit Experience

AMONG THE MANY "sector hoppers" to emerge from the Business School is Susan Packard Orr, MBA '70, who joined the board of her family's Packard Foundation when she turned 21 and is now chair. Orr also founded Telosa Software, an 8-year-old for-profit company with a current staff of 20 that



Answering nonprofits' technology needs is easier for Susan Packard Orr, MBA '70, since she heads one.

makes software expressly for nonprofit organizations.

"Buying technology is a hard decision for nonprofits," Orr told the San Francisco Chronicle. "They all say, 'We need tech,' but are not necessarily focused on it. Understanding how nonprofits work helps us."

Orr enjoys writing code and says, "Software is kind of like having a baby. You work very hard for nine months, then you hear feedback from your clients. It's not ever really finished."

Savings Makeovers

FOR DECADES, WOMEN'S magazines have been offering their readers stories about makeup, hair, and wardrobe makeovers. Fortune recently borrowed the concept and offered three families 401(K) makeovers. The retirement accounts were analyzed by Financial Engines, the company founded by Nobel laureate and Business School professor emeritus Bill Sharpe. Analyses by Financial Engines are available to 3.2 million employees in some 900 companies that contract for the service. Based on the retirement accounts analyzed for the magazine, Fortune offered its readers three tips: diversify; pay attention to fees, which can be an enormous drag; and realize that boosting your contribution by \$1,000 annually will add \$31,000 to your portfolio over 20 years.

Philanthropy Pub Cites School Program

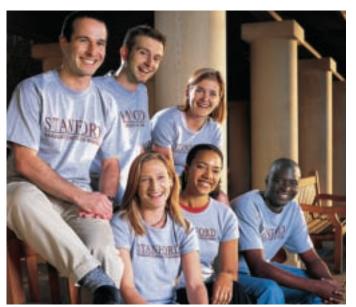
IF THE ADVANTAGES OF THE School's Public Management Program had been kept secret from philanthropists, the word is out now. PMP alumni/ae and students were featured in a spe-

cial report of the Chronicle of Philanthropy about why some people with a strong sense of social responsibility seek a business education. Citing his interest in a "double bottom line," Daniel Grossman, MBA '91, said he learned how to be effective on nonprofit boards by participating in the Board Fellows program for PMP students. After graduation, Grossman founded Wild Planet Toys, a for-profit San Francisco company, and he also sits on the boards of several children's and Jewish charities.

His classmate Jacqueline Novogratz chose to found the New York-based Acumen Fund, a nonprofit grantmaker that supports efforts to end global poverty. Among the advantages of her GSB education: "a group of peers who were focused, thoughtful, accomplished individuals, regardless of whether they went into the private sector or the public sector, who supported me then and continue to support me now."

The article notes that a quarter of GSB students earned the Public Management certificate last year and more than half of the School's MBA students participate in the program's courses, clubs, workshops, and study trips.

Members of the Public Management Program community pictured in the Chronicle of Philanthropy are: (clockwise from top left) Josh Spitzer, Jacob Harold, Rebecca Center, Jason McMillan, Amy Saxton, and Director Peggy Reid.



Technology Brings Business Home

INEXPENSIVE PERSONAL computers, fax machines, and color printers are making it easier for women to leave behind commuting and start more sophisticated home businesses, says USA Today. At the same time, technology is eliminating female entrepreneurship in the retail sector as small stores find it more difficult to compete against retail giants employing pricey mainframes. Among those featured as moving home is Liz Chavez Lynch, MBA '92. Formerly an employee of Goldman Sachs, Disney, and Time Warner, Lynch now advises client businesses on increasing revenues and profits through her New York-based firm, Consult Ad Hoc.

Secret Life of a Poet

Dana Gioia, chair of the National Endowment for the Arts, has long said he came to Stanford Business School to become a writer after he decided that a career as an English professor was not a good way for a poet to support himself. National Public Radio's Terry Gross asked the MBA '77 if it was true that for years he hid the fact that he wrote poetry from his colleagues at General Foods.

"Well, I didn't think it would do me any good in a very competitive, old-fashioned company to be known as the corporate poet," he said. "I really felt that I had to succeed in business as a businessman and to succeed in writing as a poet."

After a number of years, however, word of his dual lives reached *Esquire* magazine, where editors wanted to include him in a piece on men and women under 40 who were changing America. "I tried to convince *Esquire* not to run the article, but they said it wasn't my choice. And so at that point, I was outed."

Gioia recently was outed in another way—his opera *Tony Caruso's Final Broadcast*, written with Lehigh University music



Home-based businesses are becoming more popular for women like Liz Chavez Lynch, MBA '92.

professor Paul Salerni, was performed at Lehigh's Zoellner Arts Center. Gioia told the Allentown, Pa., *Morning Call* that the story of a failed tenor turned radio DJ was an exaggerated biography of himself and Salerni, who share working-class backgrounds.

Analyst's Approach to Selling Diamonds

Mark Vadon, MBA '97 and CEO of Blue Nile, says his online company's sales growth is due to heresy. "Everything we do is heresy." They market jewelry to men, compete on price, and offer consumer education programs.

At a time when Internet companies were failing right and left, Blue Nile became profitable and has stayed that way, according to *E-Commerce Times*, with annual revenues well over \$100 million.

A former Bain consultant, Vadon told the publication he got into the jewelry business in 1999 because a jeweler tried to get him to buy a \$12,000 diamond engagement ring by selecting the one that "spoke" to him. He went home, switched on his computer, and scoured the Internet for help. That led to a partnership with a Seattle diamond wholesaler who understood diamonds but was "blown away" by Vadon's intricate matrices for comparing diamond characteristics and even more so by his ability to raise \$57 million from venture capitalists.

LOOK BACK



THE STANFORD BUSINESS SCHOOL ALUMNI ASSOCIATION continues the life-changing GSB experience by connecting alumni with the extended GSB community and creating meaningful programs and services designed for changing personal and professional needs. Lifelong Learning you never have to leave the GSB.

> DYNAMIC CONNECTIONS

FACE TO FACE

Class Reunions, Alumni Weekend, Chapter Programs, International Executive Forums and Conferences, Student/Alumni Mentoring and Networking, Alumni Consulting Team (ACT), Volunteer Opportunities

VIRTUAL

Alumni Directory, Mail Groups, Webmail, Library Research Databases, Web Faculty Seminars, Alumni Web Site, Online GSB Store, Course Reading, Lifelong Learning, Audio/Video Event Coverage, School News, GSB Event Registration

CAREER ADVANCEMENT

Career Strategy Advising, Networking, GSB Job Board, Workshops, Networking Lunches, Offsite Counseling, Career Management Center Online

THINK AHEAD

> HIGH—IMPACT LEARNING

INTERACTIVE

Faculty Seminars, Best Practice, Books on Break, Alumni Consulting Team (ACT), Alumni Executive Education, Informal Conversations, MIT Venture Lab

BUSINESS BRIEFINGS

@GSB Today, In the Classroom, International Executive Forums and Conferences, Chapter Programs, GSB Speaker Forums, Alumni Weekend Program, Career Advancement

MANAGEMENT SKILLS

Online Library Research Databases, Faculty Research and Ideas, Conferences and Seminars, Nonprofit Consulting Workshops, Book Reviews, Career Workshops

KEEP LEARNING

> HTTPS://ALUMNI.GSB.STANFORD.EDU

For additional information, call us at 650.723.4046 or email alumni_admin@gsb.stanford.edu





upcoming events

May 12: Breakfast Briefing by Professor Bill Barnett on "Red Queen Competition," 7:30 a.m., Faculty Club

May 18: Stanford/MIT Venture Lab for MBA alumni/ae, 5 p.m., Bishop Auditorium

May 19: Conference on Global Business and Global Poverty to launch the new Center for Global Business and the Economy, 8:30 a.m.-5 p.m., Arrillaga Alumni Center

May 20: Lifelong Learning faculty Web seminar with Professor Seenu Srinivasan, 10:30 a.m.

May 25: Executive Forum in Beijing on supply chain management with Professor Hau Lee

May 26: Lifelong Learning faculty seminar with Professor Jeffrey Pfeffer, 5:30 p.m.

May 28: Stanford International Conference, Shanghai, featuring University President John Hennessy, Engineering Dean Jim Plummer, GSB Professor Hau Lee, and Nobel physicist Doug Osheroff

May 31: Executive Forum in Singapore on supply chain management with GSB Professor Hau Lee

June 2: Public Management Program dinner and certificate ceremony, 6 p.m., Faculty Club

June 9: Breakfast Briefing by Ram Gupta, executive vice president of products and technology, PeopleSoft, 7:30 a.m., Faculty Club

June 12–13: GSB diploma ceremony and Stanford commencement

June 17–20: MBA Class of '79 reunion

June 22: Stanford/MIT Venture Lab for MBA alumni/ae, 5 p.m., Bishop Auditorium

September 28-October 2:

Lifelong Learning leadership program: "Interpersonal Dynamics for High-Performance Leaders," open to GSB alumni/ae only, Hayes Conference Center, San Jose

October 22–24: Alumni Weekend and reunions for MBA classes of 1954, 1959, 1964, 1969, 1974, 1984

January 6–12: Executive Forums in India (New Delhi on January 6, Bangalore on January 10, and Mumbai on January 12)

All events are held on campus unless otherwise specified. To register for events or for an updated calendar, see https://alumni.gsb.stanford.edu/events/calendar



information center

Stanford Graduate School of Business 518 Memorial Way, Stanford University, Stanford, CA 94305-5015

Stanford, CA 94305-5015 650.723.2146 www.gsb.stanford.edu

Business School Alumni Center

650.723.4046

Email: alumni_admin@gsb.stanford.edu
Web: https://alumni.gsb.stanford.edu
Address updates, email, and alumni
directory: 650.725.3254
Email: alumni_admin@gsb.stanford.edu

Alumni Chapters

Summer Belloni: 650.725.2471 Email: belloni_summer@gsb.stanford.edu

Alumni Consulting Team (ACT) Laura Moon: 650.726.1956 Email: *info@stanfordact.org*



Career Services

Heather Finke: 650.724.3130 Email: cmc@gsb.stanford.edu

Jackson Library Database Access 650.725.2055

Lifelong Learning

Erica Richter: 650.723.4046 Email: richter_erica@gsb.stanford.edu

Career Management Center

Recruiting: 650.723.2152 Email: cmc@gsb.stanford.edu www.gsb.stanford.edu/cmc

Executive Education

650.723.3341 Email: executive_education@gsb.stanford.edu www.gsb.stanford.edu/exed

Make a Gift

650.723.3356 http://www.gsb.stanford.edu/giving

Admissions

MBA: 650.723.2766 Email: mba@gsb.stanford.edu

PHD: 650.723.2831 Email: phd_program@gsb.stanford.edu

Sloan Program: 650.723.2149 Email: sloanadmin@gsb.stanford.edu

Publications

Stanford Business magazine
Class notes: 650.723.3157
Email: alumninews@gsb.stanford.edu
Read online at www.gsb.stanford.edu/
news/bmag/classnotes.html

Stanford Social Innovation Review 650.725.5399

StanfordKnowledgebase newsletter www.gsb.stanford.edu/knowledgebase



STANFORD

GRADUATE SCHOOL OF BUSINESS

Executive Education

CHANGE LIVES,
CHANGE ORGANIZATIONS,
CHANGE THE WORLD

General Management Programs

Stanford Executive Program June 20 – August 3, 2004

Executive Program for Growing Companies July 18 – 30, 2004, and February 2005

Stanford - National University of Singapore Executive Program in International Management (in Singapore) July 25 - August 13, 2004

Executive Management Program: Gaining New Perspectives (at Stanford Sierra Conference Center) September 19 – 25, 2004

Financial Management

Financial Management Program | July 11 – 16, 2004

Finance and Accounting for the Nonfinancial Executive November 14 – 19, 2004, and May 2005

Credit Risk Modeling for Financial InstitutionsApril 2005

Marketing

Strategic Marketing Management August 15 – 25, 2004

Negotiation

Negotiation and Influence Strategies October 17 –22, 2004, and April 2005

Advanced Negotiation Program April 2005

Leadership and Strategy

Corporate Governance Program June 1 – 4, 2004

Managing Teams for Innovation and Success lune 6 – 11, 2004

Executive Program in Leadership: The Effective Use of Power July 11 – 16, 2004

Executive Program in Strategy and Organization |uly 18 - 30, 2004

Mergers and Acquisitions: Creating and Claiming Shareholder Value August 15 – 20, 2004

Human Resource Executive Program:
Leveraging Human Resources for Competitive Advantage
September 19 – 24, 2004

Leading Change and Organizational Renewal October 31 – November 5, 2004

Nonprofit and Philanthropy

Executive Program for Nonprofit Leaders — Arts June 20 – July 2, 2004

Executive Program for Educational Leaders
June 26 – July 2, 2004

High-Impact Philanthropy August 1 – 6, 2004

Executive Program for Nonprofit Leaders Winter 2005

Strategy for Nonprofit OrganizationsSpring 2005

Technology and Operations

AeA/Stanford Executive Institute August 8 – 18, 2004

Managing Your Supply Chain for Global Competitiveness August 22-27,2004

Strategic Uses of Information Technology
April 2005

www.gsb.stanford.edu/exed

Phone: 866.542.2205 (toll free, U.S. and Canada only) or 650.723.3341 Fax: 650.723.3950 Email: executive_education@gsb.stanford.edu