STANFORD BUSINESS AUGUST 2005

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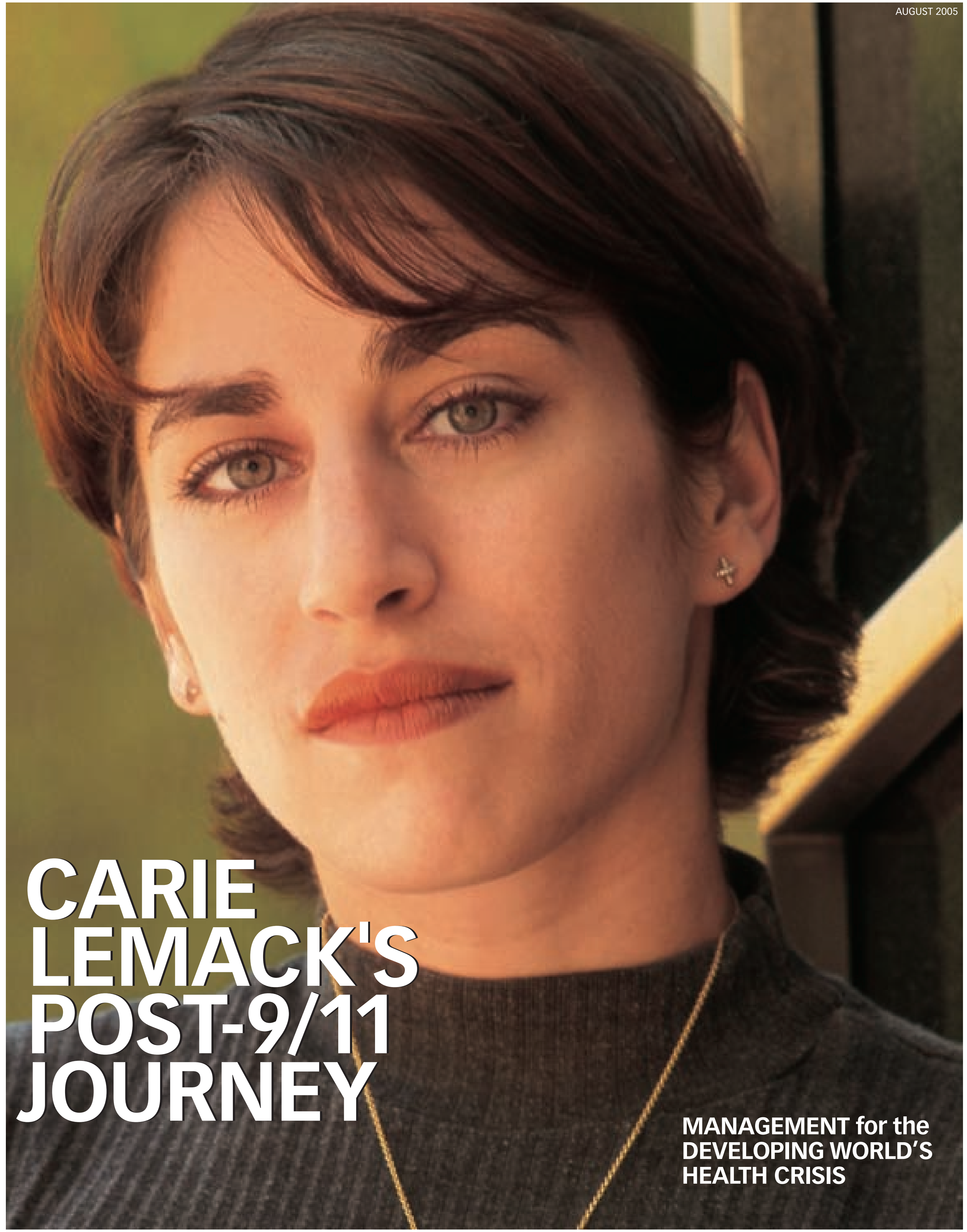


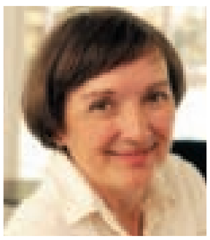
CARIE LEMACK'S POST-9/11 JOURNEY

MANAGEMENT for the DEVELOPING WORLD'S HEALTH CRISIS

Conversations with Readers

Four of us who regularly work on this magazine spent part of two days recently talking with some of you via telephone and also in person at spring class reunions. We wanted to find out more than routine surveys tell us about what you read or ignore between these covers. Should we offer more stories about the School, the curriculum, the students? Should we write more about our most famous alums or provide more career or investment tips? Do you like to read about your former professors? About alums who have made drastic career changes?

The Stanford Business School Alumni Association surveys members every few years and asks questions about services of the School. From those surveys we know that the magazine is generally liked and appreciated, with the Class Notes section topping the list of favorites. While answers to multiple choice questions help us see patterns, they also have a tendency to hide the diversity of viewpoints. In our more personal conversations, we were able to learn that one of you considers the Newsmakers column "too gossipy," while another thinks it is "a quick way to keep up with what people are up to." We picked up some story ideas for the future, but mostly we learned that you are a very diverse group. If this magazine wants to stay a part of your lives, it needs a mix of content. We look forward to tossing new things into the mix.



This issue, I hope, provides something for everyone. There is Carie Lemack's very personal story with takeaway lessons from the trenches of her leadership of families of 9/11 terror victims. Kirk O. Hanson, another alum and former teacher of some of you, probes what we can do to make cheating less rewarded in this society. Professor Emeritus Harold Leavitt writes about the value of hierarchies in our lives. Managers dealing with the health crises in developing countries provide insights on changes needed. There is much more, including the following letter. Please enjoy.

Kathleen O'Toole

EDITOR

Letter to the Editor

I want to convey my vast disappointment in the article "The Logical Illogic of Casting Your Vote" in the May issue [*page 33*].

According to Professor Bendor and coauthors, it's a puzzle why people turn out to vote in a democracy in much larger numbers than game theories—like rational choice, bounded rationality, and adaptive rationality— would predict.

It is not a puzzle to me, and it certainly isn't a game. In a democracy, people turn out to vote because they can and they believe they must. The privilege of voting is too precious to not use it. Maybe some of the fringe volume of the voting public is swayed by previous outcomes [of elections], but that is not why most people vote. The millions of Iraqis who voted in their last (first) election didn't do it based on previous outcomes; there weren't any.

DENIS E. LOWRY, SLOAN '77
Punta Gorda, Florida

STANFORD BUSINESS

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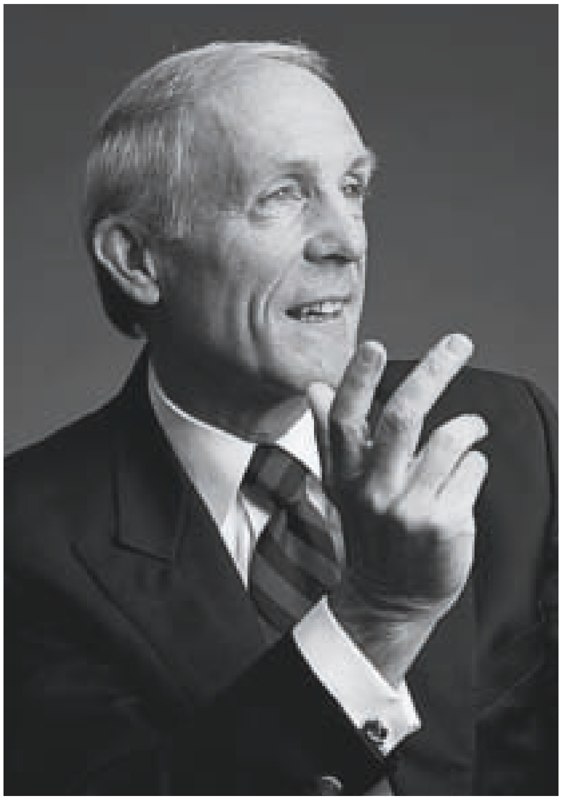
It's Not About You



ANNE KNUDSEN

IN MAY, FORMER GENERAL ELECTRIC CEO Jack Welch visited the Business School to talk about leadership and his new book, *Winning.* With about 800 people in Memorial Auditorium, he and I had a public conversation about managing. The best comment he made, I thought, was the simplest. It's something I believe and try to practice every day. Leadership is not about you. It's about the people who work for you.

"The day you become a leader, it becomes about them," Welch said. "Your job is to walk around with a can of water in one hand and a can of fertilizer in the other hand. Think of your team as seeds and try to build a garden. It's about building these people," he insisted. "Only you will know the team."

That's right. The minute you move from being a task-oriented professional to being a manager of people, it stops being about your individual talents and your successes and starts being all about coaching, motivating, teaching, supporting, removing roadblocks, and finding resources for your employees. Leadership is about celebrating their victories and rewarding them; helping them analyze when things don't go to plan. Their successes become your successes. Their failures are yours too. Too many people today think leading is exclusively about their own performance. Even some of those who become CEOs, usually highly intelligent people who worked hard to get where they are, turn into self-aggrandizing individuals once they hit the executive suite.

Too many people, perhaps encouraged by the media, have developed an obsession with leaders. In his new book on hierarchies, *Top Down,* Hal Leavitt covers a broad range of issues. *(See book excerpt, page 12.)* Leavitt, who is the Kilpatrick Professor of Organizational Behavior, Emeritus, at the Business School, surmises that part of today's infatuation with the leadership discussion springs from the fact that we perceive organizations have become flatter, when, in fact, they are still hierarchies, though changed ones that are "participative" and "groupy." They have become harder to navigate, with chains of command that are less clear. As a result, leadership qualities are more necessary for managers at every level, not just for those at the top of an authority pyramid.

Although it is difficult to find common characteristics among acknowledged leaders—what would Winston Churchill have in common with Mother Teresa?—Leavitt identifies three recurring themes of leadership: transformation, persuasion, and competence. Leaders are able to transform or change a situation. They can influence others and motivate them to follow. They exude confidence and competence about what they are doing that inspires others. At the Business School, we are creating a cocurricular leadership development program that gives students experiences and coaching to help recognize and reinforce some of these qualities.

The minute you move from being a task-oriented professional to being a manager of people, it stops being about your individual talents and your successes and starts being all about coaching, motivating, teaching, supporting, removing roadblocks, and finding resources for your employees.

Of prime importance, in my view, is this notion that leadership is about change and a leader must leverage those who work for him or her, empower and support them with regular feedback, rewards, and exchange of ideas. Of course, sometimes leaders have to "weed the garden," in Welch's pithy vocabulary. The tough job of firing and hiring is part of creating an effective team.

One person, no matter how talented, cannot accomplish much in a managed organization of today's complexity and global reach. Transforming through others is the job of the leader at any level. Said Welch when he was here: "The day you become a leader, your job is to take people who are already great and make them unbelievable." ■

STANFORD BUSINESS

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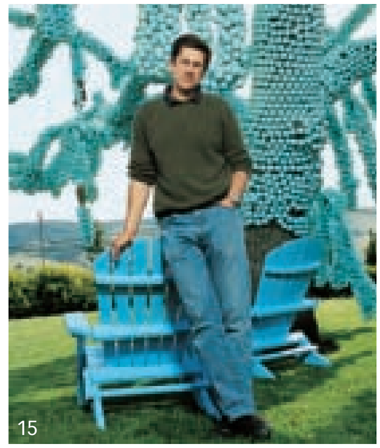
features

SARS is just one of the diseases facing world health providers.

KATHARINA HESSE/GETTY

COVER: *Photograph by Robert Holmgren*

departments



Spreadsheet

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

AUDREY GIBSON

You Climb, Girl

IT WAS ALL IN THE GSB FAMILY as a team of eight women—alumni, students, and staff—climbed Mt. Shasta in early June. The ladies, who bridged four GSB class years, braved the elements in Northern California in addition to raising $6,000 for the San Francisco chapter of Girls on the Run. The nonprofit organization operates after-school running and self-esteem building groups for girls in 3rd through 8th grades and was founded by Carey Jennings, MBA '05. Pictured from left are: Amy Skeeters-Behrens, '03; Angie Strange, '05; Shelley Ratay, '05; Jennifer Ratay and Lisa Macholan, GSB staff; Kirsten Olsen, second-year MBA; Hanna Gonzalez, '04; and Tonya Redfield, climbing guide.

Go Back to B-School Without Finals

CYNTHIA SCHERR settled in a southern Oregon city where the living is great but opportunities for professional development are few. In February, Scherr, MBA '91, joined 31 other Stanford Business School alumni/ae, representing classes from 1963 to 2003, for the inaugural Back to School weekend of the School's Lifelong Learning program. The subject was "Innovate with New Management Ideas," and Scherr learned so much she plans to go back for more.

"Back to School initially brought up some feelings of anxiety," Scherr writes. "I hadn't read a case or done a study group in almost 15 years!" But her misgivings were soon set aside: no cold calls, no squeaky chairs in the classroom, splendid digs in the new (to her) Schwab Residential Center, good food, and, most important, stimulating classes taught by faculty—some familiar and some new—on everything from expensing stock options and creating supply-chain security to urban legends and Internet hype.

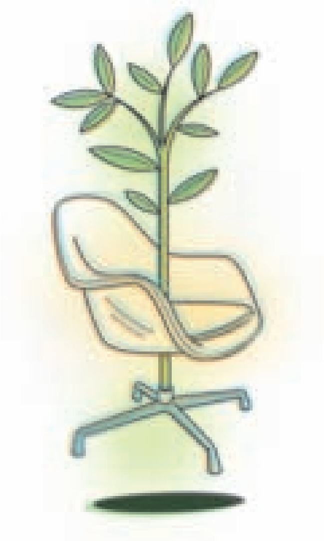
For years, Scherr suggested the Business School offer continuing education classes for alumni, and now that it has, "I have a personal stake in wanting it to thrive," she writes. "The program provides a means of connecting with others, reconnecting with personal and professional goals, and disconnecting old thought patterns and infusing them with innovative new ideas. You should go!"

You can. This year's fall program, Back to School: Developing Culture, Leaders, and Teams, will be held November 4–6. For information and reservations, visit *alumni.gsb.stanford.edu/backtoschool* or call Jolie Fernbach at 650.725.6502.

Green Advocate Rejects Efficiency

AT FIRST Michael Braungart's design concept sounds like one any environmentalist would embrace: Use only raw materials that can be recycled to minimize the amount of waste put back into the environment. But the chemist and green design advocate says many other green design advocates focus on using fewer "bad" materials rather than using more that are "good."

"Efficiency is ugly," Braungart told an audience sponsored by the School's business and



HARRY CAMPBELL

sustainability group. "Think about falling in love with someone efficiently. Think about efficient sex. Think of a cherry tree blossoming in spring. Nobody says 'What a waste for just a handful of cherries.'"

He focuses on abundant use of materials that can all be reused rather than returned as toxics to landfills. For example, he worked with Shaw Industries, the world's largest carpet manufacturer, which has committed to using only products that could be broken down and used again. He also consulted with furniture maker Herman Miller on the creation of the Mirra chair, made entirely of reusable components.

But there are still manufacturers that extract natural resources from the land and return them as toxic landfill. "If you're looking for weapons of mass destruction," he said, "here they are."

California Dreamer Turns Pharma Leader

ASK AN EXECUTIVE to tell you the secret of his or her success and chances are you'll hear something about learning from mistakes, passion for the job, or plain hard work. Not so with Jean-Pierre Garnier, MBA '74, who received the Business School Alumni Association's Global Business Leadership Award in London last March.

Garnier attended the Business School on a Fulbright scholarship after earning a PHD in pharmacology in his native France. Now CEO of global pharmaceutical giant GlaxoSmithKline, he is credited with managing the merger of SmithKline Beecham and Glaxo Wellcome and with restructuring and streamlining the research and development operations of the new company.

Garnier's work to combat diseases that plague developing countries has earned him international plaudits. He has championed the search for treatments for HIV, tuberculosis, and malaria, and pioneered new avenues of drug design. Working with nonprofit organizations, he has created partnerships to develop fundraising, research, and clinical trials and to spread risk. For example, his company has committed \$1 billion over 20 years to eliminate lymphatic filariasis, a parasitic disease transmitted by mosquitoes that affects 120 million people in 80 developing countries.

Asked by a young reporter for London's *Telegraph* how he got to the top in pharmaceutical management, he answered: "You wouldn't understand. Your generation is different. We didn't want to go and be responsible for anything; we wanted to remain students forever. I had a PHD in pharmacology, and that was pretty much the end of the road. Then in a student nightclub I heard about this degree called master's in business administration. You could get a scholarship and study in California. California was the center of the world in the late sixties and early seventies." The rest, as they say, is history.

Jean-Pierre Garnier, MBA '74, (left) with Dean Robert Joss.

LYNN SAVILLE

Bass Honored with Arbuckle Award

THE FOUNDER of Keystone, one of the most successful private investment and holding companies in the nation, Robert M. Bass says his job description is simple: Figure out what needs to be done and do it.

At a February dinner, Bass was honored as the 35th recipient of the Arbuckle Award, presented by the Business School Alumni Association.

Bass was introduced by School Dean Emeritus Michael Spence, a partner in Oak Hill Securities, one of Bass's investment partnerships. Citing Bass and his companies for their commitment to social responsibility, Spence said, "There is no sharp separation of investment returns, narrowly defined, and overriding social values. The organization won't invest in enterprises that adversely affect the environment, the moral fiber of society, or broadly impair the health of people."

Spence also cited Bass and his wife, Anne, for their many philanthropic interests.

Bass is a member of the Stanford Board of Trustees,

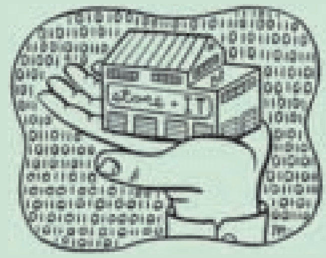
NEW VENTURES

As baby boomers age and accumulate more wealth, they want independent advice to help them invest. "There's plenty of financial advice and information out there," says **John Heins,** MBA '91, "but much of it comes from sources with an ulterior motive; namely, they want you to invest with them." Heins has joined his media background (he was president and CEO of Gruner + Jahr USA) with the financial expertise of professional investor Whitney Tilson to produce **VALUE INVESTOR INSIGHT,** a newsletter for sophisticated investors. You can check it out at *valueinvestorinsight.com.*

Rajesh Navar, Sloan '03, was one of the first engineers at eBay before he entered the Sloan Master's Program. Last November he started his own online company, **LIVEDEAL,** specializing in local classified ads throughout the United States. Except for auto ads, sellers pay nothing to list their products but pay a 5 percent fee for completed transactions. Two months after the company's launch, its customers sold \$80 million in goods; two months later, \$155 million. Navar expects to expand to communities in Australia, Canada, the United Kingdom, and India by the end of 2005. LiveDeal can be found at *livedeal.com.*

If you've ever wanted to tour Greece as only a native would, you may have your chance, thanks to a company called **TRUEGREECE,** the true Greek who started it, and the Center for Entrepreneurial Studies, which helped him develop his business plan. **Christos Stergiou,** MBA '04, grew up in Greece, where his family had a hotel business, then went to the GSB, where he founded his new venture. Stergiou's company offers three different Greek island tours to groups of 4 to 16 people accompanied by a concierge, as well as customized trips. Reserve, or just daydream, at *truegreece.com.*

Good things come in tiny packages for **BINOPTICS** cofounder and president **Darius Forghani,** MBA '00. Based in Ithaca, N.Y., the company developed a proprietary process for etching the miniscule laser chips used in optical circuitry. Semiconductors equipped with BinOptics' so-called integrated microphotonic



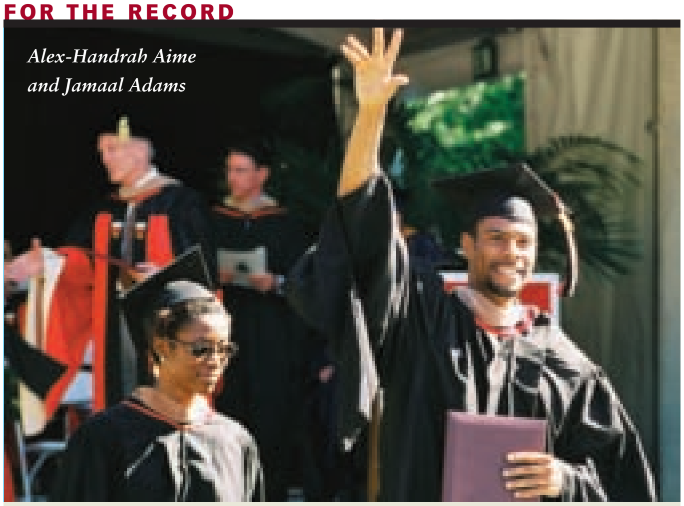
AARON MESHON

chips will allow greater storage and faster transmission of data than electricity-powered semiconductors. BinOptics received major second-round funding in February. You can read about it at *binoptics.com.*

The main reason an individual or a company incorporates is to place a "corporate veil" between the corporation and the owner that protects the assets of each from the other. But, says attorney Stanford Graham, "Be aware: Piercing the corporate veil is the most litigated issue in corporate law." To help owners understand and comply with the rules of corporate governance that affect their protected status, Graham and **Rees Jensen,** MBA '94, launched **BULLETPROOF VEIL.** The subscription service reviews a company's veil for flaws, suggests fixes, maintains records, and monitors compliance deadlines throughout the year. For more information, see *bulletproofveil.com.*

Spreadsheet

FOR THE RECORD



Alex-Handrah Aime and Jamaal Adams

NANCY ORR

Class of 2005 Commencement

DEGREES GRANTED

TOTAL MBAs	**373**
MBA	**362**
JD/MBA	**2**
ED/MBA	**9**
PhD	**18**
Master's in Business Research	**6**
MS (Sloan)	**54**

CERTIFICATES

Global Management	**130**
Public Management	**58**

MBA AWARDS

Alexander A. Robichek Award
Achievement in finance courses:
Simon Iain Patterson

Ernest C. Arbuckle Award
Contributed most to the fulfillment of the goals of Stanford Business School in and out of the School:
Bryan Pallop Gaw

Henry Ford II Scholar
Top scholar: Sam Droste Yagan

Arjay Miller Scholars
Top 10 percent of the class:
Lawrence William Aller
Krzysztof Franciszek Belcarz
Michael Stanley Brown
Chinezi Mark Chijioke
Virginia Francisca DeJesus-Rueff
Santiago Comella Dorda
Yan-David Alexander Erlich
Michael Oliver Fegelein
Robert Scott Hansen
Thomas MacMartin Harman
Michael Aaron Hill
Samuel Blake Hinkie
Adam McCord Hopkins
Brian Johnson
David Michael Kashen
Danny Khatib
Andrew J. Kin
Benjamin Andrew Krick
Alexis Classen Krivkovich
Hua Ern John Lim
Tennyson Jianshu Liu
Tracy Meredith Long
Joseph Daniel Matt
Julian Bruce Mills
Neal Mohan
Gregory Michael O'Brien
Simon Iain Patterson
Katherine Berkman Rahm
Carla Anne Rummo
Darren Colton Shimkus
Caroline Ling Tuan
Catherine Tsui-Ling Wang
Jeremy Moses Weisstub
Craig Wenning
Sven Reto Bruno Wiederkehr
Alice Elizabeth Woodwark
Sam Droste Yagan

SOURCE: *Registrar's Office*

the board of the Stanford Management Company, and the Business School Advisory Council. He is also chairman emeritus of the National Trust for Historic Preservation.

When Big Hair Met Big Blue

GOOD MENTORS come in all colors, Symantec CEO John Thompson told the Black Business Students Association in March, and the best are the ones who, as they said in the seventies, tell it like it is.

Thompson entered the business world in 1971 as IBM's first African American salesman in Tampa. He arrived full of energy and enthusiasm but dressed in a leisure suit, not quite the uniform of that era's—and that famously staid company's—corporate culture.

"I learned early on that mentoring is not about color," said Thompson. "My most wonderful mentors were the ones who told me the truth about my leisure suits and my 8-pound Afro."

No Admission for MBA Hackers

NONE OF THE 41 applicants who hacked their way into the software system used to facilitate the Business School's MBA admissions process was admitted to the School, Dean Robert Joss announced in April. The ApplyYourself system is used by several major universities; its security breach made national news in March.

"We asked the applicants whose ApplyYourself accounts were accessed to contact us with an explanation. Of the competitive applicants, none who gained unauthorized access was able to explain his or her actions to our satisfaction," Joss said.

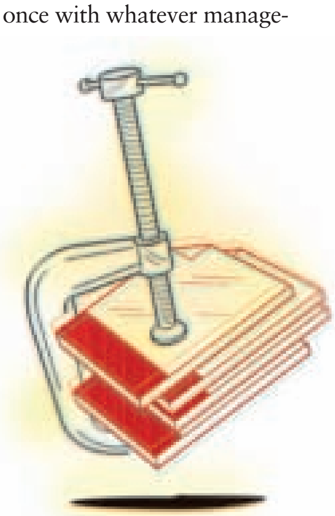
The School's admissions decisions had not been entered into the system at the time of the break-in. Additionally, "those who did hack into the system were able to view only their own decision page and could not view the confidential information of any other applicant," said MBA Admissions Director Derrick Bolton, MBA '98.

Filing System for Microjunk Mess

JUST WHEN YOU finally had your closets organized, along came David Arfin, MBA '91, with the reminder to clean up your microcontent before it turns into a megamess.

Microcontent is the stream of instant messages, electronic photos, music files, podcasts, and just plain bits and pieces of information that clutter our electronic closets. Speaking to the MIT/Stanford Venture Lab, Arfin estimated there will be 2 billion mobile phone subscribers worldwide by the end of the year and that 82 billion short-message-service communications will be sent annually via cell phones. And if that isn't enough microjunk to drive a packrat crazy, there currently are 13 billion songs on person-to-person networks finding their way onto personal computers and MP3 players.

Arfin's company, GlooLabs, is creating software to allow remote access to all that information. The idea, he said, is to "capture the media, organize it once with whatever manage-



ILLUSTRATIONS BY HARRY CAMPBELL

On the Road with Warren Buffett

World-famous investor Warren Buffett has been lecturing annually in Professor Jack McDonald's investment course since 1976. When he couldn't make it to the Farm last fall, the class decided to fly en masse to Omaha, Neb., to hear Buffett speak at the headquarters of his company, Berkshire Hathaway. Buffett, center in light jacket, then took the class to lunch at his favorite steak house, Gorat's.

MICHAEL COX

ment system you prefer—for instance, iTunes—but be able to manage it wherever you are, whether it's in your living room or on the highway." Or, one supposes, even in your closet.

Doerr: Don't Skip the Fundamentals

WHAT MAKES A great entrepreneur? According to Silicon Valley venture capitalist John Doerr, the best are missionaries, not mercenaries.

"Mercenaries have a lot of drive, they're opportunistic and always pitching their latest deal," Doerr told a packed house of business students, "whereas missionaries are more passionate and strategic. Mercenaries are sprinting and often have in their organizations an aristocracy of founders, whereas missionaries are in it for the long run, obsessing on customers, not competition. They try to build a meritocracy—a loud, noisy place where the best ideas can get on the table."

In a wide-ranging speech, Doerr reflected on his own career at Intel and then at the venture capital partnership of Kleiner Perkins Caufield & Byers, where he showed a talent for picking winners. Among startups he backed: Google, Compaq, Intuit, Netscape, Lotus, Sun Microsystems, Amazon.com, and Symantec.

Doerr closed with some advice for the under-35 crowd in Bishop Auditorium. "Please, please, please, in your drive to become great leaders, don't for-

get the fundamentals. Learn about recruiting, hiring, firing, inspiring, managing, developing, and motivating others with the kind of tough love that makes leaders very effective. Not this Donald Trump thing: 'You're fired!' There are extra points for humor."

Fundraiser Saddened by Drowning

MICHAEL JOHNSON, a participant in this year's Challenge for Charity competition, died following an accident at Stanford's Avery Aquatic Center in April. Johnson, an MBA student at the Paul Merage School of Business at the University of California–Irvine, was a participant in a water polo competition that was one of many sporting events scheduled as part of the 21st Challenge for Charity Weekend. As a result of the accident, some competitions were cancelled this year.

Held each year on the Stanford campus, the challenge was founded in 1984 by Duncan O'Brien and John Zoglin, both MBA '84, to raise money for the Special Olympics.

QUOTABLE

> "Every morning for a year I had to see these grosses, and you can't imagine what it was like. It was like having morning sickness every day!"

Ron Meyer, president and COO of Universal Studios, on his greatest regret: the decision to pass up domestic rights to the film *Titanic,* which went on to gross $600 million for Paramount. He spoke at the Business School's Future of Entertainment Conference.

Leadership Winner Touts Soft Skills

HERB ALLISON, MBA '71, was a naval officer in Vietnam when he applied to business school. When he entered Stanford in the fall of 1969, he says, "The School became a sanctuary for me, or better yet, a halfway house for reentering a society that had changed dramatically since I had joined the military."

In accepting the School's 2005 Excellence in Leadership Award in New York City, Allison, now chairman, president, and CEO of TIAA-CREF, reminisced about his years at Stanford and his long career in finance.

"We spent more time than most MBA students studying so-called 'soft learning' like organizational behavior," he said. "As my career progressed, I came to see that the soft skills were far more important in terms of business success.

"To understand why, you need look no further than the scandals that have engulfed one company after another in recent years. Virtually all of them can be traced to breakdowns in the organization's culture—to widespread violations of ethical principles and cultural norms. In almost every instance, dozens of people knew about the wrongdoing, but no one stepped forward—in part because the culture supported unethical behavior."

Now, after passage of the Sarbanes-Oxley Act, corporate boards anxiously focus on financials, he said. "But as we learned long ago at Stanford, financials are not as precise or informative as they may seem. In truth, the real predictor of success or failure is culture, and I believe that companies must focus more on building strong and ethical cultures—and that their boards must take responsibility for assessing culture in the same way they assess financials." ■

ELECTIVE ENROLLMENTS 2004–05:

Organizational Behavior	1508
Strategic Management	1254
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Political Economics	224
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Accounting	162
Human Resources	143

SOURCE: *Registrar's Office*

 BY KIRK O. HANSON, MBA '71

Who Says Cheaters Never Win?

In today's win-at-all-costs culture, many think the end justifies the means.

ISABELLE ARSENAULT/AGOODSON.COM

A NAGGING THOUGHT DOGGED ME FOR 23 YEARS as I taught ethics at the Stanford Graduate School of Business. What good am I really doing? Can a course in ethics equip someone to act ethically in a business career?

A few months ago, I was asked by the *San Jose Mercury News* to reflect on whether we live in a culture that makes ethical behavior impossible. I found myself admitting some troubling thoughts about the world we collectively have created. Here, slightly updated, is what I wrote:

IT IS TIME TO FACE UP TO A DIRTY LITTLE SECRET. Players who use steroids in professional baseball, college coaches who have others take exams for their star athletes, high school students who cheat on the SATs, scientists who fake the results of their research, and CEOs who cook the books in American corporations all may be acting rationally.

With Major League Baseball feeling the heat for the first time from public disclosure of steroid use on its playing fields, much attention has been focused on whether Barry Bonds and other baseball stars may have knowingly taken illegal steroids. If they did, there could be a simple reason why: It was worth it.

How can this be? Today there is so much to be gained by being just a little better than others—by hitting a few more home runs than any other professional baseball player, by getting to and staying at the very top of the modern American corporation, or by being the absolute best in any field.

Salaries and rewards for those who come out on top have gone crazy. The highest-paid baseball player earned $2.3 million in the 1988 season, $6.3 million in 1994, and more than $20 million last year. CEOs got 40 times what the average employee in their company earned in 1980, and 400 times by 2000. The Olympic gold-medalist who won a nation's praise and an endorsement or two in the 1970s had an endorsement bonanza by 2000. Who would settle for less when they are bombarded by ads like Nike's during the 1996 Atlanta Olympics: "You don't win silver. You lose gold."

The winner-take-all culture exists in almost every area of American life. *Science* magazine, the most prestigious in its field, has reported that in bioscience, what economists call a "tournament market" exists: The first to make an extraordinary finding reaps a hugely disproportionate share of the fame and future grants.

Tempted by these rewards, some climbing the ladder may do almost anything to get to the top, and others already at the peak will do almost anything to stay there. Athletes turn to performance enhancers to remain superstars as they age; corporate executives falsify the books to retain their regal perks and immense pay. Former WorldCom CFO Scott Sullivan testified, for example, that executives at his company fraudulently adjusted the books to please Wall Street, which presumably would help keep the executives secure in their jobs.

The superstar culture has seeped even into our middle and high schools. Michael Dillingham, the 49ers team physician and a crusader against drug use by athletes, says parents of high school athletes are sometimes the most eager to try any drug that will give their child an edge.

Some children and their parents have convinced themselves that they have to be superstars and go to

Stanford, Harvard, or Brown to have a worthwhile life. This attitude leads to cheating by the most qualified, not the least qualified, students in some schools.

Adding to the temptation, athletes, high school students, and scientists may convince themselves that anyone who is on top has cheated to get there, and therefore they rationalize it for themselves.

So we have become a society captivated by "the winner." We have made the one who dominates the box office, comes out on top in sports, or rises to the peak in business a new kind of royalty. It is no wonder people cheat.

Cheating has always been with us. But is it worse now? Unfortunately, there are no reliable measures of the level of cheating. There were baseball and business scandals a century ago, and card cheaters were a fixture of the Old West.

What seems new to me is that cheating has gone mainstream. It shows up in almost every corner of American life—from professional athletics and Wall Street businesses to high school SATs. And it is tolerated more. There is less outrage and a more forgiving attitude when a baseball player is found with a corked bat or a student is caught cheating on an exam. Have we accepted at some level that cheating is reasonable? I hope not.

We would have to delve deeply into the national psyche to determine why we need heroes and celebrities so badly. I suspect it has to do with a spiritual crisis in American society—a search for what has real meaning. Worshiping heroes and celebrities can be a substitute for finding fulfillment in our own relationships and service.

On a more practical level, I blame both the media and our brand of competitive capitalism. Olympics coverage focuses on events where an American may win a gold medal, ignoring those where a great effort produced a silver or bronze. And the media dedicate a disproportionate number of column inches or broadcast time to one member of a nine-member baseball team. Driven by the media attention, fans flock to the ballpark where the superstar is playing, and the superstar demands a huge salary based on the tickets he or she sells.

Competitive markets, so effective in the allocation of resources in the U.S. economy, have also led to a frantic bidding war for certain types of top talent. Companies bid excessively for graduates of prestigious MBA programs. CEOs have enough market power to negotiate contracts that enable them to walk away with millions even if they fail.

The media have cooperated fully in creating this "great leader" or rock-star model. Scanning the covers of business magazines, you might think General Electric employed only its former CEO Jack Welch, or Hewlett-Packard, until recently, only Carly Fiorina.

Ironically, the media even love the celebrity who is caught cheating, making Martha Stewart a strange kind of icon for her noble prison behavior.

The emergence of a "superstar society"—and the "cheating society" that has resulted from it—is bad for all of us. Of course, cheaters make a competition unfair for everyone else.

Beyond that, if everybody is tempted to cheat—and if a significant number of people do—it weakens our trust in everyone around us. How can you build friendships with other parents when they are helping their kids cheat in Little League baseball? How can a company build a culture of trust when employees suspect others are trying to cheat to get ahead of them?

Cheating also costs more. Every society depends on a mix of enforcement and voluntary compliance to make its businesses, its tax system, and its communities work. If we have to use constant surveillance, drug tests, and threats of severe penalties to restrain cheaters, it will be costly.

There are long-term effects, too. For one thing, if deceit were widespread, it would be the people who are the most proficient cheaters who get ahead—not something we want to reward. More serious, though, is that if people don't trust the system, if they believe everyone else is cheating and they cannot get a fair shake, they will refuse to play. Fewer companies will be started by entrepreneurs; fewer kids will try out for competitive athletics. A few years ago, the World Bank developed quantitative proof that cheating and corruption in business was holding back the economic development of emerging economies.

We need to raise our children to resist the temptation to cheat. There is no way to make a rational case for honesty when getting that extra edge may help you come out on the top of the heap.

Must we accept that America has become a winner-take-all society and that cheating works? I don't think so.

The answer is not just more enforcement and tougher penalties, though they are necessary. In the long run, only a commitment to different values and to raising our kids in a different way will contain the power of cheating in American life.

We have to value "doing your best," not just winning. Only a few high school basketball players will make it to the NBA. We can't have the vast majority believing they are losers. Only a few business people will be CEOs. The rest are not failures.

Encouraging "doing your best" will require all of us to compliment and celebrate the efforts by those we know and love. The spouse who works hard but doesn't get the promotion deserves a dinner out. The child who studies diligently but gets a C grade should be praised.

Above all, we need to raise our children to resist the temptation to cheat. There is no way to make a rational case for honesty when getting that extra edge may help you come out on the top of the heap. My colleague and character education expert Steve Johnson says honesty must be instilled as a habit from an early age.

We should demonstrate to our kids that we adults abhor cheating. We should refuse to honor those who cheat—perhaps by boycotting certain baseball games or the stock of an errant company. Let's tell our kids cheaters are jerks. We should support the efforts our schools, sports leagues, and courts take to punish cheating.

And, of course, our children must never, never see us cheat.

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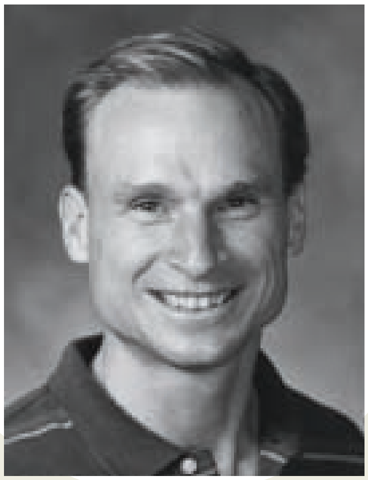
SINCE I FIRST WROTE THIS, I have asked myself how might I have better prepared our graduates to live in a world that says in so many ways that it is worth cheating to get ahead? And how do you and I prepare ourselves to resist that message in the years ahead? The editors of this magazine and I welcome your thoughts. ■

Kirk O. Hanson, MBA '71, is a university professor and executive director of the Markkula Center for Applied Ethics at Santa Clara University, and formerly a senior lecturer at the Stanford Business School. This article originally appeared in the Perspective section of the San Jose Mercury News *on March 6.*

ASK A PROFESSOR



PAUL OYER

DARRELL DUFFIE

PHILLIP LESLIE

Overqualified Hires Sometimes Wise

Q: Though the labor market has picked up, I still get a very good selection of resumes whenever I have a job opening. I worry that filling a position with someone who is overqualified will lead to problems because the person will leave when a better opportunity comes along. Should I be concerned about this?

Paul Oyer, *Associate Professor of Economics:*

TWO CONCEPTS FROM LABOR ECONOMICS shed some light on this. The first is what we often refer to as "firm-specific human capital." That is, in some jobs and at some firms, people learn skills that are very specific to that employer and, therefore, it is very costly when people leave those jobs. For example, if you are hiring a computer programmer who must learn a proprietary computer system before he or she can make useful contributions, you want to be cautious about hiring an overqualified person who will take a more challenging position as soon as one becomes available. However, I think many firms overestimate the costs of turnover because many skills are not at all firm-specific. If you can hire a programmer who will use well-known programs and be productive immediately, you do not need to get caught in the natural tendency to obsess about turnover. Hire the person and have a mutually rewarding relationship for as long as it lasts. Then let the person go on his/her way.

The second useful idea, which may not be possible to apply in all cases, is to find out if a person is truly interested in the job for the long term by getting him or her to "signal" interest. (This is an application of the idea that won former GSB Dean Michael Spence the Nobel Prize in economics.) If you simply ask the applicant, "Will you leave when the economy picks up?" he/she may well say, "No, this is just the kind of job I want for the long term for these reasons," etc. But talk is cheap, so how will you know if the applicant really means it? If instead you can get the person to make a costly investment, the investment signals that the person is serious about a longer-term relationship. One way to do this, of course, is to set up a compensation scheme that rewards long tenure. If your firm has a standard compensation structure that prevents this, an alternative is to place some burden on the applicant. That is, make it clear you are interested in the person but ask him/her to do something that you suspect only someone truly interested in the job would do. This could be a sample of work, spending lots of time getting to know people before you offer the job, or simply waiting and letting the applicant signal interest by making sure he/she follows up with you. At least in some cases, if you play "hard to get," only the right people will pursue you.

The risks and rewards of hiring overqualified applicants vary with the circumstances. But if you do not need the person to make a big investment in the firm and/or you can figure out a way to separate the truly interested from those who just need some cash, hiring someone who seems overqualified can pay off.

Bring Back Long-Term Bonds

Q: Recently the U.S. Treasury indicated it may start issuing long-maturity bonds. You have been advocating this for years. Why?

Darrell Duffie, *James Irvin Miller Professor of Finance:*

AT THE RECOMMENDATION of then Undersecretary Peter R. Fisher, the U.S. Treasury eliminated its 30-year "long" bond in October 2001. The longest maturity Treasury since that time has been the 10-year note. When the elimination of the 30-year bond was being considered, the U.S. government was running a budget surplus, and therefore issuing less debt. There was a case to be made that, given the liquidity advantages of large bond issues, the United States would reduce its interest expense by focusing on bigger issues at shorter maturities. In my view, the case for eliminating the 30-year bond was thin at that time.

At this point, with annual federal deficits in excess of $400 billion, it is easy to make the case for reintroducing the 30-year bond. France, which issues far less government debt than does the United States, periodically issues more and more 30-year bonds in order to offer the marketplace long-term bonds and at the same time garner the liquidity advantage of large issues. [In February] France successfully issued a 50-year bond; Germany and the United Kingdom have said that they will follow suit. There is likely to be a large unmet demand for long-term U.S. nominal bonds, particularly in order to hedge long-term liabilities, such as pension benefits or insurance claims. In my opinion, it would benefit the U.S. Treasury as well as a large range of investors to reintroduce a long-maturity Treasury bond.

Investors, Owners (Not Managers) Adjust for Risk

Q: Investors are encouraged to diversify their portfolios to achieve the risk–return tradeoff that is best for them individually. At the same time company managers often talk about the need to diversify the businesses within their own companies in order to lower risk. Are these conflicting ideals?

Phillip Leslie, *Assistant Professor of Strategic Management:*

ON THE FACE OF IT, YES. The desire of firms to diversify for the purpose of risk reduction is inconsistent with shareholder value maximization. The conventional view in economics is that managers should maximize expected profit without heed to the risks involved, and investors choose diversified portfolios to mitigate risk. That's not to say there aren't good reasons for a company to be diversified. For example, there may be synergies between firms in different markets that can only be exploited if there is common ownership. However, diversification for the purpose of risk management by the company managers is not a valid justification. Moreover, economists tend to be skeptical of such reasoning when given, suspecting it to be a veil for empire building. This does not apply to private companies. If you own your own business with a significant fraction of your wealth invested in it, diversifying your own personal portfolio means diversifying the company.

Having said that, you may be wondering: If managers can lower the volatility of the firm's profits, won't this reduce the cost of capital, which is good for profitability and shareholders? Maybe, but there are usually much cheaper ways—such as using financial instruments—to reduce volatility rather than by buying companies or greenfield entry into new markets. Indeed, several companies, like Cemex, are well known for their sophisticated use of financial tools to lower their cost of capital. Before financial markets were as well developed as they are today, it probably made more sense for firms to diversify for risk management purposes. But these days, I would be skeptical of such reasoning. ■

The editors welcome readers' questions that provide an opportunity to apply faculty research findings to business situations. If you have a question about your business that is brief and general enough to be of interest to other readers, please send it to "Ask a Professor" *in care of gsb_newsline@gsb.stanford.edu. We will seek appropriate expertise but can provide answers only to the questions that are selected for publication. Please include your name and class affiliation.*

The Necessary Evil of Hierarchies

In achievement-oriented democracies, people complain about the inefficiency of top-down-managed organizations, but ultimately they can't live without them.

JUD GUITTEAU

A VETERAN EXECUTIVE once told one of my Stanford MBA classes, "All organizations are prisons. It's just that the food is better in some than in others." The students didn't like the metaphor. They didn't want to think they were preparing for a career in the slammer.

They are not alone. A great many scholars, educators, consultants, and executives simply don't like what multilevel, pyramid-shaped structures do to people and to productivity. The hierarchies of large organizations breed infantilizing dependency, distrust, conflict, toadying, territoriality, distorted communication, and other human ailments. So, optimists that we are, we keep dancing on hierarchies' unoccupied graves. In the near future, we've been telling each other for decades, democratic networks will replace those terrible top-down structures.

Why then, even in our high-tech information age, do we keep adding new hierarchies? And why do so many of us autonomous human beings spend so much of our lives incarcerated in those dehumanizing detention centers? There are many pragmatic answers to that question, answers involving the economics of productivity and efficiency, but this short piece is limited to psychological, even existential answers.

We can begin with one too easy answer: Let's blame hierarchies on bad guys! Hierarchies are nothing more than the "immortality projects" of power-hungry organizational emperors.

In these days of self-serving CEOs, that old jeremiad may contain a modicum of merit. But it's not a very solid argument. Absent rapacious CEOs, would corporate hierarchies just skulk away? Not likely. True that too many leaders have exploited their hierarchies for selfish ends. Notice, however, that one can make a strong case for the reverse argument. Instead of blaming hierarchies on bad guys, let's blame bad guys on hierarchies. Power does indeed tend to corrupt. And once ensconced on pinnacles of large hierarchies, few top executives are eager to climb down.

But bad guys are far from the heart of the matter. Many good guys at the top have managed to maintain their integrity despite hierarchies' corrupting influence. So here, then, are several perhaps more realistic psychological reasons:

First and most obvious: We tolerate hierarchies because they help us feed our families. In 2002, according to a Conference Board survey, roughly half of American employees didn't like their jobs, and the percentage was rising, not falling. We may protest, organize unions, pass laws, and try many other ways to hold organizational hierarchies at bay, but we don't really want to kill them. We need our paychecks.

A second reason for hierarchies' persistence: We are their willing coconspirators. We gripe about hierarchies, yet we struggle to be accepted by them. Most of us try, quite actively, to get ourselves into the university or hired at Starbucks or Citibank. We may move from one hierarchy to another, but few of us choose to opt out of the whole system.

Still another reason: Hierarchies provide a clearly demarcated route toward status and wealth. When we finish school—that's one hierarchy—most of us look for a job in another. In hierarchies, clerks can climb to department heads, corporals to sergeants, and parish priests can ascend to bishoprics. Hierarchies, that is to say, are major arenas in which we can play out our achievement needs.

Not all societies weave achievement stories into their cultural fabric, but in modern-day democracies most of us are taught to want to climb. Hierarchies provide brightly illuminated ladders that are quite consistent with our meritocratic parable: "Work hard, young person, and no matter your origin or pedigree, you too can reach the top." That story remains largely true. Hard and good work really does help us climb ladders to success. But hierarchies are also consistent with a more worrisome corollary, the notion that success *deserves* to be one's primary life goal. Yet few of us, even today, dispute the basic righteousness of that whole achievement orientation.

Our job in a hierarchical organization provides something more vital than the chance to climb. Like our families, communities, and religions, our jobs give us identity, a flag to fly. One need only scan the newspaper obituaries to see how much we are defined by our positions in hierarchies. Those positions tell the world—and ourselves—that we are somebody, not nobody.

Here's a snap quiz: Write down—quickly, off the top of your head—three short answers to this question:

Who are you?

Do any of your answers have to do with your place in a hierarchical organization?

Think of how it *feels* to be pushed out of your position in your hierarchy, to be demoted, or to be out of a job for months. Loss of income is only part of the problem—and often a small part. Self-esteem is involved. In our individualistic, go-get-'em culture, joblessness has become almost sinful. Executives who have been involuntarily released must put together bravely defensive cover stories as they hunt for new jobs. Only the very young and the very old are permitted the luxury of respectable joblessness. And for the very old, it is still important to make sure the world knows you *have been* a divisional executive at BP or a manager at Starbucks or a professor at Stanford.

For many of us—perhaps especially for Americans—our jobs have become even more than an indicator of who we are. They have become the central foci of our lives. In 2000, according to the International Labour Organization, we Americans worked approximately 350 hours more per year than Europeans. That's nearly nine more 40-hour weeks.

Jobs in hierarchical organizations also give us a spurious—yet welcome—illusion of security, the illusion that they will shelter us from the uncontrollable turbulence of our surroundings. Snuggled into Mother Hierarchy's ample bosom, our personhood is affirmed and our existential angst allayed. At least that was the way it felt for many of us, until—as on 9/11/01—the indestructible is destroyed or Enron implodes and Andersen falls apart. Then reality sets in, and with it the realization that we may have taken too many good things for granted.

Hierarchies also add structure to our lives. They provide routines and regularities. We need such things. A friend of mine, after he retired, took to keeping goats. "Why goats?" I asked. "I keep goats," he replied, "because goats have to be milked regularly. They give me a reason to wake up every morning." Without his goats he might have found himself—like many retirees—afloat in a sea of anomie.

Here's a more controversial suggestion about why we support the hierarchies that so many of us profess to hate: Hierarchies evaluate us. They tell us how good or bad we are. Those evaluations are often invalid and even more often unjust. Nevertheless, *we want to be evaluated*—a bald assertion that will surely raise some hackles!

How can this guy say we *want* to be evaluated? I *hate* being evaluated. At school they marked us on a curve, so even if we all worked hard, some of us had to flunk. Now, in the company, they evaluate us in quartiles, so no matter how hard people at the lower end try, they'll probably stay in the fourth quartile. We want to be evaluated? Baloney!

Many of us are not comfortable with the notion that some people should have the right to determine the worth of others. That decision belongs to God, not to my assistant vice president. Evaluations with the merest hint of negativity generate wails of protest from evaluators as well as evaluatees. Indeed, bitching about performance appraisals has almost become a national pastime.

Maybe that's why human resource people seem to come up, annually, with new, guaranteed-painless appraisal techniques. This year's 360-degree version promises—the memo says—to increase validity and re-move all stress from the process. But those nostrums never quite do the job. So the howling continues.

How, then, can anyone in his right mind assert that we want to be evaluated? Here's an answer: People have achievement needs. On that dimension, managers—from supervisors to CEOs—are probably in the top decile of their nations' populations. Humans are competitive, too, especially males. Twenty years of Jean Lipman-Blumen's research on achieving styles with more than 20,000 male and female managers from around the world comes up with only one consistent difference between the sexes. Men everywhere score higher on competitiveness (one of nine achieving styles) than women. But women *managers* score higher on competitiveness than nonmanagerial women. Managers, that is to say, are competitors, and competitors' egos want report cards. The one thing that would probably generate even more fury than existing evaluation procedures would be no evaluation procedures at all.

Hierarchies, however, have no choice but to evaluate. A pyramid narrows as one approaches its top. That design requires organizations to select and cull and to justify their decisions about how to distribute pay, promotions, and other rewards. So they take their questionable measurements seriously. That's the fair way, isn't it? Better than promoting you because you're the boss's daughter-in-law! And though we grouch and grumble, most of us buy into that evaluation game.

Those are some of the emotional factors that help keep hierarchies going. But hierarchies also survive for many cognitive reasons. In our individual lives we use them every day. Whether building model airplanes—or real ones—we tend, quite naturally, to think and work hierarchically. Indeed, hierarchies are quite (don't laugh) *efficient* structures. They're still, despite their human failings, the best method ever invented for solving large, complicated problems.

So maybe we should focus less on hierarchies' failings, and more on how we humans can live moral and fulfilling lives inside them. ■

Evaluations with the merest hint of negativity generate wails of protest from evaluators as well as evaluatees. Indeed, bitching about performance appraisals has almost become a national pastime.

Harold Leavitt is the Walter Kenneth Kilpatrick Professor of Organizational Behavior and Psychology, Emeritus, at the Stanford Business School. This essay is adapted from a chapter in his 2005 book, Top Down: Why Hierarchies Are Here to Stay and How to Manage Them More Effectively, *published by Harvard Business School Press.*

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Avant Gardener

CHRIS HOUGIE, MBA '76

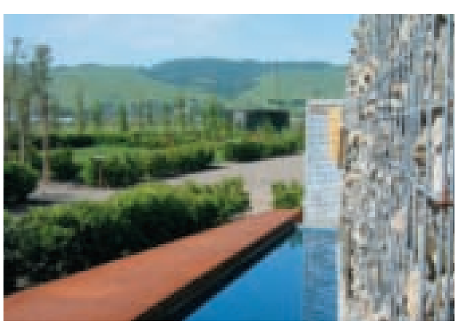
After reaching for the stars with his first startup, Chris Hougie, MBA '76, set his sights for his next venture on the ground, literally. His former company, Great Explorations, helped make glow-in-the-dark stars a mainstay in children's bedrooms across America. He had started an earlier incarnation of the company straight out of business school with about $10,000 and was doing well selling educationally oriented games and toys to specialty retailers. A call from Wal-Mart's buyer changed all of that and sent his company's sales into orbit. When he sold the company in 1995 to University Games' Bob Moog, MBA '84, Hougie gave considerable thought to his next venture. A visit to the Chaumont Garden Festival—an avant-garde gardening/landscaping showcase in France—during his honeymoon in 1996 stuck with him. A few years later he decided to bring a variation of the festival to Northern California. After three years of careful planning turned into five, and nearly 5,000 cubic yards of soil was moved, Cornerstone Festival of Gardens opened south of the town of Sonoma in July 2004.

"Building the gardens was one of the easier parts," Hougie said. "It was getting everything else situated that took so much time." Once the zoning, planning, and other legal hurdles were squared away, he gave up to $20,000 for construction of each of the gardens—which are up to 2,200 square feet in size. Contemporary landscapers got creative. One covered an ailing pine tree with sky-blue plastic balls—a leafless tree à la Dr. Seuss. Another fastened together scores of nylon mats on a series of small mounds to emulate the surrounding rolling hills. A handful of trees set in a gravel area bordered by a painted wall and billowing sheets of nylon occupy one of the gardens. "Normally gardens are hard to see because they are so private," Hougie says. "Hopefully these gardens and their diverse, whimsical designs will stimulate people's creativity."

To that effect, Cornerstone Gardens isn't just a showcase for landscape experiments. The 9.5-acre site also has a nursery, several galleries, a design and architectural salvage company, and a cafe. The buildings and their surroundings carry the same serendipitous, daring approach as the gardens. Garden admission fees will help fund rotating plot designs, Hougie says.

"I'd like people not to be constrained by what's available at the Home Depot and Orchard Supply stores," he adds. "Architecture is too big of an investment to take major risks with, but the garden and its affordable elements give one a lot more power to be experimental." ■

GABRIELA HASBUN



ARTHUR PATTERSON

HEALING THROUGH LEADERSHIP

Carie Lemack's Post-9/11 Journey

On September 11, 2001, my mother, Judy Larocque, was murdered. She was a passenger on board American Airlines Flight 11 that terrorists crashed into the World Trade Center. For eight years, she served as a successful CEO of a small market research firm in Framingham, Mass. More important, she was my best friend and confidante. There are not words to describe the experiences my sister and I faced in the days, weeks, and months after Mom was killed. Professionally, we had to manage her company and work with its board to eventually wind it down. Personally, we had to try to maintain our childhood home and, perhaps unsuccessfully, make sense of our new lives.

by Carie Lemack, MBA '04

One day after the attacks, I presided over an agonizing general meeting of the employees of my mother's firm. I had to confirm the loss of their leader and mentor and discuss the futures of their jobs and of the firm. Within 14 days of Mom's murder, her company's board of directors (to which I had been elected on September 14) held five board meetings—my first foray into corporate governance. I learned a lot about crisis management, but not in a way I had ever anticipated. Real life trumped the classroom.

At the Business School, we are taught to use reason and take actions accordingly. If there is an opportunity for a competitor to enter your field, it is logical to assume one will do just that, so make sure your firm is one step ahead. If your product will not solve your customers' problem, perhaps your product needs a change. The notions of emotion and trauma enter into our class discussions as

● PHOTOGRAPH BY ROBERT HOLMGREN

CARIE LEMACK, MBA '04, cofounded the organization Families of September 11 after her mother was murdered in the 2001 terrorist attacks. Under Lemack's leadership, the organization grew to more than 2,200 members and successfully lobbied for creation of the 9/11 investigative commission and for passage of the National Intelligence Reform Act of 2004. Now a graduate student at Harvard's John F. Kennedy School of Government, she remains active in the organization.

experience with what I was learning in class. Here is a list of lessons from personal experience that I did not feel were given adequate "airtime" in the classroom:

PHOTOS BY MATTHEW CAVANAUGH/GETTY IMAGES

DON'T JUDGE THE VALIDITY OF OTHER PEOPLE'S EMOTIONS. You might think you understand someone else's grief, but you cannot.

In a fit of rage one day, a 9/11 widow and mother of a young, now-fatherless child yelled at me, "You shut up—you only lost your mother!" Somehow I was able to control my own rage and not snap back at her—strength I did not know I had, but I feel my Mom must have channeled to me. The woman's comment still infuriates me; how would she feel if someone said that to her son? I can rationally understand that she was illogically taking out her anger on me; however, the pain I felt then and still do from her remark has shown me the importance of never judging another's loss. As business leaders, we need to realize the grief of a worker may not end with bereavement leave, even if the worker has "only" lost a cousin.

COMMUNICATION IS KEY. In times of stress and uncertainty, we tend to hunker down and forget that those we are leading might need reassurance. If they are not sure in what direction we are going, they are less likely to help us get there. This may be universally true of people, but it is particularly important to people in trauma. They have lost control over their lives and want desperately to get it back. Letting them know what to expect and how they can proceed is invaluable.

Take, for example, the situation for 9/11 families when the American Red Cross began accepting donations on their behalf. The Red Cross did not reach out to the families to explain how to apply for the funds. Families were forced to make phone call after phone call, usually talking to well-intentioned but uninformed volunteers. Understandably, perhaps, the infrastructure to deal with the families' needs could not be set up immediately. A simple statement telling the public that the funds would not be distributed for a set amount of time might have caused some public relations backlash over the organization's lack of timeliness in distribution, but it would have saved enormous time, energy, and valuable emotional reserves of the victims the Red Cross intended to help.

Traumatized people are emotionally and oftentimes physically exhausted. They feel beaten up and overwhelmed. When you offer them information, there is one less question they have to ask. They feel less abused and more taken care of. This is a lesson the Lower Manhattan Development Corporation (LMDC) is taking to heart.

LMDC is charged with rebuilding lower Manhattan. The task includes designing and building a memorial to the victims of September 11 while appeasing the local residents and ensuring the economic viability needed to attract business to the rebuilt center. Needless to say, LMDC has a difficult job, with many constituencies who feel they own a large stake in the process. By regularly communicating the status and direction of progress, the corporation is, for the most part, able to keep paralyzing disputes at bay.

ADMIT MISTAKES, CORRECT THEM, AND APOLOGIZE. I have learned firsthand the large impact an apology, or lack thereof, can make. For example, I continue to bank with Wells Fargo, even though they have no branches in my hometown of Boston, because they realized, corrected, and apologized for a mistake they made three years ago.

In the fall of 2001, the American Red Cross (ARC) made a decision to grant money only to the families of 9/11 victims who were "on the ground," not those on the four hijacked planes. This was due to the fact that airlines are legally required to offer some compensation to their passengers in the event of an aviation disaster. However, this decision was a slap in the face to the families of those on the planes who were not able to explain such a distinction to friends, family, and others who donated to ARC in the hopes of helping their bereaved loved ones with their financial distress.

Relatives of terror victims met frequently with lawmakers and aides to push for passage of 9/11 Commission recommendations. At this October meeting, from left, are Sen. Joseph Lieberman, D-Conn.; Sen. Susan Collins, R-Maine; and victims' family members Mary Fetchet, Carie Lemack, and Beverly Eckert.

One day, logging in to my Wells Fargo account to determine how I would pay Mom's mortgage on my childhood home, I saw an ad saying, "Give to the 9/11 victims; donate to the Red Cross." After having been told repeatedly that ARC would not help my family, I felt something in me snap. I wrote a letter to Wells Fargo and asked if they condoned the unadvertised discrimination they were promoting. As it turns out, they did not.

Within a day, I received a note and a phone call from the vice president of Wells Fargo in charge of charitable matters with an apology and a promise to call ARC and look into the matter. I may never know the causality, but ARC soon after changed its policy and began treating all victims' families equally. I am proud to be a Wells Fargo client (despite regularly having to pay those pesky ATM fees).

BE KIND TO YOURSELF. We all will have times of crisis in our lives, even if we don't like to believe it. The test of a true leader is not his or her ability to avoid these experiences; it is how to deal with them when they arrive.

Many overachievers, like those who graduate from Stanford Business School, are conditioned to believe that hard work can solve problems. When we get into trouble, we put our nose to the grindstone to find solutions and often forget to take care of ourselves. I argue, perhaps unpopularly, that it is in our best interest to take care of ourselves since no one else can do it for us, and by taking care, we are more productive.

For me, that manifests itself in little things. In order to lobby Congress for the creation of the 9/11 Commission while enduring a full set of core classes as a first-year MBA student, I could not let myself get overwhelmed by classes. While many of my classmates dutifully stressed over midterms, I took many long walks to enjoy the peace of the California sunshine. My grades might reflect this "alternative" study habit, but it was the only way I could handle the stress of my two competing worlds.

FLEXIBILITY IS CRUCIAL. Business students learn that developing plans, procedures, and programs helps them get ahead. However, being able to respond effectively to rapidly changing events also is critical in the real world of politics and business.

Throughout the fall of 2004, a small group of 9/11 family members worked with the 9/11 Commission in an effort to implement the recommendations of its final report. It was a harrowing experience, perhaps comparable to my experiences as a lifelong Boston Red Sox fan, with ups but mostly shocking downs and a last-minute come-from-behind victory against the unbeatable favorites.

Instead of the Yankees, we took on Speaker of the House Dennis Hastert, Congressman Duncan Hunter from California, and Congressman James Sensenbrenner from Wisconsin. On Nov. 20, just when we determined that we had enough votes to pass the intelligence reform bill, another roadblock came our way: Speaker Hastert decided not to call for a vote, simply because it would not garner a "majority of the majority," and he did not want to have to confront two powerful committee chairmen who vowed to stop any legislation that did not contain their special provisions. Each week we traveled to Washington, D.C., and each week our plans were thrown to the wind when new positions or new developments came to light. We had to remain undeterred and flexible enough to respond, even when defeat seemed inevitable.

Like the Red Sox, we did come from behind in the last hours of the congressional session and passed the National Intelligence Reform Act of 2004 in early December. But it never could have happened if we had not been willing to change plans as needed to play a winning game.

After a tough project is completed or a new program implemented, we often ask ourselves if we would do it all over again. In my case, I can honestly say I wish I never had to do any of this. That being said, I am grateful that I had an opportunity to learn vast amounts through these experiences. I feel privileged to share these lessons with fellow GSB graduates, because I believe that is the greatest way I can honor my Mom and her incredible legacy. ■

MANAGEMENT for the DEVELOPING WORLD'S HEALTH CRISIS

Skilled managers are proving to be as vital as doctors in helping people live longer, healthier lives.

BY CATHY CASTILLO

You might call measles the canary in the mineshaft of global health. The 2003 SARS outbreak in Asia brought some economies to a screeching halt, and HIV/AIDS continues to exact a staggering economic and human toll. Yet something as seemingly benign as measles rages almost unnoticed through parts of the world, killing about a half-million African children in the average year despite the existence of a vaccine that costs about 20 cents per dose. • Like a dead canary, the measles statistic stands out, pointing to the complex issues standing in the way of improving health care in developing nations. Simply having money, vaccines, and demonstrated cures isn't enough. If the vaccine spoils due to a lack of refrigeration or sits in a refrigerated container on the dock stalled by usurious import taxes or impassable roads, people will continue to die—of newly troublesome scourges like Marburg virus and health threats thought long resolved like measles or tuberculosis. • A late winter conference at the Business School, sponsored in part by the student International Development Club, brought together representatives of some of the leading organizations working to improve the condition of health care in the developing world. >

Illustration by TIM MARRS

Their stories and statistics were sobering, and their message to the largely student audience was challenging: Be the generation that causes change. Take on policies that don't make sense; challenge policymakers to spend money wisely; build systems that work.

Today over 62 million people worldwide are affected by HIV/AIDS, including 25.4 million in sub-Saharan Africa alone. In hard-hit Botswana, about 30 percent of the workforce will be lost to the epidemic in the near future, many of them professionals and skilled laborers who are crucial to the country's growth. Money is available—about $6 billion this year from major aid organizations. Yet health planners predict it will take even more—between $10 billion and $12 billion per year—to fight the HIV/AIDS epidemic alone. It is a race to save lives and also to save entire nations, their cultures and economic structures. One estimate is that in coping with HIV/AIDS alone, each $1 billion in aid that is not spent for treatment will result in another half million preventable deaths.

In many cases, funds poured onto medical problems cannot be absorbed by the underdeveloped health-care systems or governments of emerging nations. Simply dealing with the demands of all the agencies providing the funds overtaxes the resources of many nations that may be required to spend an inordinate amount of time on red tape. The government of Malawi alone entertained 500 missions on HIV/AIDS in 2004.

In the HIV/AIDS battle, the major funding agencies are the World Bank; the Global Fund for Tuberculosis, AIDS, and Malaria; and U.S. funds available through the President's HIV/AIDS Initiative. "None of these are coordinated, so the typical scenario is that countries are dealing with these different donor agencies and their different requirements instead of dealing with the problem at hand," said Debrework Zewdie, director of the Global HIV/AIDS Program for the World Bank.

One solution to the bureaucratic sponge soaking up resources is for the governments involved to set their own standards. "The Mozambique government has said, 'This is our strategy, this is what we want to do. If you don't want to do this, don't come to our country.' And guess what? [Donor agencies] said yes," Zewdie said. Another solution is the creation of what she calls "three ones," in which the donor agencies and the recipient government work together as *one authority* to develop *one action framework* with *one monitoring and evaluation system* to cut down on the separate reporting requirements and focus projects on issues important to the country involved.

Even if the conflicting demands are resolved, many developing nations still lack the infrastructure to take maximum advantage of health-care funds being provided. Infrastructure needs may lack the cachet of directly halting the spread of AIDS or tuberculosis. The nonprofits themselves struggle with the realization that unless sustainable systems are built, they cannot accomplish their goals. "If in 15 years the [Bill and Melinda Gates] Foundation is still financing vaccine delivery, that will be a failure in terms of the critical sustainability factors," said Douglas Holtzman, the foundation's program director for infectious diseases.

Patients in the rural United States may have trouble getting to adequate, well-staffed hospitals. In developing countries with bad roads and transportation systems, the problem is far worse. Cameroon has one health-care professional per 400 people in urban areas and one per 4,000 in rural areas. "There is plenty of money for training, but there is no place to train, no buildings to actually manage patients. Physical plant facilities are a big hole, a real gap," said Nzeera Ketter, director of efficacy trials for the International AIDS Vaccine Initiative.

When they seek to improve health care, agencies need to listen to governments, but they also must be cautious of official pronouncements and seek information from the people themselves. Ketter had been warned that AIDS diagnosis and treatment was a controversial issue outside of major cities in Africa, so when a tribal chief asked her about her work, she cautiously backed into a discussion of AIDS vaccines. But the chief demanded, "When are you going to do this? Hurry up! My people are dying."

Rather than drop cookie-cutter solutions into localities, agencies addressing health programs need to work at achieving local support. When shipments of a vaccine are unloaded in a slum outside Nairobi, the program becomes tangible there. Unlike a promise from a government agency, the shipment opens doors and cuts red tape. In many countries faced with inadequate facilities and shortages of everything from drugs to electricity, the best-trained doctors and nurses have emigrated in search of a better life and better working conditions. The Global Telemedicine Project is trying

MANY ILLNESSES TO TREAT
Not enough beds for HIV patients in Tambaram, India; generic-drug therapy for an HIV-positive child in Nairobi; drug-resistant-TB treatment for a shantytown resident near metro-Manila's largest landfill.

ROBERT NICKELSBERG/RADHLKA CHALASAN/DAVID GREEDY

Many developing nations still lack the infrastructure to take maximum advantage of health-care funds. Infrastructure needs may lack the cachet of directly halting the spread of AIDS or tuberculosis.

Learn More Online

Transcripts of the keynote address and three panel discussions during the International Development Conference are available online: *http://www.gsb.stanford.edu/news/conferences_global.html* to bring some of those skills back to the developing world using an Internet infrastructure and volunteer doctors worldwide who can provide care until nations build capacity to take care of themselves.

Sometimes building that capacity requires very little medical training. Minimally trained health care workers can extend the reach of doctors and nurses and reduce burnout, but as more people seek medical attention, more and more medical problems are diagnosed, said Ophelia Dahl, executive director of Partners in Health, a nonprofit addressing inequalities in health care access. "We also have to make certain that we're not treating one disease at a time, which is what happens now." A funding agency may be willing to treat HIV but not tuberculosis. A clinic set up to reduce infant mortality may identify cases of AIDS or malaria. Effective health care must produce an entire suite of services to be truly effective.

The economic costs of not improving health-care systems are immense. A World Health Organization study reported that if the AIDS epidemic continues at its current rate, "economic activity in the developing world could decline by as much as $500 billion annually by 2015. This would translate into an aggregate loss in tax and other revenues of between $70 billion and $100 billion" each year, said Timothy Goodman, assistant director for global policy at Pfizer Inc. Goodman uses these statistics to counter arguments that drug companies may not be meeting their fiduciary obligations to boost shareholder value when they donate drugs.

Sometimes the need is not to get new drugs to old diseases but rather to get more mileage out of existing medicines. Founded in 2000, One World Health is a nonprofit pharmaceutical company created to develop drug treatments for diseases that affect predominantly citizens of the underdeveloped and developing world—diseases such as malaria and diarrhea. In some cases there are off-patent drugs that could be used to treat entirely new diseases, said Katherine Woo, director of scientific affairs for the company. Effective drugs may even come from veterinary medicine—the mumps vaccine was originally for canine distemper.

At present there is no profit incentive to invest in research and development for orphan drugs. One World Health is attempting to use donor money and in-kind help from big pharmaceutical firms to fill that gap.

Beyond debates over shareholder value, testing and providing drugs to the developing world raises a plethora of other issues. Institutional barriers complicate drug testing and delay their development. It can take many months to get experimental findings published in a respected academic journal; at the same time, the valuable information from failed experiments may never be shared. And just as sharing data can speed drug development, so can sharing manufacturing or testing facilities. In some cases drug trials can be conducted in developing countries at lower costs, creating an ethical obligation to then make the resulting medications available to patients in those countries.

Billions of dollars and millions of people, ranging from volunteers in rural Haiti to research scientists in the United States, are producing results, but the world continues to face huge health problems. Vikram Kumar, director of Dimagi Inc., a firm developing technology interfaces between patients and medical devices, was one of many speakers to directly challenge the student audience.

"If you look at the life expectancy currently in Zambia and compare it to our life expectancy in the U.S., we have two lives for every one life of a person in Zambia. It behooves us to spend at least one of our two lives working on important and interesting problems. There is no limitation to where you can use your skills." ■

A Sampling of Projects by Business School Alums

Wayne Dunn, SLOAN '97

COMPANY: *Wayne Dunn & Associates, Mill Bay, British Columbia*

PROJECT: His company helps former miners who can no longer work because of the effects of HIV/AIDS through a project called AIDS Campaign Team Mining, developed for Placer Dome Inc. in South Africa, Lesotho, Mozambique, Botswana, and Swaziland. The program provides counseling, training, and other resources to the miners and their families to help them set up businesses to benefit themselves and their communities.

The project is the first private sector program to be honored with the World Bank Development Innovation Award.

Tim Bilodeau, MBA '83

ORGANIZATION: *Medicines for Humanity, Rockland, Mass.*

PURPOSE: The nonprofit collaborates with local health-care partners in areas of high child mortality around the world to improve child and maternal health. The organization builds the capacity of local partners to implement and sustain effective child survival programs. It works with pharmaceutical donors to distribute basic medicines including multivitamins, rehydration salts, and antibiotics. The organization works with 13 health-care partners and religious relief organizations in nine countries in Africa, Central and South America, and the Caribbean.

After the 2004 tsunami the nonprofit shipped nearly $2 million worth of medicine to Southeast Asia for victims of the disaster.

Amy Jadesimi, MBA '04

ORGANIZATION: *Preventing Mothers' Deaths in Childbirth project. Organized through Venture Strategies for Health and Development, Berkeley, Calif.*

PURPOSE: Jadesimi has formed a company in Nigeria to see that affordable, high-quality, off-patent medicines are available in that country without relying on public subsidies. The nonprofit organization is dedicated to cutting the death rate from uncontrolled bleeding during childbirth, which currently causes more than 30 deaths a day.

Addressing Electronic Business, Phase Two

When the Center for Electronic Business and Commerce opened its doors in 1999, cofounders **Garth Saloner** and **Haim Mendelson** took the unusual step of setting a deadline for its demise: 2005. The decision surprised many, for in the height of the dot-com boom, commentators were predicting that new electronic firms were so revolutionary they would topple some of the world's most recognized corporations and therefore, perhaps, academic disciplines.

Six years ago Garth Saloner (left) and Haim Mendelson saw the need to introduce e-commerce to the GSB and eventually integrate it into the core curriculum.

SAUL BROMBERGER/SANDRA HOOVER

"In 1999, we didn't heed the calls to establish electronic business as a separate field of study. Instead, we integrated it with the School's traditional teaching and research programs," says Mendelson, the General Atlantic Partners Professor of Electronic Business and Commerce, and Management. "In 2001, we were contrarians again, organizing the 'Don't Bury E-Commerce Just Yet' conference, where we predicted that electronic business will continue to create value and, slowly but surely, transform firms, industries, and value chains. This transformation is indeed continuing, changing the ways we communicate, pay bills, book travel, and listen to music."

Keeping their word, Mendelson and Saloner, the Jeffrey Skoll Professor of Electronic Commerce, Strategic Management, and Economics, closed the center this year but not without a report outlining its impact.

By partly supporting 35 faculty, the Center created knowledge in the form of 54 published research papers, 7 Stanford business courses that focus on electronic business, and electronic business concepts incorporated into another 66 across school disciplines. In addition, the Center helped produce 2 textbooks and 130 teaching cases involving electronic business issues that are used worldwide. "While the full extent of the dissemination of these ideas cannot easily be tracked, we know that the Center's case studies have been used by more than 300 universities," says Saloner. Stanford executive education programs and news media organizations have also made heavy use of this new knowledge.

"Industry's experience over the past five years reinforces the Center's founding philosophy that electronic business can create value only when it's integrated with the fabric of business," Mendelson says. "Firms are using the Internet to augment their central nervous systems, changing their business processes and linking directly to customers, suppliers, and business partners. And yet, the most important contributions to value and competitive advantage come from the integration of technology with people and organizations, and from weaving technology into companies' traditional strengths."

Saloner says the School will continue to research and teach about electronic business as part of its core frameworks. "During the frenzied early years of the e-commerce boom, many observers thought that the traditional rules that govern business success had been suspended. We were able to help our students dig below the surface in analyzing companies like Webvan, Amazon, eBay, and Google to figure out the true bases for competitive advantage in electronic business. That is always part of our mission."

Members of the American Academy of Arts and Sciences have made economist **John Roberts** the 15th member of the current Business School faculty to be inducted into the 225-year-old learned society.

The Business School faculty also honored Roberts this year with the **Robert T. Davis** Faculty Award, which recognizes a faculty member's career-long contributions to the School. (Davis, who died in 1995, spent 37 years on the School's marketing faculty.)

Also elected to the American Academy of Arts and Sciences this year were **Donald E. Graham,** SEP '83, and, as a foreign honorary member, **Paul Klemperer,** MBA '82, PHD '87. Klemperer is the Edgeworth Professor of Economics at University of Oxford, and Graham is the CEO and president of the Washington Post Co.

The academy is composed of the world's leading scientists, scholars, artists, business people, and public leaders. Other Stanford Business School faculty who are members are **Jonathan Bendor, David Brady, Jeremy Bulow, Alain Enthoven, Michael Hannan, Keith Krehbiel, David Kreps, Edward Lazear, James March, William Miller, Paul Romer, George Shultz, Michael Spence,** and **Robert Wilson.**

Roberts is the John H. Scully Professor of Economics, Strategic Management, and International Business, the School's senior associate dean for external relations, codirector of the Center for Global Business and the Economy, and director of the Global Management Program.

Faculty awards and honors were numerous this year. One that this magazine has not previously reported is a Health Care Research Award from the National Institute for Health Care Management to **Daniel Kessler,** professor of economics, law, and policy. Another is a doctoral fellowship at

faculty publications

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Have Financial Statements Become Less Informative? Evidence from the Ability of Financial Ratios to Predict Bankruptcy
William Beaver, Maureen McNichols, and J. W. Rhie
Review of Accounting Studies (Vol. 10, No. 1), MARCH 2005

Identifying Control Motives in Managerial Ownership: Evidence from Antitakeover Legislation
S. J. Cheng, V. Nagar, and Madhav Rajan
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Why Do Some Firms Give Stock Options to All Employees?: An Empirical Examination of Alternative Theories
Paul Oyer and S. Schaefer
Journal of Financial Economics (Vol. 76, No. 1), APRIL 2005

HEALTH ECONOMICS

Impact of Malpractice Reforms on the Supply of Physician Services
Daniel P. Kessler, William Sage, and David Becker
JAMA: Journal of the American Medical Association (Vol. 293, No. 21), JUNE 2005

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Steven Grenadier and N. Wang
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MARKETING

Competing for the Public Through the News Media
David P. Baron
Journal of Economics and Management Strategy (Vol. 14, No. 2), JUNE 2005

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Utpal Dholakia and Itamar Simonson
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OPERATIONS MANAGEMENT

A Method for Staffing Large Call Centers Based on Stochastic Fluid Models
J. Michael Harrison and Assaf Zeevi
Manufacturing and Service Operations Management (Vol. 7, No. 1) WINTER 2005

A Smart Market for Industrial Procurement with Capacity Constraints
J. Gallien and Lawrence Wein
Management Science (Vol. 51, No. 1) JANUARY 2005

A Principal-Agent Model for Product Specification and Production
A. Iyer, L. Schwarz, and Stefanos Zenios
Management Science (Vol. 51, No. 1) JANUARY 2005

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Selection Bias and the Perils of Benchmarking
Jerker Denrell
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Idea Habitats: How the Prevalence of Environmental Cues Influences the Success of Ideas
J. A. Berger and Chip Heath
Cognitive Science (Vol. 29, No. 2) MARCH–APRIL 2005

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Stacey Sinclair, Elizabeth Dunn, and Brian Lowery
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Counterfactual Thinking and the First Instinct Fallacy
Justin Kruger, Derrick Wirtz, and Dale Miller
Journal of Personality and Social Psychology (Vol. 88, No. 5), MAY 2005

Changing Mental Models: HR's Most Important Task
Jeffrey Pfeffer
Human Resource Management (Vol. 44, No. 2), SUMMER 2005

POLITICS

Parties in Elections, Parties in Government, and Partisan Bias
Keith Krehbiel, A. Meirowitz, and T. Romer
Political Analysis (Vol. 13, No. 2) SPRING 2005

PUBLIC POLICY

Inequitable Opportunities: How Current Education Systems and Policies Undermine the Chances for Student Persistence and Success in College
Andrea Venezia and Michael Kirst
Educational Policy (Vol. 19, No. 2) MAY 2005

Analyzing Bioterror Response Logistics: The Case of Anthrax
David Craft, Lawrence Wein, and Alexander Wilkins
Management Science (Vol. 51, No. 5) MAY 2005

The Draw of Home: How Teachers' Preferences for Proximity Disadvantage Urban Schools
Daniel Boyd, Hamilton Lankford, Susanna Loeb, and James Wyckoff
Journal of Policy Analysis and Management (Vol. 24, No. 1), WINTER 2005

STRATEGIC MANAGEMENT

Cofinancing to Manage Risk in the Motion Picture Industry
Ronald Goettler and Phillip Leslie
Journal of Economics and Management Strategy (Vol. 14, No. 2), JUNE 2005

Carnegie Mellon University named in honor of **Seenu Srinivasan**, the Adams Distinguished Professor of Management.

Anat Admati, the Joseph McDonald Professor of Finance and Economics, was elected a fellow of the Econometric Society. **Margaret Neale**, the John G. McCoy–Banc One Corporation Professor of Organizations and Dispute Resolution, was elected to the Society of Organizational Behavior. **Joanne Martin**, the Fred H. Merrill Professor of Organizational Behavior, received an honorary doctorate from the faculty of social sciences at the Free University of Amsterdam, and she also was named a distinguished scholar by the Organization and Management Theory Division of the Academy of Management.

Evan Porteus, the Sanwa Bank, Limited, Professor of Management Science, was elected a fellow of the Manufacturing and Service Operations Management Society during the 2004–05 academic year. Porteus joins two other GSB faculty members, **Hau Lee** and **Larry Wein**, in this distinguished group.

With a dozen such fellows in the world, the School's faculty has a quarter of the total.

Lee, the Thoma Professor of Operations, Information, and Technology, was honored this year with a McKinsey Award for the paper "The Triple-A Supply Chain," published in the October 2004 *Harvard Business Review* issue.

FACULTY MEMBERS **Jennifer Aaker** and **Peter DeMarzo** were appointed to endowed chairs in April. Aaker became the General Atlantic Partners Professor of Marketing, a chair that became available as a result of **Haim Mendelson** assuming the Kleiner Perkins Caufield & Byers Professorship, which had been occupied by **Charles Holloway** until his retirement in 2004. DeMarzo was named the Mizuho Financial Group Professor of Finance, which was formerly known as the IBJ Professor.

Two faculty also were named to newly endowed leadership positions in the Center for Leadership Development and Research. **Charles O'Reilly** was named the Hank McKinnell–Pfizer Inc. codirector of the center, and **Deborah Gruenfeld** was named the Morgan Stanley codirector. ■

Health Care

How Managed Health Care Drives Big Savings

PHILIPPE WESIBECKER

STANFORD UNIVERSITY IS SAVING nearly $44 million per year on employee health benefits by using a system that encourages competition among insurance providers and helps employees take into account the cost of their insurance coverage.

"Under this health-care purchasing model, Stanford employees get what they want and are willing to pay for, and the arrangement maximizes competition to provide value for money," say the authors of a report in the publication *Health Affairs*. The authors are Alain Enthoven, Business School professor emeritus, and Brian Talbott, finance manager for the University's human resources department.

Enthoven, who chaired the University's committee on health benefits at the time the plan was adopted, has long been a proponent of managed competition where the consumer is encouraged to pay attention to the cost of insurance coverage and insurers have incentives to be competitive in cost and services offered. In Stanford's case, employees have a choice among different types of health insurance plans, ranging from the lowest cost (offered by Kaiser Permanente in most years) to the most costly preferred provider organization (PPO) plan. The University gives each employee the equivalent of 100 percent of the premium of the lowest-priced plan for individual coverage and 82 percent of the lowest-priced dependent coverage. Employees use these dollars to "buy" coverage of their choice among the plans offered, and if an employee is covered under a spouse's policy, the military, or some other source, they may swear an affidavit declining coverage and receive an additional $50 taxable benefit each month.

To make it easier for employees to compare plans and switch when they want, the University created standardized contracts for firms offering coverage and required health maintenance organizations (HMOs) to offer virtually identical coverage.

At present, say Enthoven and Talbott, only 13 percent of the University's employees pay the top premium to purchase the PPO option. "It would be a great waste of money if Stanford were to follow the widespread practice of offering only the PPO," the authors say, since the majority of employees apparently are satisfied with less costly plans. Offering only a PPO would cost the University an additional $44 million per year, or 74 percent more than it pays now.

While the system has worked well since it was adopted by Stanford in 1992, Enthoven and Talbott argue that the University is not getting the maximum benefit because the majority of employers in the San Francisco Bay Area continue to offer only the most costly insurance option, a preferred provider organization (PPO) plan, thus reducing pressure on insurance providers to offer competitive rates. At present the University of California, Wells Fargo Bank, Hewlett-Packard Co., and federal and state governments are among the minority of employers in the area with managed competition insurance systems.

"As long as many employers continue to offer only a PPO plan or to contribute in a manner that favors the more costly versus the less costly plans, price-elastic demand and true competition among insurance providers will remain elusive," Enthoven and Talbott write.

"In the first few years after the introduction of managed competition, some of Stanford's premiums actually went down as aggressive competition among managed care organizations intensified in the mid-1990s," the authors write. "Stanford's top management at the time understood that this was just the tip of the iceberg. The prize of a reformed health care system seriously competing to improve value for money would elude the University until it could get most of the employers in its market area to do the same thing."

—CATHY CASTILLO

"Market Watch: Stanford University's Experience with Managed Competition," Alain Enthoven and Brian Talbott, Health Affairs, *November/December 2004.*

Diversity

Role Models Counter Subliminal Racism

NEGATIVE STEREOTYPES about racial or ethnic groups bombard us every day in the mass media and deposit their residue deep into our minds, often without our realizing it, says Brian Lowery, assistant professor of organizational behavior. His research documents that even among the most well-intentioned and consciously egalitarian people, nonconscious associations about ethnic groups have a pernicious effect on behavior and attitudes.

The good news, he says, is that we can also be influenced for the better, particularly by social relationships with people who strongly value egalitarian ideals.

Lowery's work moves the dialogue on racism beyond simple dichotomies that divide people into categories of "good" and "bad" according to their views on people of a different race or ethnicity. "The situation is much more complex," he says. Even people who consciously disavow prejudice can fall into racist traps.

In one study, for example, Lowery demonstrated how racial stereotypes subtly operate in the penal system. Los Angeles police and probation officers were asked to make judgments about a hypothetical adolescent (whose race was not identified) who had allegedly either shoplifted or assaulted a peer. Certain officers were first subliminally exposed to words commonly associated with African Americans (such as ghetto, homeboy, dreadlocks, etc.) on a rapidly flashing computer screen so that they took in the information subconsciously. In contrast to subjects who did not receive this "priming," officers with the subconscious messaging attributed more negative traits and greater culpability to the hypothetical offenders, and they endorsed harsher punishment—all typical responses to black as opposed to white offenders.

In other words, by simply unconsciously *thinking* about black people, officers suddenly began seeing a neutral situation in racially stereotypical terms—without even knowing it. The subliminal priming was all it took to activate the entire program of material these officers held about African Americans.

The phenomenon held sway even for officers who reported—and truly believed—they were tolerant and nonbiased toward nonwhites. "What's particularly interesting is that many of the officers were African Americans themselves," Lowery notes. "This shows the degree to which even African Americans can be affected by the negative associations in the environment."

When participants who had received the subliminal priming were later debriefed and told about the results, Lowery reports, they were extremely uncomfortable. "People are very reluctant to believe their scores reflect anything about their attitudes, and they instead try to invalidate the measures," he says.

In other research, Lowery examined just how readily people associate particular social groups with certain kinds of feelings. In a subliminal word-association exercise, black people's faces were more quickly associated with negative words, while white faces were linked with positive words.

Lowery found, however, that such associations would change when subjects were exposed to someone who displayed egalitarian attitudes (as evidenced by wearing a T-shirt with an antiracism message). The presence of an egalitarian African American person or white person who was friendly and appealing was enough to shift participants' unconscious racial associations to become less negative about blacks. Interestingly, the presence of an unfriendly though egalitarian researcher did not result in such a shift. "When we like or identify with people, we're more likely to emulate their attitudes and behaviors," Lowery explains. His research also confirms that children who identify strongly with parental figures tend to pick up their parents' racial views.

Brian Lowery's work is helping to expand the research on ethnic stereotyping in new directions.

What's hopeful about these latter results, Lowery says, is that a change in viewpoint toward another ethnic group can come from within a social group through positive and appealing role models who exhibit justice-minded attitudes—an important factor given that widespread segregation often makes it difficult for various groups to interact. By exploring such possibilities, Lowery's work is helping to expand the research on ethnic stereotyping in new directions. In addition, by working with participants in live settings such as the juvenile justice system—and not relying exclusively on student subjects as researchers in the laboratory typically do—he is also helping to demonstrate how racism operates in populations where such issues can literally be a matter of life and death.

—MARGUERITE RIGOGLIOSO

"Social Influence Effects on Automatic Racial Prejudice," Brian S. Lowery, Curtis D. Hardin, and Stacey Sinclair, Journal of Personality and Social Psychology *(Vol. 81, No. 5), 2001.*

"Social Tuning of Automatic Ethnic Attitudes," Stacey Sinclair, Brian S. Lowery, Curtis D. Hardin, and Anna Colangelo, unpublished manuscript, University of Virginia, 2004.

"Priming Unconscious Racial Stereotypes About Adolescent Offenders," Sandra Graham and Brian S. Lowery, Law and Human Behavior, *article in press, and Stanford Research Paper No. 1857, July 2004.*

"The Relationship Between Parental Racial Attitudes and Children's Implicit Prejudice," Stacey Sinclair, Elizabeth Dunn, and Brian S. Lowery, Journal of Experimental Social Psychology *(Vol. 41, No. 3), May 2005.*

Investment

The Long and Short Views of Bond Ratings

PHILIPPE WESIBECKER

JUST DAYS BEFORE WorldCom went bankrupt, Moody's rated the firm's stock "investment grade." In hindsight, that may sound like the bond-rating system is broken, but in fact, say researchers, the Moody's rating was appropriate for its specialized clientele.

Certified bond-rating agencies such as Moody's Investors Service serve a highly specialized institutional clientele with needs that are markedly different from those of other investors who might rely on the ratings of noncertified firms, says Business School Professor William Beaver, who studied bond ratings with Mark Soliman, GSB assistant professor of accounting, and Catherine Shakespeare of the University of Michigan Ross School of Business. Beaver is the Joan E. Horngren Professor of Accounting.

Reliable ratings are important because in 2004 more than $1.2 trillion of debt was issued, according to Thomson First Call. Since 1973, the U.S. Securities and Exchange Commission effectively has required all public bonds to be rated by a certified agency. At present, there are just four such agencies: Standard & Poor's, Moody's, Fitch Ratings, and Dominion Bond Rating Service. These companies are charged with acting as information intermediaries and improving the efficiency of securities markets by increasing the transparency of the securities themselves.

Supporters of the system say that certification establishes a high standard of quality for bonds. Others—including members of Congress and, increasingly, representatives of the SEC—argue that the certification requirement serves as a barrier to entry for new competition. Critics also argue that because certified firms collect their fees from the companies being rated, there's a possible conflict of interest and a weakening of incentives to produce accurate ratings. Noncertified bond-rating agencies appear to respond faster to the ups and downs of the bond market and avoid potential conflicts of interest by collecting fees from investors, not debt issuers.

The researchers compared the bond ratings of Moody's, a certified rating agency, to Egan-Jones Ratings Co., a credible noncertified agency, using three criteria: correlation of their ratings with the stock market, correlation of their ratings with the bond market, and measuring which company led in predicting upswings and downswings in bond ratings.

The results were instructive: EJR's ratings more closely corresponded to both stock and bond market returns and appeared to be more timely and to lead Moody's ratings by a significant margin in reflecting positive market news. But Moody's did a better job of reflecting negative news, of explaining noninvestment-grade bond yields, and of predicting bond default.

This made sense given that there are two distinctly different clienteles for bond-rating information: large institutional investors, many of whom are bound by predetermined "prudent investor rules"; and investors who are more immediately "valuation-oriented" and take a more fluid approach to buying and selling bonds.

"Large institutional investors, particularly those governed by prudent investor rules, have contracts that specify the conditions for holding or selling a bond," Soliman says. "If a bond falls below investment grade, they must sell. The decision is taken out of their hands." Because of the high costs associated with liquidating bond portfolios, this type of investor doesn't want the bond rating jumping up and down with each market tremor. Rather, they want the bond rating changes to be more conservative and to reflect long-term expectations about the safety and value of the securities in question.

In the stock return test, for example, EJR appeared to change its rating at the same time that new information about a firm was released to the market. To the extent that the market reacts to new information in a timely manner, this suggested that EJR is more responsive to the needs of valuation-oriented investors who rely on its reports to buy and sell securities.

But because EJR is so quick to change, its ratings fluctuate far more than Moody's ratings—something that can actually be costly for institutional investors. For example, EJR more frequently drops bond ratings below investment grade in the interest of perfectly reflecting market dynamics. "Institutional investors can't handle that kind of volatility," Soliman says.

Both Beaver and Soliman called criticism of Moody's and S&P's inability to predict the Enron and WorldCom scandals as "misfocused."

"Over the years, Moody's has given lots of companies a chance to ride it out," says Soliman. "In many cases, Moody's could argue that had they downgraded a firm below investment grade, it could have forced premature bankruptcy on the business." In other words, it's not unreasonable to assume that the act of downgrading the WorldCom stock had something to do with the firm's bankruptcy declaration just four days later, Soliman says. "Moody's isn't just fulfilling an advisory role; its actions can have negative impact on companies."

—ALICE LAPLANTE

"Differential Properties in the Ratings of Certified vs. Non-Certified Bond Rating Agencies," William Beaver, Catherine Shakespeare, Mark Soliman, Social Science Research Network Working Paper series, Sept. 2004. papers.ssrn.com/sol3/papers.cfm?abstract_id=596626

Security

Fingerprint Math for Airport Security

LAST AUTUMN Lawrence Wein detected serious shortcomings in a U.S. government program for identifying terrorists by checking visitors' fingerprints at U.S. airports. Working with a Stanford graduate student, Wein determined that scanning eight or ten fingers instead of the current two could mean the screening processes would spot a significantly higher percentage of international travelers whose fingerprints identify them as suspected terrorists. Wein, the Business School's Paul E. Holden Professor of Management Science, presented these findings to the White House, the U.S. Department of Homeland Security, and two Congressional subcommittees, and published them in an academic journal.

Under the U.S.-VISIT program, developed as a result of the Sept. 11, 2001, attacks on the World Trade Center and the Pentagon, most foreign citizens entering the United States have been required to have their fingerprints checked against those of known terrorists. U.S. Customs officials at airports lay each foreign visitor's two index fingers down on a special pad and then wait while the computer compares the images against the fingerprints stored in the system of several million known criminals and suspected terrorists. When the computer detects a match, a person is sequestered for further investigation.

The system is 96 percent accurate overall, but when image quality is poor, accuracy drops to 53 percent, according to the mathematical models developed by Wein and Manas Baveja, a doctoral student at Stanford's Institute for Computational and Mathematical Engineering and a science fellow at the University's Center for International Security and Cooperation.

"About 5 percent of the general public and 10 percent of those on the [government's] watch list have bad-quality fingerprints due either to genetics or hard labor," Wein says. It's those small percentages that can evade the system—with potentially huge consequences. "We assume that terrorist organizations will eventually defeat the U.S.-VISIT program by employing a majority of people whose fingerprint quality is either naturally bad or deliberately made so," he says.

Wein and Baveja developed models that calculated how the system could be tweaked to improve accuracy without increasing either waiting times at airports or the need for more customs staffing. "We found that instead of scanning two index fingers, scanning eight to ten fingers will result in a 95 percent detection probability, even when fingerprint quality is bad," Wein says.

In the meantime, Wein has proposed a short-term solution that will require only a minor software modification. "By loosening the detection thresholds on poor images you can catch more of these people," he says. "You make up for the additional secondary inspection time this takes by slightly raising detection thresholds on good images." Such an adjustment should raise the likelihood of catching suspects with the worst-quality images from 53 to 73 percent.

"There's no excuse for a $10 billion program to settle for performance levels below 95 percent in all cases, and it's my hope that the government will move quickly on this," Wein says. While changing from a two-finger to an eight- or ten-finger system will necessitate expensive new hardware and major disruptions, he says the Department of Homeland Security realizes there is a serious vulnerability in its system and is currently assessing the best way to fix it.

An adjustment should raise the likelihood of catching suspects with the worst-quality fingerprint images from 53 to 73 percent.

Earlier, Wein used mathematical modeling to determine that swift medical treatment, not prevention, is the most effective form of protection against anthrax attacks. That research also attracted the attention of government security agencies and led to a program whereby the U.S. Postal Service will deliver antibiotics in the Washington, D.C., area in the event of a large anthrax attack. —MARGUERITE RIGOGLIOSO

"Using Fingerprint Image Quality to Improve the Identification Performance of the U.S. Visitor and Immigrant Status Indicator Technology Program," Lawrence M. Wein and Manas Baveja, Proceedings of the National Academy of Sciences, *April 25–29, 2005. http://www.pnas.org/papbyrecent.shtml*

Newsmakers

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

Fund Ahead by Furlongs

THERE ARE SPORTS for everyone, and **John Osterweis,** MBA '69, has found two he is good at: investing and "ride 'n' tie." When he is not managing $2.4 billion for himself and others through Osterweis Capital in San Francisco, Osterweis is captain of a three-member team that includes his horse, Rush Creek Jax, and a two-legged teammate, often his son Max. The Homo sapiens alternate running and riding in a race where 34 miles in five hours is a good performance, according to *Forbes,* but then, what does a magazine like *Forbes* know about sports? You might be more impressed that *Forbes* says the Osterweis Fund averaged an annual return of 16.2 percent over 10 years, leaving the S&P 500 in the dust.

ERIK BUTLER

Fund manager John Osterweis, MBA '69, charges ahead of his competitors.

Baseball Barons

THE OAKLAND ATHLETICS joined the list of professional teams with Stanford Business School connections this year, thanks to the $180 million purchase of the team by Lewis Wolff and **John Fisher,** MBA '89. Fisher's share is about 90 percent but he prefers to stay out of the limelight, according to the *San Francisco Chronicle,* so Wolff is the managing partner. Fisher's father, Gap founder Donald Fisher, revealed in his biography that John, an avid baseball fan, persuaded the family to buy a stake in the San Francisco Giants in the 1990s when he worried the team might move to Florida if local business people didn't buy it. The family later sold most of its stake, but John kept a small share to monitor the financials, which apparently did not discourage him from the industry.

Another avid baseball fan, **David Kaval,** MBA '03, launched a new independent minor league in May with seven league-owned teams in California and Arizona. The eighth team, the Samurai Bears, is always the visiting team in the Golden Baseball League, because the players all hail from Japan.

Familiar Faces Named to Head B-Schools

FORMER STANFORD BUSINESS School professor **Joel Podolny** was named dean of the Yale School of Management in March, and **Mahendra Gupta,** PHD '90, was named dean of the Olin School of Business at Washington University in St. Louis in April.

Podolny taught at Stanford for 11 years and was senior associate dean of the Business School before joining the faculty of two Harvard schools in 2002. His research and teaching areas are organizational behavior and sociology. The Yale search committee said Podolny's leadership roles at Stanford were part of what made him a good choice.

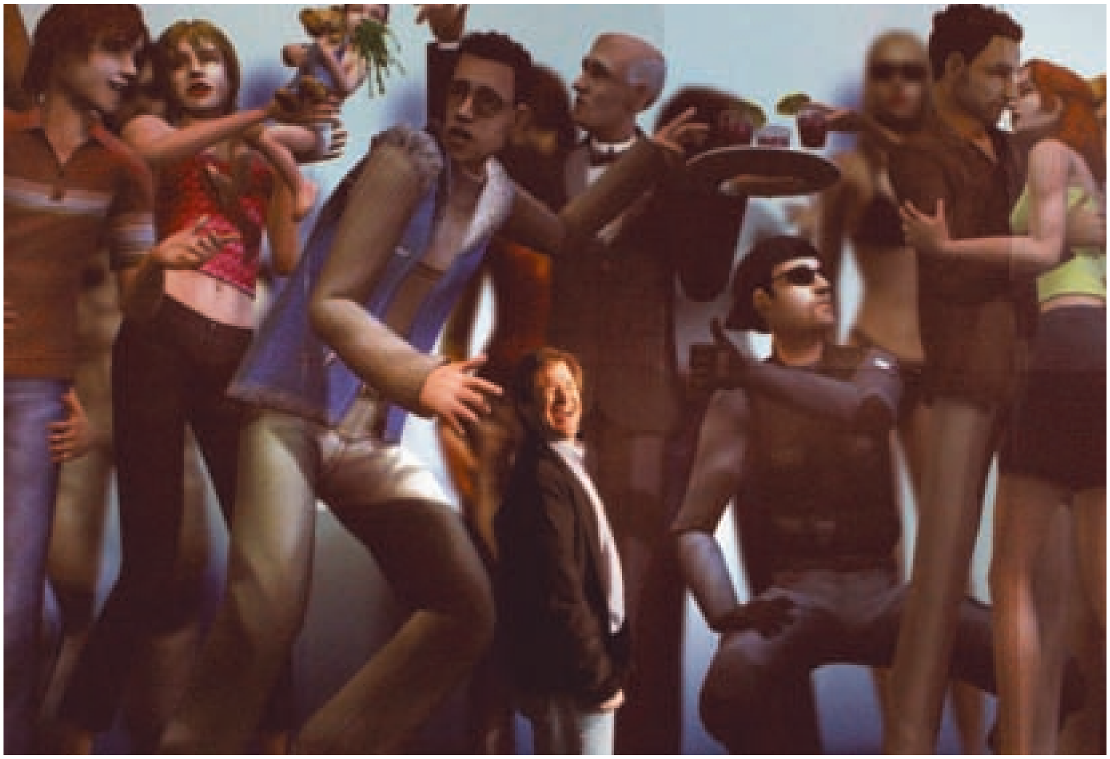
Gupta has been senior associate dean at Olin, where students have given him seven teaching awards since 2001. After a management career in India, he came to the Stanford Business School, where his dissertation in accounting was judged best in the field in 1991 by the American Accounting Association.

V-E Day Remembered

TO MARK the 60th anniversary of V-E Day, the *San Francisco Chronicle* searched for the soldiers whose names appeared in the newspaper on May 8, 1945. They found on page 11 and now retired in Pacific Heights **Arthur Roth,** MBA '49, whose 1945 letter from Germany to his father was published in the newspaper, along with the names of the latest American soldiers to die. Roth was lucky enough to survive the deadly Battle of the Bulge and participate in the surrender of 140,000 German soldiers. He recalls taking a souvenir sword from a German colonel who seemed irritated to surrender to a lowly enlisted man. "He wanted nothing to do with me," Roth told the newspaper this year. "Imagine if he'd known I was Jewish."

Video Gamer's Visionary View

IF YOU THINK of video games as competing with books for children's time, you'll lose a battle you didn't have to fight, says **Bing Gordon,** MBA '78, the chief creative officer of the world's leading game company, Electronic Arts. In the age of electronic games, such as EA's best-selling Sims or Madden NFL football game series, Bing says kids slip easily from sports to books to movies to games, and love the latter because they can make their own endings. Instead of asking kids to write an essay describing a Steinbeck character,



JOSIE LEPE

A mural of characters from the game Sims 2 surrounds Bing Gordon, MBA '78, at the offices of video game publisher Electronic Arts.

he suggested in the *Washington Post,* they might be more creative if asked to imagine Huck Finn taken off the river.

Gordon is "the jester in the court of the king," according to the *San Jose Mercury News,* an adult who plays video games well into the night himself and who critiques game designers' ideas, an activity referred to inside his company as "getting Binged."

Touchy Feely in China's Future?

NOW A CONSULTANT in Beijing, **Shauna Xie,** MBA '04, told *Fast Company* her dream is to become China's minister of education. Before then, however, she dreams of providing "soft skills" education, such as public speaking and giving and receiving feedback, to Chinese adults in business.

"A lot of people say relationships are key if you're doing business in China. They're key because Chinese people are not straightforward with one another. They don't tell their true feelings, and you have to guess a lot of the time," she says. Xie's views of education changed dramatically when as a transfer student she entered the University of Toronto, where creativity was stressed in her architecture courses. As a student in China, she says, she had been focused solely on learning from textbooks.

Business Basics for Churches

"EVANGELICAL CHURCHES are borrowing from the business playbook," says *BusinessWeek* in a story that cites the example of **Greg Hawkins,** MBA '88, a former McKinsey consultant who is the executive pastor of Willow Creek Community Church in South Barrington, Ill. The church, which has been the subject of a Harvard case study, is becoming a well-known brand, the article says. Willow Creek formed a consulting arm that earned $17 million last year, the magazine said, "partly by selling marketing and management advice to 10,500 member churches from 90 denominations."

U.K. Hedge Funds Flex Muscles

ONCE CONFINED to the sidelines in mergers and acquisitions, hedge fund investors "are taking over the mantle from mutual funds in fighting for shareholder value," said **Suhail Rahuja,** MBA '96, in a *Wall Street Journal* article. Rahuja is hedge fund manager at Trafalgar Asset Managers, the London-based fund that the *Journal* said "orchestrated the deal that trumped General Dynamics' plan to acquire Alvis PLC, a big U.K. maker of armored vehicles." Fund managers persuaded another company to bid more for Alvis by contracting sufficient shareholder support. Because hedge funds tend to hold derivatives rather than actual shares, they have not been subject to the same disclosure rules as other shareholders. But U.K. regulators are considering changing those rules in the future.

Tailpipe Tariffs

A TAX ON CARBON emissions "makes sense. It's a no-regrets approach to global warming," Duke Energy's **Paul M. Anderson,** MBA '69, told the *New York Times* in May. He added, "If we don't speak [about such issues], regulators will make rules, and we will have to live with them."

Under Anderson's leadership, the North Carolina–based Duke has started to regain some of the share value lost in the aftermath of the Enron scandal. Duke is buying Cincinnati-based Cinergy, a consolidation that, if approved by regulators, would create a company with 5.4 million customers in two thirds of the country and 54,000 megawatts of electricity generation. "The deal is expected to revive the fortunes of Duke Energy North America, the company's unprofitable merchant power business," the *Times* said.

Engineer Superhero

WHEN THE Chicago Museum of Science and Industry looked for engineering "superheroes" to highlight during Black History Month, they found one who is also well trained as a manager. **Roy Perry,** Sloan '92, is corporate vice president of global supply chain management for Storage Technology Corp. in Louisville, Colo., a company recently acquired by Sun Microsystems. Perry also has been named one of the 50 most important African Americans in technology by *U.S. Black Engineer and Information Technology* magazine.

Perry's own superheroes are his parents and George Washington Carver, who when he was not allowed in the classrooms of Iowa State in the late 1800s, sat outside the door and took notes. "As we go through our careers, it's always good to look at the past," Perry told the *Rocky Mountain News.* "If we think things get tougher, it totally reenergizes you."

Where Have All the Type A's Gone?

WHAT IS THE BIGGEST misconception about nonprofits? That the sector involves "casual, laid-back, lifestyle kind of jobs," **Laura Pochop,** MBA '97, told the *San Francisco Business Times.* Pochop is executive director of the Breakthrough Collaborative, a nonprofit that pairs low-income middle school students with college mentors and teachers. She says the nonprofits she knows are "so Type A" because they are populated by "high achievers who really want to change the world." ■

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September 14: "Life Lessons from the Playing Fields: What Youth Sports Has to Say to Adults About Leadership and Life," an executive education breakfast briefing by Jim Thompson, MBA '86, executive director, Positive Coaching Alliance

September 16: Professor George Parker speaks to Alumni Association chapter, Paris

September 21: Lifelong Learning faculty seminar with Professor Haim Mendelson

September 21: Professor Jeffrey Pfeffer speaks to Alumni Association chapter, London

October 11: Professor William Barnett on "How Companies Win in Dynamic Competition" at an executive forum in Seoul

October 17: Professor William Barnett on "How Companies Win in Dynamic Competition" at an executive forum in Beijing

October 18–22: "Interpersonal Dynamics for High-Performance Leaders," a Lifelong Learning program open to GSB alumni/ae only, San Jose

October 19: Professor William Barnett on "How Companies Win in Dynamic Competition" at an executive forum in Shanghai

October 21–22: Alumni Weekend and reunions for MBA classes of 1955, 1960, 1965, 1970, 1975, and 1985

November 4–6: "GSB Back to School: Developing Culture, Leaders, and Teams," a residential alumni education program with GSB professors

November 8: Professor Margaret Neale on "Creating and Managing the Innovative Team: Lessons for Leaders and Members" at an executive forum in Buenos Aires

November 10: Professor Margaret Neale on "Creating and Managing the Innovative Team: Lessons for Leaders and Members" at an executive forum in São Paulo

November 11–13: 13th annual Net Impact Conference, "Bridging the Gap: Leading Social Innovation Across Sectors"

All events are on campus unless otherwise specified. To register for an event, send an email to *gsb_newsline@gsb.stanford.edu*. For events not open to the general public, you may need your GSB password to register.

* Executive Education offerings on page 69

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